

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED UPON PROCEDURES
FOR THE CITY OF MOUNTAIN VIEW
MICHAELS AT SHORELINE
FOR THE YEAR ENDED DECEMBER 31, 2013**

Independent Accountant's Report on Applying Agreed-Upon Procedures

Ms. Patty Kong
City Auditor
City of Mountain View
500 Castro Street
P.O. Box 7540
Mountain View, California 94039-7540

Dear Patty:

We have performed the procedures described below, which were agreed to by the management of the City of Mountain View, California, solely to assist you in assessing the reasonableness of the rent paid to the City by Michaels at Shoreline (Michaels) as tenant for the year ended December 31, 2013. Management is responsible for the financial statements, specified elements, accounts, or other items. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the City's management. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose of which this report has been requested or for any other purpose.

Background Information

On April 1, 2011, the City, as landlord, entered into a new lease agreement with The Faravelli Co., Inc. (dba Michael's Shoreline) to manage the operations of the Shoreline Restaurant and Banquet Facility. The lease term is for five years with one option to extend the lease for a period of five years.

Michaels agreed to furnish the City with a monthly summary of gross receipts (as defined) within 15 days of the close of each calendar month and an annual summary of gross receipts within 30 days of the close of each lease year. Within three years of the receipt of any annual summary of gross receipts, the City is entitled to audit such summary. Michaels is also required to submit to the City, within 90 days after the end of each lease year, an income statement and balance sheet compiled by a certified public accountant in accordance with generally accepted accounting principles.

Michaels has two main revenue sources – a Café with indoor and outdoor seating, and Banquet room facilities.

Procedures and Findings

The procedures and associated findings are as follows:

General

- We read the Agreements between the City of Mountain View and Theodore F. Faravelli as promoter of Michaels at Shoreline, dated March 30, 1993 and April 1, 2011 and all associated amendments.
- We obtained a limited understanding of the internal accounting controls over cash receipts through observation and inquiry of Michaels' personnel. Michaels' procedures for handling cash receipts, and the related internal controls, are summarized in Appendix A.
- We reviewed the monthly revenue spreadsheets prepared by Michaels, and analyzed the monthly fluctuations in food sales from the prior year. Overall, sales numbers have increased approximately 3.1% compared to the prior year which can be interpreted as a sign of economic recovery. Sales increased by 0.4% in 2012, but decreased by 1.9% in 2011. Banquet sales increased 4.4% from the prior year.

Gross Receipts

Café

- We sampled one business day from each month in 2013 and obtained the Café's related daily cash register Z-Reports. The Z-Reports provide a summary of sales segregated into three payment categories: cash, credit card, or check.
- We compared the total of such tapes to the Café's daily revenue summaries; traced the cash register tapes to daily deposit slips and bank statements, and found them to be materially in agreement.

Banquet room

- We sampled one business day from each month in 2013 and obtained the Banquet room bills. We tested the mathematical accuracy of the bills, and found no errors.
- We compared the total of such bills to the related daily revenue summaries; traced the payments to deposit slips and bank statements, and found them to be materially in agreement.

Combined

- We recomputed the above referenced daily revenue summaries, which combine Café and Banquet room receipts, and found them to be mathematically accurate. We compared total revenue per the daily revenue summaries to the daily deposit amount from the bank statements, and found them to be in agreement. We also compared total revenue from the daily revenue summaries to the amounts in the monthly revenue spreadsheets, and found them to be in agreement.
- We compared the combined Café and banquet room revenue as shown on the monthly revenue spreadsheet to the Rent Statement submitted to Michaels' Certified Public Accountant for use in compiling the annual financial statements, and found them to be in agreement.

Tenant Financial Statements

- We read the compilation report prepared and signed by Michaels' Certified Public Accountant, Johanson & Yau Accountancy Corporation. This report indicated that the compiled financial statements were prepared in accordance with Statements on Standards for Accounting and Review Services issued by the AICPA.
- We prepared a reconciliation of gross receipts per the monthly revenue spreadsheets to gross receipts per the statement of earnings for the year ended December 31, 2013 compiled by Johanson & Yau Accountancy Corporation, as follows:

Gross receipts per support to rent checks sent to the City:	
Café receipts, net of sales tax, per monthly recap	\$866,573
Window Sales, net of sales tax, per monthly recap	53,000
Banquet receipts, net of sales tax, per monthly recap	<u>874,737</u>
Total per monthly recap	<u><u>\$1,794,310</u></u>
 Gross receipts per compiled financial statements	 <u><u>\$1,794,310</u></u>

- We recomputed percentage rent on gross receipts, as defined in Article 4.2 of the Agreement based on gross receipts, net of sales tax, as calculated above. We compared the monthly recap reports to the worksheets submitted to the City on a monthly basis and compared the twelve actual payments with the monthly recap reports and recalculated the rents. We determined that Michaels overpaid the City as calculated below:

	<u>Gross Receipts</u>	<u>Rental %</u>	<u>Rent</u>
Gross receipts up to \$2 million @ 8%	\$1,794,310	8.0%	<u>\$143,545</u>
Equipment rental (\$100 per month)			<u>1,200</u>
Rent per gross receipts calculation			<u><u>\$144,745</u></u>
Minimum rent per lease agreement			\$120,000
Equipment rental (\$100 per month)			<u>1,200</u>
Minimum rent due			<u><u>\$121,200</u></u>
Rent Due to City for lease year 2013 (Greater of Rent per gross receipts calculation or Minimum rent due)			\$144,745
Rent payments received by the City with monthly rent reports			<u>144,799</u>
Rent due to/(owed from) the City for lease year 2013			<u><u>(\$54)</u></u>

Bank Deposits

- We obtained Michaels' bank statements for January 2013 through December 2013 and selected two deposits per month from the statements and traced the deposits to the daily receipts and Z-tapes supporting the deposits as well as to the deposit slip. We noted that deposits per the bank statements exceeded Z-tapes by \$40 or 0.1% of the total deposits tested. We also traced the deposits to the appropriate monthly revenue worksheet without exceptions.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the financial statements, specified elements, accounts, or other items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Management of the City of Mountain View and is not intended to be used and should not be used by anyone other than the specified parties. This report is a matter of public record and this does not limit the distribution of this report.

Maze & Associates

Pleasant Hill, California
October 15, 2014

Michaels at Shoreline – Cash Receipts

Purpose

To document the flow of information throughout the cash receipts cycle, and to obtain an understanding of the policies and procedures in place to control the integrity of the data. We interviewed Jozette Salas, Office Manager, to evaluate the internal control over cash receipts.

General Overview

Michaels has two on-site Operational Managers and one Office Manager. Both Ted and Carol Faravelli function as General Manager, with Carol focused on Banquet Sales. The Accounting Assistant Ayisha Groce occasionally performs operational (floor) duties. Michaels' Office Manager Jozette Salas is located on-site. The accounting records are sent to Michaels' Certified Public Accountant on a quarterly basis.

Jozette Salas summarizes on an Excel spreadsheet the day's receipts from the Z-Reports and individual banquet bills, and compiles monthly data from the daily compilations. The monthly sales information is put into a Recap Report, which includes both Café and Banquet room sales, and delivered to Michaels' Certified Public Accountant.

The Office Manager's duties include general record keeping, comparing the daily deposited amount per bank to the daily Z-Reports obtained from the Operational Manager, and reconciling Michaels' bank account. The Office Manager summarizes on an Excel spreadsheet the day's receipts for the Z-Reports, and assembles monthly data from her daily compilations. Any under or over per the cash registers are entered into a separate general ledger account on a daily basis by register. This helps to spot any trends (e.g. one register is consistently under or over, or registers that are consistently under or over on certain days). The monthly sales information is put into a Recap Report, which includes both Café and Banquet room sales, and is delivered to Michaels' Certified Public Accountant who compiles an income statement, balance sheet, and quarterly totals from the information.

Cash Receipts Cycle***Café***

Payments from customers are received in the form of cash, check, or credit card at one of four registers located in the Café. (Note: check purchases in the Café are immaterial; most check purchases occur for banquets.) If an error occurs while the sale is being input into the register, the employee may cancel the entire transaction and reenter the correct information. If the transaction has been completed, the Operational Manager is required to "void" the input. A receipt is printed out for every customer. Customers give receipts to the cashier at the counter and the Chefs prepare the food according to the receipts.

At the end of each business day or the next morning, the Operational Managers close-out the cash registers by printing a Z-Report, which includes a financial report, cashier report and an itemized PLU report (if both Operational Managers are gone or busy, the Accounting Assistant will close-out the registers).

The Z-Report subtotals each cash register's receipts by the form of payment and the type of sale, and calculates total sales for the day. The Accounting Assistant is responsible for counting the cash and the cash is stored in the safe overnight. The Accounting Assistant is also responsible for preparing the bank deposit slip. The following business day, the receipts are deposited into Michaels' bank account by the Operational Managers. Deposit slip is given to Jozette Salas, Office Manager, who reconciles the Z-Report to the deposit slip and investigates any material discrepancies.

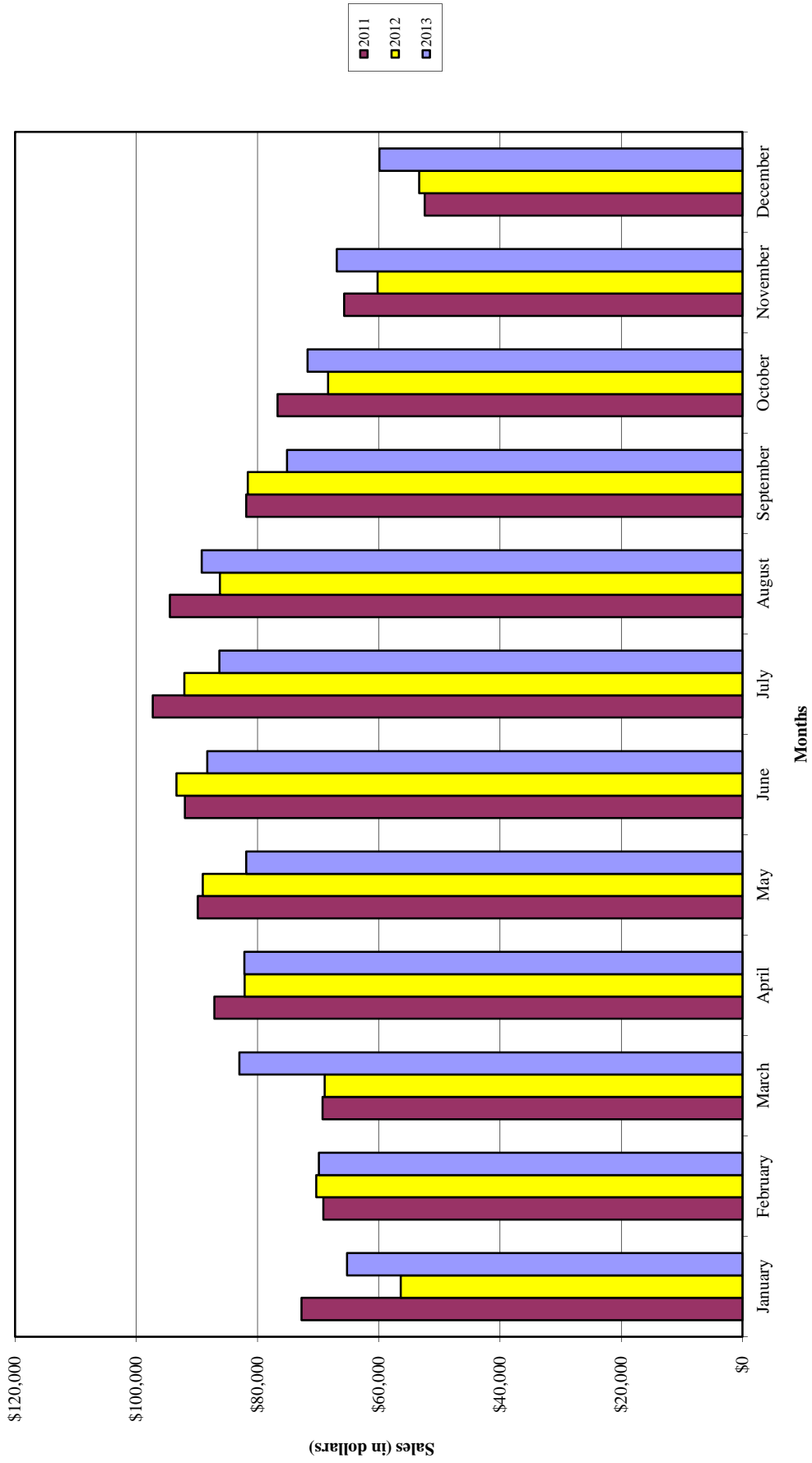
Banquet Room

In contrast to the Café's multiple cash receipts, the Banquet room will usually have one large detailed bill. Two cash registers are located in the Banquet room bar. If the banquet is hosted (drinks are included in the banquet bill) then a Z-Report is attached to the related bill and included in the total price of the banquet. If the bar is not hosted, the guests must purchase their drinks and cash receipts are handled in a manner consistent with the Café. The forms of accepted payment are cash, check, credit card, or invoice for house accounts. Banquet bills are either paid at the end of the banquet or billed at a later date. The billed banquet sales are classified as accounts receivable, subsequently the Office Manager processes all payments received. At the end of each business day or the next morning, the Operational Managers closeout the bar cash registers as described under "Café" above. The Z-Report subtotals each cash register's receipts by the form of payment and calculates total sales for the day. The following business day, the receipts are deposited into Michaels' bank account by the Operational Managers. The deposit slip is given to Jozette Salas, Office Manager, who reconciles the Z-Report to the deposit slip and investigates any material discrepancies. On a monthly basis, an Accounting Assistant completes a bank reconciliation and a monthly recap report to review the Office Manager's reconciliation of the Z-report to the deposit slips.

Employee Purchases

Outside of customer purchases, Michaels has approximately 30 employees who receive partially discounted/free food. All employees receive free beverages (e.g. soft drinks) and discounted prices on certain food items. Employee discount sales should not exceed one-half percent (1/2%) of Gross Receipts annually.

**Michael's at Shoreline
Cafe Sales (3 years Trend)**



**Michaels' at Shoreline
Banquet Sales (3 years Trend)**

