

CITY OF MOUNTAIN VIEW

Independent Accountant's Report
On Applying Agreed Upon Procedures to
Rent Paid by Michaels at Shoreline

For the Year Ended December 31, 2015



Certified
Public
Accountants



Independent Accountant's Report On Applying Agreed-Upon Procedures to Rent Paid by Michaels at Shoreline

Ms. Patty Kong, City Auditor
City of Mountain View
Mountain View, California

We have performed the procedures enumerated below, which were agreed to by management of the City of Mountain View (City), solely to assist the City in assessing the reasonableness of the rent paid to the City by Michaels at Shoreline (Michaels) for the year ended December 31, 2015 in accordance with the agreements between the City and Michaels. Management of Michaels is responsible for the calculation of Michaels' rent payments to the City. This agreed-upon procedures engagement was conducted 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. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

GENERAL INFORMATION OF MICHAELS

On April 1, 2011, the City, as landlord, entered into a lease agreement with The Faravelli Co., Inc. (dba Michaels at Shoreline) for a term of 5 years with one 5-year extension to expire on March 31, 2021, to manage the operations of the Shoreline Restaurant and Banquet Facility. Michaels has two main revenue sources – a café with indoor and outdoor seating, and a banquet room facility. The lease requires Michaels to pay annual rent equal to the greater of 1) \$120,000 and 2) 8% of gross receipts up to \$2,000,000, and 7.5% of gross receipts over \$2,000,000. Michaels is also required to pay monthly rent of \$100 for equipment and personal property rental.

PROCEDURES AND FINDINGS

The agreed-upon procedures performed and the related findings are as follows:

General

1. We obtained the agreements and associated amendments between the City and Michaels' and verified the percentage used for the calculation of the rent payment.

Finding: No exceptions were noted as a result of our procedures.

2. We obtained Michaels' documentation of internal controls over cash receipts.

Finding: No exceptions were noted as a result of our procedures. See Michaels' documentation at Attachment A.

3. We obtained the total annual sales for the year ended December 31, 2015 and 2014 and calculated the amount and percentage changes between the years. We inquired for and reported Michaels' explanations on the changes between years.

Finding: The annual sales for the year ended December 31, 2015 and 2014 were \$1,763,979 and \$1,820,657, respectively, which is a decrease of \$56,678 or 3.1% between the years.

Michaels' Response: The decrease in sales was mainly due to the decrease in customer visits between the years.

4. We obtained the monthly sales for the year ended December 31, 2015, 2014, and 2013 and presented the trend information in a chart.

Finding: No exceptions were noted as a result of our procedures. See chart at Attachments B.

Daily Gross Receipts

We haphazardly selected a sample of one business day from each month for the year ended December 31, 2015 for café and banquet room sales, and performed the following for each sample:

Daily Café Sales

1. We obtained and tested the mathematical accuracy of the café's daily cash register Z-Reports.

Finding: No exceptions were noted as a result of our procedures.

2. We obtained and tested the mathematical accuracy of the café's daily revenue summary.

Finding: No exceptions were noted as a result of our procedures.

3. We agreed the total of the café's daily cash register Z-Reports to the café's daily revenue summary.

Finding: No exceptions were noted as a result of our procedures.

4. We agreed the café's total daily cash receipts amount to the deposit amount shown on the bank statements.

Finding: The daily cash receipts for the 12 samples totaled \$10,351, which is \$37 more than the total deposit amount shown on the bank statements of \$10,314. One of the sample is different by \$41 while the other sample is different by (\$4).

Michaels' Response: The daily differences are considered part of the normal operation. Deposits are made based on owner's discretion. There are times when the owner deposits more cash than received while there are also times when less cash is deposited than received.

Daily Banquet Room Sales

5. We obtained and tested the mathematical accuracy of the banquet room's bills.

Finding: No exceptions were noted as a result of our procedures.

6. We obtained and tested the mathematical accuracy of the banquet room's daily revenue summary.

Finding: No exceptions were noted as a result of our procedures.

7. We agreed the total of the banquet room's bills to the banquet room's daily revenue summary.

Finding: No exceptions were noted as a result of our procedures.

8. We agreed the banquet room's total daily cash receipts amount to the deposit amount shown on the bank statements.

Finding: No exceptions were noted as a result of our procedures.

Combined Daily Sales

9. We obtained and tested the mathematical accuracy of the combined daily revenue summary which includes the café and banquet room sales.

Finding: No exceptions were noted as a result of our procedures.

10. We agreed the total revenues from the combined daily revenue summary to the amount shown in the monthly revenue spreadsheets prepared by Michaels.

Finding: No exceptions were noted as a result of our procedures.

Rent Reasonableness

1. We obtained compilation report prepared by Michaels' certified public accountant (CPA). We verified that the report was signed by the CPA and indicated that the compiled financial statements were prepared in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

Finding: No exceptions were noted as a result of our procedures.

2. We agreed the gross receipts per Michaels' monthly revenue spreadsheets to the gross receipts per the compiled statement of earnings by the CPA for the year ended December 31, 2015.

Finding: No exceptions were noted as a result of our procedures.

3. We recomputed the rent amount in accordance with the criteria set forth in the agreements between the City and Michaels for the year ended December 31, 2015.

Finding: Using the gross receipts per the compiled statement of earnings by the CPA and the rent rate set forth in the agreements between the City and Michaels, the rent for the year ended December 31, 2015 is \$142,318 and is computed as follows:

Description	Amount
Gross receipts per compiled statement of earnings by CPA	\$ 1,763,979
Rent percentage per agreements	8%
Recalculated rent amount based on gross revenues	\$ 141,118
Add: Equipment rents - \$100 per month	\$ 1,200
Total rent for the year ended December 31, 2015	<u>\$ 142,318</u>

4. We obtained the monthly rent reports for the year prepared by Michaels and submitted to the City for the year ended December 31, 2015 and tested the mathematical accuracy of the monthly calculations.

Finding: No exceptions were noted as a result of our procedures.

5. We agreed the rent amount recomputed in accordance with the criteria set forth in the agreements between the City and Michaels to the total payments received by the City for the year ended December 31, 2015.

Finding: The rent amount recomputed in accordance with the criteria set forth in the agreements between the City and Michaels was \$142,318, which is \$279 less than the total payments received by the City of \$142,597.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on Michaels' calculation of its rent payments to the City. 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 Mayor, City Council, and management of the City and Michaels and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Walnut Creek, California
December 5, 2016

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Attachment A

Michaels at Shoreline's Documentation of Internal Controls over Cash Receipts For the Year Ended December 31, 2015

General

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. Michaels' Office Manager, Jozette Salas is located on-site. The accounting records are sent to Michaels' certified public accountant on a quarterly basis.

The Office Manager 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 sales, and delivered to Michaels' Certified Public Accountant.

The Office Manager's duties include general record keeping, comparing the daily deposited amount to the bank to the daily Z-Reports, and reconciling the bank account. The Office Manager summarizes on an Excel spreadsheet the day's receipts for the Z-Reports, and assembles monthly data from her compilations.

Cash Receipts

Café

Payments from customers are received in the form of cash or credit card at one of the four registers located in the Café. If an error occurs while the sale is being input into the register, the employee may cancel the entire transaction and re-enter the correct information. If the transaction has been completed, the Operational Manager is required to "void" the transaction. A receipt is printed out for every customer. Customers give receipts to the chefs at the counter for preparation of cold food items. Customers are paged for hot food items.

At the end of each business day, the Operational Manager close-out the cash registers by printing Z-Reports, which include a financial report, cashier report, and an itemized PLU report.

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 Administrative Assistant is responsible for counting the cash and the cash is stored in a safe overnight. The Administrative Assistant is also responsible for preparing the bank deposit slip. The following business day, the receipts are deposited into Michaels' bank account. The deposit slip is then given to the Office Manager who reconciles the Z-Report to the deposit slip and investigates any material discrepancies.

Banquets

In contrast to the Café's multiple cash receipts, the Banquet room will usually have one large detailed bill. One cash register is located in the Banquet room bar. If the banquet has a hosted bar the charges will be included on the banquet bill (a Z-Report is attached to the banquet bill). If a banquet has a no-host bar the guests must purchase their own 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.

Banquet bills are either paid at the end of the function or billed at a later date. The billed banquets 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 register as described under "Café" above. The Z-Report subtotals the cash registers receipts by the form of payment and calculates the sales for the day. The following business day, the receipts are deposited into Michaels' bank account. The deposit slip is given to the Office Manager who reconciles the Z-Report to the deposit slip and investigates any material discrepancies.

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Michaels at Shoreline
Attachment B
Sales Trend Information By Month
For the Years Ended December 31, 2015, 2014, and 2013

