

# **City of Scotts Valley**

**Measure D Fund**

Scotts Valley, California

*Financial Statements and  
Independent Auditors' Reports*

*For the year ended June 30, 2019*

**City of Scotts Valley Measure D Fund  
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For the year ended June 30, 2019**

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of City Council  
of the City of Scotts Valley  
Scotts Valley, California

We have audited the accompanying financial statements of the Measure D Fund (Measure D Fund) of the City of Scotts Valley, California (City), as of and for the year ended June 30, 2019, 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 Scotts Valley  
Scotts Valley, California  
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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Measure D Fund of the City as of June 30, 2019, 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 Measure D Fund and do not purport to, and do not, present fairly the financial positions of the City as of June 30, 2019, 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**

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Measure D 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.

To the Honorable Mayor and Members of City Council  
of the City of Scotts Valley  
Scotts Valley, 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 January 31, 2020, 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.

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  
Berkeley, California  
January 31, 2020

**City of Scotts Valley**  
**Measure D Fund**  
**Balance Sheet**  
**June 30, 2019**

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**ASSETS**

Cash and Investments	\$	246,398
Due from other governments		<u>24,182</u>
<b>Total assets</b>	<b>\$</b>	<b><u><u>270,580</u></u></b>

**FUND BALANCE**

<b>Fund Balance:</b>		
Restricted	\$	<u>270,580</u>
<b>Total fund balance</b>	<b>\$</b>	<b><u><u>270,580</u></u></b>

**City of Scotts Valley**  
**Measure D Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2019**

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**REVENUES:**

Taxes and assessments	\$ 287,756
Investment earnings	7,962
<b>Total Revenues</b>	<u>295,718</u>

**EXPENDITURES:**

Current:	
Public works	782
Capital outlay	307,536
<b>Total Expenditures</b>	<u>308,318</u>
<b>Net change in fund balances</b>	(12,600)

**FUND BALANCES:**

Beginning of year	<u>283,180</u>
End of year	<u>\$ 270,580</u>

**City of Scotts Valley Measure D Fund**  
**Notes to Financial Statements**  
**For the year ended June 30, 2019**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of Reporting Entity**

All transactions of the Santa Cruz County Regional Transportation Commission – Measure D Fund (Measure D Fund) of the City of Scotts Valley (the City) are included as a separate special revenue fund in the basic financial statements of the City. The accompanying financial statements are for Measure D Fund only and are not intended to fairly present the financial position or results of operations of the City.

**B. Basis of Presentation**

*Fund Accounting*

The operations of the Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

**C. Basis of Accounting**

The Measure D 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers the majority of revenues to be available if they are collected within 45-90 days of the end of the current fiscal period. Expenditures are recorded in the accounting period in which the related fund liability is incurred

**D. Assets, Liabilities and Fund Balance**

1) Cash and Investments

Investments are reported in the accompanying balance sheet at fair value, except for nonparticipating certificates of deposit and investment contracts that would be reported at cost because they are not transferable and they have terms that are not affected by changes in interest rates.

Changes in fair market value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

The City pools cash and investments of all funds. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments.

The City pools idle cash from all funds in order to increase income earned through its investment program. Investment income from pooled investments is allocated to those funds that are required by law or administrative action to receive interest. Investment income is allocated on a quarterly basis based on the cash balance in each fund.



**City of Scotts Valley Measure D Fund**  
**Notes to Financial Statements**  
**For the year ended June 30, 2019**

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***D. Assets, Liabilities and Fund Balance, Continued***

2) Receivables

Receivables include amounts due from other governments. Receivables are recorded and revenues are recognized as earned or as specific program expenditures are incurred.

3) Use of Estimates

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include amounts based on estimates and assumptions by management. Actual results could differ from those amounts.

4) Fund Balance

As of June 30, 2019, fund balance of the Measure D Fund was classified as restricted which is defined as amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

**2. Measure D Funds**

Under Measure D, approved by the voters of Santa Cruz County in 2016, the City receives a portion of the proceeds of an additional one-half cent sales tax to be used to improve children's safety around schools; repair potholes; repave streets; improve traffic flow on Highway 1; maintain senior/disabled transit; reduce global warming pollution by providing transportation options like sidewalks, buses, bike lanes, trails; and preserve rail options.

**3. Cash and Investments**

Cash and investments held by the Measure D Fund at June 30, 2019, consisted of \$246,398 in cash pooled with the City's Cash and Investments.

The City pools cash and investments of all funds, except amounts held by fiscal agents. The Council invests on behalf of most funds of the City in accordance with the California State Government Code and the City's investment policy. Investments are reported in the accompanying balance sheet at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Cash deposits are reported at carrying amount which reasonably estimates fair value. Managed funds not listed on an established market are reported at the estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities.

## **SUPPLEMENTARY INFORMATION**

**City of Scotts Valley Measure D Fund**  
**Supplementary Information**  
**For the years ended June 30, 2019**

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**1. BUDGETARY INFORMATION**

*A. Budgets and budgetary accounting*

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. Appropriations lapse at fiscal year-end. The appropriated budget is prepared by fund, function and department. The City manager may make transfers of appropriations within a department. Transfers between departments and other changes require City Council approval. The legal level of control is the department and fund level. The Council made supplemental appropriations during the fiscal year. Encumbrance accounting is not employed in governmental funds.

**City of Scotts Valley**  
**Budgetary Comparison Schedule - Measure D Fund**  
**For the year ended June 30, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>REVENUES:</b>				
Taxes and assessments	\$ 265,800	\$ 265,800	\$ 287,756	\$ 21,956
Investment earnings	100	100	7,962	7,862
<b>Total revenues</b>	<b>265,900</b>	<b>265,900</b>	<b>295,718</b>	<b>29,818</b>
<b>EXPENDITURES:</b>				
Current:				
Public works	20	20	782	(762)
Capital outlay	574,238	289,619	307,536	(17,917)
<b>Total expenditures</b>	<b>574,258</b>	<b>289,639</b>	<b>308,318</b>	<b>(18,679)</b>
<b>Net change in fund balances</b>	<b>\$ (308,358)</b>	<b>\$ (23,739)</b>	<b>(12,600)</b>	<b>\$ 48,497</b>
<b>FUND BALANCES:</b>				
Beginning of year			283,180	
End of year			\$ 270,580	



**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 Scotts Valley  
Scotts Valley, 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 Measure D Fund of the City of Scotts Valley, California (City), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 31, 2020.

**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.

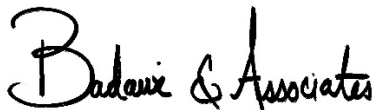
To the Honorable Mayor and Members of City Council  
of the City of Scotts Valley  
Scotts Valley, California  
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### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Measure D 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 including the applicable compliance requirements specified in the Measure D agreement between the City and Santa Cruz Regional Transportation Commission, and 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.



Badawi and Associates  
Certified Public Accountants  
Berkeley, California  
January 31, 2020