

**SANTA CRUZ COUNTY
MEASURE D FUND**

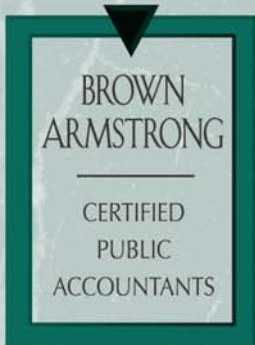
**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2020**

**SANTA CRUZ COUNTY
MEASURE D FUND
JUNE 30, 2020**

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BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the
Board of Supervisors
Santa Cruz County
Santa Cruz, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure D Fund of the County of Santa Cruz (the County), as of and for the year ended June 30, 2020, and the related notes to the financial statements, as listed in the table of contents.

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, relating to the Measure D Fund, relevant to the County'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 County's internal control relating to the Measure D Fund. 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.

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Opinions

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 County, as of June 30, 2020, and the respective changes in financial position thereof 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, and do not, present fairly the financial position of County as of June 30, 2020, or the changes in its financial position for the year 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 Measure D Fund's financial statements. The budgetary comparison information is presented for purposes of additional analysis and is not a required part of the 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 December 28, 2020, on our consideration of the County's internal control over financial reporting as it relates to the Measure D Fund of the County 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 relating to the Measure D Fund and the results of that testing, and not to provide an opinion on the effectiveness of the County's 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 the County's internal control over financial reporting and compliance as it relates to the Measure D Fund.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 28, 2020

**SANTA CRUZ COUNTY
MEASURE D FUND
BALANCE SHEET
JUNE 30, 2020**

ASSETS

Cash and investments	\$ 3,666,638
Intergovernmental receivables	<u>542,567</u>
Total assets	<u><u>\$ 4,209,205</u></u>

FUND BALANCE

Fund balance	
Restricted	<u>\$ 4,209,205</u>
Total fund balance	<u><u>\$ 4,209,205</u></u>

The accompanying notes are an integral part of these financial statements.

**SANTA CRUZ COUNTY
MEASURE D FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2020**

REVENUES

Measure D sales tax	\$ 2,936,355
Interest income	72,516
	3,008,871
Total revenues	3,008,871

EXPENDITURES

Capital costs	2,777,385
Non-capital costs	62,349
Indirect costs	4,540
	2,844,274
Total expenditures	2,844,274

REVENUES OVER EXPENDITURES	164,597
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FUND BALANCE

Beginning of year, as previously reported	3,557,977
Prior period adjustment (Note 4)	486,631
	4,044,608
Beginning of year, as restated	4,044,608
	4,044,608
End of year	\$ 4,209,205

The accompanying notes are an integral part of these financial statements.

**SANTA CRUZ COUNTY
MEASURE D FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

All transactions of the Measure D Fund of the County of Santa Cruz (the County) are included as a separate special revenue fund in the financial statements of the County. The Measure D Fund is used to account for the County's share of revenues earned and expenditures incurred under the County's local streets and roads, and bike and pedestrian programs. The accompanying financial statements are for the Measure D Fund only and are not intended to fairly present the financial position or results of operations of the County.

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, 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 Measure D Fund are accounted for in a separate special revenue fund. Funds are separate accounting entities with a set of self-balancing accounts which comprise their assets, liabilities, fund balance, 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.

NOTE 2 – MEASURE D

Under Measure D, approved by the voters of the County in 2016, the County receives a portion of the proceeds of an additional one-half cent sales tax to be used for transportation-related expenditures. This measure was adopted with the intention that the funds generated by the additional sales tax will not fund expenditures previously paid for by property taxes but, rather, would be used for additional projects and programs.

Streets and Roads Program – To improve, repair, resurface, and overlay streets and bridges within the County.

Bike and Pedestrian Program – To provide sidewalk and American Disability Act (ADA) improvements and to implement the bikeway network.

NOTE 3 – CASH AND INVESTMENTS

Amounts in the Measure D Fund are pooled with the County’s cash and investments in order to generate optimum interest income.

The County pools its available cash for investment purposes. The County’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from date of acquisition. Cash and cash equivalents are combined with investments and displayed as Cash and Investments.

The Measure D Fund had the following cash and investments at June 30, 2020:

Cash and investments	\$ <u>3,666,638</u>
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A. Investments

Under the provisions of the County’s investment policy, and in accordance with California Government Code, the following investments are authorized:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Minimum Credit Quality Requirements</u>
California Local Agency Investment Fund (LAIF)	None	None	None
Securities of the U.S. Government	5 years	None	None
Bankers’ Acceptances	180 days	40%	None
Collateralized Certificates of Deposit	5 years	50%	None
Negotiable Certificates of Deposit	5 years	30%	None
Commercial Paper	270 days	25%	A-1
Repurchase Agreements	1 year	50%	None
Reverse Repurchase Agreements	92 days	50%	None

Under the provisions of bond indentures, the following are authorized investment types for investments held by fiscal agents:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality Requirements</u>
U.S. Treasury Obligations	None	None
Federal Housing Administration Bonds	None	None
U.S. Agency Securities	None	None
Senior Debt Obligations	None	Aaa, AAA
FDIC Insured Deposits	None	None
Unsecured Certificates of Deposit, Time Deposits, and Bankers’ Acceptances	360 days	A-1, P-1

NOTE 3 – CASH AND INVESTMENTS (Continued)

A. Investments (Continued)

Commercial Paper	270 days	A-1, P-1
Money Market Funds	None	AAAm, AAAm-G
State Obligations	None	A, A3
Pre-Funded Municipal Obligations	None	Aaa, AAA
Investment Agreements	None	AA, Aa
Repurchase Agreements	None	A
California Arbitrage Management Program	None	None
California LAIF	None	None
Investment approved by Municipal Bond Insurer	None	None

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value using the aggregate method in all funds and component units. The County's investments are carried at fair value as required by accounting principles generally accepted in the United States of America. The County accounts for all changes in fair value that occurred during the year and are reflected in the fund balance for the fiscal year. These investment value changes are unrealized since the County's policy is to generally buy and hold investments until their maturity dates.

B. Risk Disclosures

Interest Risk – Interest rate risk is the fluctuation in fair value of investments due to changes in interest rates. The County's exposure to losses caused by rising interest rates is minimized by limiting the average maturity of the County's investment not to exceed five years.

Credit Risk – Credit risk is the risk of loss of value of a security or investment due to a downgrade of its rating due to a change in the ability of the issuer to fulfill its debt obligation. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the County's total investment portfolio will be invested in a single security type or with a single financial institution to reduce the County's exposure to credit risks.

Custodial Credit Risk – The custodial credit risk for an investment is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the County's investments were subject to custodial credit risk.

C. Local Agency Investment Fund

The County is a voluntary participant in LAIF that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The balance is available for withdrawal on demand. The County's investments with LAIF at June 30, 2020, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

NOTE 3 – CASH AND INVESTMENTS (Continued)

C. Local Agency Investment Fund (Continued)

As of June 30, 2020, the County invested in LAIF, which had invested none of the pool investment funds in Structured Notes and Asset-Backed Securities. The County reports its investment in LAIF at cost which approximates fair value.

NOTE 4 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment of \$486,631 was made to increase beginning fund balance. The adjustment was made to reflect the prior period revenues related to Measure D sales tax revenue.

The restatement of beginning fund balance is summarized as follows:

Fund balance at June 30, 2019, as previously stated	\$ 3,557,977
Measure D sales tax revenue adjustment	<u>486,631</u>
Fund balance at June 30, 2019, as restated	<u>\$ 4,044,608</u>

NOTE 5 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 28, 2020, the date the financial statements were available to be issued, noting no other events.

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. In response, the County, followed by the Governor of California, issued a Shelter at Home order effective March 19, 2020, requiring certain non-essential businesses to temporarily close to the public. At the current time, management is unable to quantify the potential effects of this pandemic on its future financial statements.

SUPPLEMENTAL INFORMATION

**SANTA CRUZ COUNTY
MEASURE D FUND
NOTE TO THE SUPPLEMENTAL INFORMATION
BUDGET AND BUDGETARY ACCOUNTING
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE 1 – BUDGET AND BUDGETARY ACCOUNTING

The County of Santa Cruz (the County) follows budgetary procedures in establishing the budgetary data reflected in the financial statements:

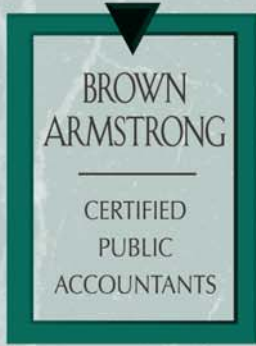
1. Every other year, the County Manager submits to the Board of Supervisors (the Board) a proposed biennial operating budget for the two fiscal years commencing the following July 1st. The operating budget includes proposed expenditures and the means of financing them.
2. Public work sessions are conducted to obtain taxpayer comments.
3. The budget is adopted by the Board 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 Board by resolution during the fiscal year. The County 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 accounting principles generally accepted in the United States of America.
8. Budgeted amounts are as originally adopted or as amended by the Board. Individual amendments were not material in relation to the original appropriations, which were amended.

**SANTA CRUZ COUNTY
MEASURE D FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2020**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Measure D sales tax	\$ 2,648,392	\$ 2,648,392	\$ 2,936,355	\$ 287,963
Interest income	20,000	20,000	72,516	52,516
Total revenues	<u>2,668,392</u>	<u>2,668,392</u>	<u>3,008,871</u>	<u>340,479</u>
EXPENDITURES				
Capital costs	6,201,369	6,201,369	2,777,385	3,423,984
Non-capital costs	20,000	20,000	62,349	(42,349)
Indirect costs	5,000	5,000	4,540	460
Total expenditures	<u>6,226,369</u>	<u>6,226,369</u>	<u>2,844,274</u>	<u>3,382,095</u>
REVENUES OVER EXPENDITURES	<u>(3,557,977)</u>	<u>(3,557,977)</u>	<u>164,597</u>	<u>3,722,574</u>
FUND BALANCE				
Beginning of year	3,557,977	3,557,977	3,557,977	-
Prior period adjustment (Note 4)	-	-	486,631	486,631
Beginning of year, as restated	<u>3,557,977</u>	<u>3,557,977</u>	<u>4,044,608</u>	<u>486,631</u>
End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,209,205</u>	<u>\$ 4,209,205</u>

See the note to the supplemental information.

OTHER REPORTS



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Members of the
Board of Supervisors
Santa Cruz County
Santa Cruz, 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 County of Santa Cruz (the County), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Measure D Fund's basic financial statements, and have issued our report thereon dated December 28, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) relevant to the Measure D Fund as a basis for designing 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 County's internal control relevant to the Measure D Fund. Accordingly, we do not express an opinion on the effectiveness of the County's internal control relevant to the Measure D Fund.

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 County's Measure D Fund'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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements relating to the Measure D Fund are free from material misstatement, we performed tests of the County's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

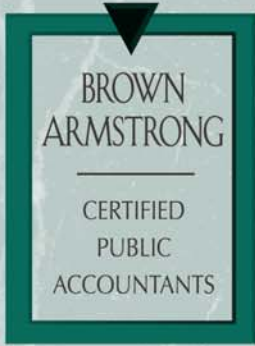
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance relevant to the Measure D Fund and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance relevant to the Measure D Fund. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance relevant to the Measure D Fund. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
December 28, 2020



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON MEASURE D COMPLIANCE

To the Honorable Members of the
Board of Supervisors
Santa Cruz County
Santa Cruz, California

Compliance

We have audited the County of Santa Cruz's (the County) compliance with the types of compliance requirements described in the agreement between the County and Santa Cruz County Regional Transportation Commission (SCCRTC) applicable to the County's Measure D Fund for the year ended June 30, 2020.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the County's management.

Auditor's Responsibility

Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the agreement between the County and SCCRTC. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Measure D Fund occurred. An audit also includes examining, on a test basis, evidence about the County's compliance relating to the Measure D Fund with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion

In our opinion, the County complied, in all material respects, with the compliance requirements referred to above that are applicable to the Measure D Fund for the year ended June 30, 2020.

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Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the County's internal control over compliance relating to the Measure D Fund to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance relating to the Measure D Fund. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance relating to the Measure D Fund.

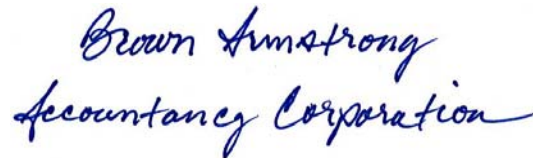
A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of the Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the agreement between the County and SCCRTC. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California
December 28, 2020