

**SANTA CRUZ COUNTY  
MEASURE D FUND**

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

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2022**

**SANTA CRUZ COUNTY  
MEASURE D FUND  
JUNE 30, 2022**

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Audit of 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 fiscal year ended June 30, 2022, and the related notes to the financial statements, as listed in the table of contents.

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, 2022, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relating to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the County's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the County's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **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.

### **Emphasis of Matter**

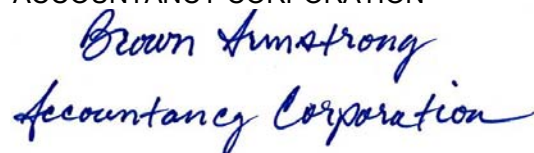
As discussed, in Note 1, the financial statements present only the Measure D Fund and do not purport, and do not, present fairly the financial position of County as of June 30, 2022, or the changes in its financial position for the fiscal year ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2022, on our consideration of the County's internal control over financial reporting as it relates to the Measure D Fund 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.

Bakersfield, California  
December 28, 2022

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION



**SANTA CRUZ COUNTY  
MEASURE D FUND  
BALANCE SHEET  
JUNE 30, 2022**

**ASSETS**

Cash and investments	\$ 7,220,984
Intergovernmental receivables	<u>698,237</u>
<b>Total assets</b>	<b><u><u>\$ 7,919,221</u></u></b>

**LIABILITIES AND FUND BALANCE**

Liabilities	
Vouchers payable	<u>\$ 993,773</u>
Total liabilities	<u>993,773</u>
Fund balance	
Restricted	<u>6,925,448</u>
Total fund balance	<u>6,925,448</u>
<b>Total liabilities and fund balance</b>	<b><u><u>\$ 7,919,221</u></u></b>

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 FISCAL YEAR ENDED JUNE 30, 2022**

**REVENUES**

Measure D sales tax	\$ 3,939,390
Contributions from other agencies	64,356
Interest income	<u>26,961</u>
<b>Total revenues</b>	<u><u>4,030,707</u></u>

**EXPENDITURES**

Capital costs	1,915,890
Non-capital costs	14,556
Indirect costs	<u>5,040</u>
<b>Total expenditures</b>	<u><u>1,935,486</u></u>

<b>REVENUES OVER EXPENDITURES</b>	<u><u>2,095,221</u></u>
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**FUND BALANCE**

Beginning of year	<u>4,830,227</u>
End of year	<u><u>\$ 6,925,448</u></u>

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

**SANTA CRUZ COUNTY  
MEASURE D FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

**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 on the balance sheet.

The Measure D Fund had the following cash and investments at June 30, 2022:

Cash and investments \$ 7,220,984

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 Types</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local agency bonds	5 Years	10%	None
U.S. Treasury obligations	5 Years	100%	None
U.S. Government Agency obligations	5 Years	100%	25%
Bankers' acceptances	180 Days	40%	10%
Commercial paper	270 Days	25%	10%
Negotiable certificates of deposit	5 Years	30%	10%
Bank deposit	5 Years	10%	10%
Repurchase agreements	1 Year	100%	10%
Medium-term notes	5 Years	30%	10%
Mutual funds/money market mutual funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	\$75 million	None
Joint Powers Authority investment fund	None	25%	10%
Supranationals	5 Years	30%	10%

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. The fair value of investments correlates to changes in interest rates. When interest rates increase, an investment portfolio will see a decrease in fair value, as prior securities were purchased at lower yields. Inversely, when interest rates decrease, an investment portfolio will see an increase in fair value, as prior securities were purchased at higher yields. This reporting period saw a significant increase in interest rates, which resulted in a material decrease of \$32,494,816 in fair value of pool investments at June 30, 2022. This has been recorded in the financial statements of all funds with equity in pooled cash and investments in the County Treasury.

Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the County's investment policy.

#### B. Risk Disclosures

*Interest Risk* – Interest rate risk is the fluctuation in fair value of investments due to changes in interest rates. The County manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five years or less in accordance with its investment policy.

*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. At June 30, 2022, in accordance with State law and the County's Investment Policy, the County did not have 10% or more of its net investment in commercial paper, corporate bonds or medium-term notes of a single organization, nor did it have 10% or more of its net investment in any one money market mutual fund. Investments in obligations of the U.S. government, U.S. government agencies, or government-sponsored enterprises are exempt from these limitations.

*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 deposits that are in the possession of an outside party. At year end, the County's investment pool and cash with fiscal agents had no securities exposed to custodial credit risk.

#### C. Local Agency Investment Fund

The County is a participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The County's investments with LAIF at June 30, 2022, included a portion of the pooled funds invested in Structured Notes and Asset-Backed Securities:

*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.

**NOTE 3 – CASH AND INVESTMENTS** (Continued)

C. Local Agency Investment Fund (Continued)

*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.

As of June 30, 2022, 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 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 28, 2022, the date the financial statements were available to be issued, noting no events.

**SUPPLEMENTAL INFORMATION**

**SANTA CRUZ COUNTY  
MEASURE D FUND  
NOTE TO THE SUPPLEMENTAL INFORMATION  
BUDGET AND BUDGETARY ACCOUNTING  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

**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 fiscal 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 Board resolution prior to July 1st of even numbered fiscal 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 fiscal 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 fiscal 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 FISCAL YEAR ENDED JUNE 30, 2022**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Measure D sales tax	\$ 2,782,467	\$ 2,782,467	\$ 3,939,390	\$ 1,156,923
Contributions from other agencies	-	650,000	64,356	(585,644)
Interest income	20,000	20,000	26,961	6,961
<b>Total revenues</b>	<u>2,802,467</u>	<u>3,452,467</u>	<u>4,030,707</u>	<u>578,240</u>
<b>EXPENDITURES</b>				
Capital costs	2,585,556	5,485,556	1,915,890	3,569,666
Non-capital costs	20,000	20,000	14,556	5,444
Indirect costs	5,000	5,000	5,040	(40)
<b>Total expenditures</b>	<u>2,610,556</u>	<u>5,510,556</u>	<u>1,935,486</u>	<u>3,575,070</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>191,911</u>	<u>(2,058,089)</u>	<u>2,095,221</u>	<u>(2,996,830)</u>
<b>FUND BALANCE</b>				
Beginning of year	<u>4,830,227</u>	<u>4,830,227</u>	<u>4,830,227</u>	<u>-</u>
End of year	<u>\$ 5,022,138</u>	<u>\$ 2,772,138</u>	<u>\$ 6,925,448</u>	<u>\$ 4,153,310</u>

See the note to the supplemental information.

## **OTHER REPORTS**

**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 fiscal year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Measure D Fund's financial statements, and have issued our report thereon dated December 28, 2022.

**Report on 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) relating 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 relating to the Measure D Fund. Accordingly, we do not express an opinion on the effectiveness of the County's internal control relating 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.

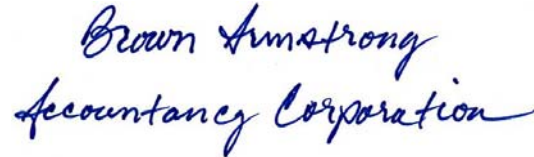
## Report Compliance and Other Matters

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 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 or on compliance relating 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 relating to the Measure D Fund. 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, 2022



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## 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 fiscal year ended June 30, 2022.

### 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 of America; 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 fiscal year ended June 30, 2022.

### 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 over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a compliance requirement on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
December 28, 2022