

**City of Santa Cruz,
State of California**

Measure D Fund Financial Statements

For the Fiscal Year Ended June 30, 2022

City of Santa Cruz
Measure D Fund
Table of Contents
June 30, 2022

Independent Auditor’s Report..... 1
Management’s Discussion and Analysis 4
Balance Sheet – Measure D Fund..... 8
Statement of Revenues, Expenditures, and Changes in Fund Balances..... 9
Notes to Basic Financial Statements 10
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..... 14



Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council of the
City of Santa Cruz, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the 2016 Measure D Fund (Measure D Fund) of the City of Santa Cruz, California (City), as of and for the year ended June 30, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Measure D Fund of the City, as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the 2016 Measure D Fund, and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2022, the changes in its financial position, or, where applicable, its cash flows 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.

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 relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 opinion. 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 GAAS 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 GAAS 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 City's internal control. 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.

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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, be presented to supplement the basic financial statements. Such information is the responsibility of management and although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 22, 2023 on our consideration of the Measure D Fund 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 solely 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 the effectiveness of the Measure D Fund of the City'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 Measure D Fund of the City's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Menlo Park, California
March 22, 2023

The Management Discussion and Analysis (MD&A) section of the City of Measure D fund financial statements provides a narrative overview of the Fund's financial activities for the fiscal year ended June 30, 2022.

Introduction

- **Background:**

Measure D is a comprehensive and inclusive package of transportation investments passed in November 2016 by over two-thirds (2/3) of Santa Cruz County voters. This ½ cent sales tax guarantees a steady, direct source of funding to every city and the County of Santa Cruz for local street and road maintenance, bicycle, pedestrian, and safety projects, including Santa Cruz METRO and Community Bridges-Lifeline for transit and paratransit services for seniors and people with disabilities, as well as implementation of priority highway, trail, and other essential transportation projects and programs throughout the county. Measure D went into effect on April 1, 2017.

The Santa Cruz County Regional Transportation Commission (RTC) is the administrator of Measure D. A five-year program of projects showing how recipient agencies plan to use Measure D funds is updated and adopted annually by each agency receiving Measure D revenues. An Annual audit of receipts and expenses of each recipient is also required.

- **Fund Highlights:**

During fiscal year 2022, the fund's total fund balance increased by \$1.4 million. Notable changes to the fund were:

- Total assets of the fund increased by \$1.4 million primarily due to expenditures being less than the prior year, and completion of a major project.
- Intergovernmental revenues increased \$0.2 million to \$1.7 million, remaining consistent with prior year as there was no material change to the activities for Measure D.
- Expenditures and transfers out during the year were \$237 thousand compared to \$644 thousand in 2021 as the City recently completed Phase I of the Monterey Bay Sanctuary Scenic Trail project.

Overview of the Financial Statements

Measure D is accounted for in a City non-major special revenue fund, 2016 Transportation Measure D Fund. This fund accounts for receipts and expenditures of the 2016 Measure D sales tax received from the RTC. Interest earned is recorded within the fund to be spent on transportation projects. Revenue receipts are deposited directly into the fund and funds are only transferred out when expenditures have occurred in the projects. The city tracks the Measure D funds through the balance sheet along with project accounting.

The financial statements of the 2016 Transportation Measure D Fund are on the modified accrual basis of accounting. Revenues are recognized when they have been earned and are both measurable and available.

Financial Analysis of Fund

At the end of fiscal year 2022, the total fund balance of the 2016 Transportation Measure D fund was a surplus of \$4.0 million, an increase from the prior year of \$1.4 million. The entire amount is classified as restricted for transportation projects. The increase is primarily due to expenditures being less than the prior year, and completion of a major CIP project.

Analysis of Balance Sheet

The following is a comparative summary of the Measure D fund's balance sheet:

	2022	2021
Assets:		
Cash and investments	\$ 3,724,523	\$ 2,328,465
Accounts and interest receivable	296,434	292,203
Total assets	\$ 4,020,957	\$ 2,620,668
Liabilities and Fund Balance		
Fund Balance:		
Restricted:		
Streets and roads	4,020,957	2,620,668
Total fund balance	\$ 4,020,957	\$ 2,620,668

Statement of Revenues, Expenditures, and Changes in Fund Balance

Analysis of Activities: The following table presents on a comparative basis the changes in fund balance for the Measure D fund:

	2022	2021
Revenues:		
Intergovernmental	\$ 1,696,913	\$ 1,491,408
Use of money and property	(59,303)	14,219
Total revenues	1,637,610	1,505,627
Expenditures:		
Current:		
Public Works	57,215	12,625
Total expenditures	57,215	12,625
Excess (deficiency) of revenues over (under) expenditures	1,580,395	1,493,002
Other financing uses:		
Transfers out	(180,106)	(631,789)
Net change in fund balances	1,400,289	861,213
Fund balance, beginning of year	2,620,668	1,759,455
Fund balance, end of year	\$ 4,020,957	\$ 2,620,668

Measure D Funded Projects in FY 2021/22

Since Measure D went into effect the City of Santa Cruz has put Measure D funds to work paving streets, building new bicycle and walking paths, designing major infrastructure projects, maintaining existing infrastructure, and providing safety programs related to streets and roads. The following highlights a few of the projects that were funded by Measure D in FY 2021/22:

Monterey Bay Sanctuary Scenic Trail Segment 7: The City initiated work on Segment 7 Phase 2 of the Rail Trail in fiscal year 2022. This fully funded project will be complete in the next year. The project is estimated to cost \$20M with an estimated \$3.4M contributed from Measure D and Measure D - SCCRTC. The remaining \$17M has been secured from other sources. The .8 mile multiuse path will connect to the existing Segment 7 Phase 1 (complete, 1.2 miles) and Segments 8/9 (in Environmental Phase, fully funded for Construction, 2.2 miles).

Safe Routes 2 School and Youth Bike Safety Education – Youth Walking and Biking Safety Education was provided for twelve 2nd grade classes and twelve 5th grade classes at four elementary schools in Santa Cruz. This education includes in classroom and on the bike/on the street experience. The Street Smarts program established by the City has expanded throughout Santa Cruz County. The purpose of the program is to raise awareness and promote safe practices amongst drivers, cyclists and pedestrians. In addition to educating the public, another goal is to reduce the number of traffic-related crashes and injuries. Similar to the prior year, the City had held multiple educational such as events to educate the community through interactive learning activities such as on-bike (Bike Smart) and on-foot (Walk Smart) youth bicycle and pedestrian training to elementary students at City public schools.

Economic Factors and Next Year's Budgets and Rates

The City of Santa Cruz was affected by severe weather in late December 2022 and early January 2023 causing significant damage to its roadways, river levees, Municipal Wharf and main water supply systems. Emergency declarations were proclaimed on the local, State and Federal level. The City of Santa Cruz is in the process of surveying the total damage, but initial damage estimates are above \$10 million. The City will be seeking disaster recovery assistance from Cal OES and FEMA. This could have an effect on future projects.

Requests for Information

This financial statement is designed to provide a general overview of the fund's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of Santa Cruz, Finance Department, 1200 Pacific Avenue, Suite 290, Santa Cruz, CA 95060.

City of Santa Cruz
Balance Sheet - Measure D Fund
June 30, 2022

Assets:

Cash and investments	\$ 3,724,523
Interest receivable	3,615
Accounts receivable	292,819
Total assets	<u>\$ 4,020,957</u>

Fund Balance:

Restricted for streets and roads	<u>\$ 4,020,957</u>
----------------------------------	---------------------

City of Santa Cruz
Statement of Revenues, Expenditures, and Changes in Fund Balances - Measure D Fund
Year Ended June 30, 2022

Revenues:

Intergovernmental	\$ 1,696,913
Use of money and property	<u>(59,303)</u>
Total revenues	<u>1,637,610</u>

Expenditures:

Current:	
Public works	<u>57,215</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,580,395</u>

Other financing uses:

Transfers out	<u>(180,106)</u>
Net change in fund balances	1,400,289
Fund balance, beginning of year	<u>2,620,668</u>
Fund balance, end of year	<u><u>\$ 4,020,957</u></u>

Note 1 - Summary of Significant Accounting Policies

The basic financial statements of the Measure D Fund City of Santa Cruz, California ("City") have been prepared in conformity with Generally Accepted Accounting Principles ("GAAP") as applied to governmental agencies. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

All transactions of the Santa Cruz County Regional Transportation Commission - Measure D Fund (Measure D Fund) of the City are included as a separate special revenue fund in the basic financial statements of the City. The accompany 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.

Basis of Accounting and Measurement Focus

The operations of the Measure D Fund are accounted in a non-major special revenue fund, 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.

Basis of Accounting

The Measure D funds are accounted for on a spending, or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current resources. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Generally, revenues are considered available if they are collected within 60 days after fiscal year end. If revenues are not subject to accrual, they are recorded when received in cash. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, intergovernmental revenues, and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Use of Restricted Fund Balance

Fund Balance Flow Assumptions

In order to calculate the amounts to report as restricted fund balance in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance.

Cash, Cash Equivalents, and Investments

For purposes of the Balance Sheet, cash and cash equivalents include currency on hand and deposits in the City's cash and investment pool. These deposits have the same characteristics for the participating funds as demand deposit accounts, in that the funds may deposit additional cash at any time and also effectively withdraw cash at any time without prior notice or penalty. The City's cash and investments are stated at fair value, which is based on a quoted market price. This includes all investments except the City's investment in the California Local Agency Investment Fund ("LAIF"). The balance is available for withdrawal on demand and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The City valued its investments in LAIF at June 30, 2022, by multiplying its balance by a fair value factor determined by LAIF (.987125414). This fair value factor was calculated by dividing the total fair value for all participants by the total amortized cost.

Fund Balances

Restricted – This category consists of amounts that have constraints placed on them either externally by third parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

Note 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.

Note 3 - Cash Deposits and Investments

Cash and investments held by the Measure D Fund at June 30, 2022, consisted of \$3,724,523 in cash pooled with the City's cash and investments.

Allowable Investments

Pooled cash consists of investments authorized by the California Government Code and the City of Santa Cruz's investment policy. Allowable investment instruments are defined in the California Government Code Section 53600, et. seq., as amended. If the Code is further revised to allow additional investments or is changed regarding the limits on certain categories of investments, the City is authorized to conform to these changes, excluding those changes that may be prohibited by this policy. Where the Government Code specifies a percentage limitation for a particular category of investments, that percentage is applicable only at the date of purchase. The City's pool is not rated and is not registered with the SEC. The average maturity of its investments is less than one year. Additional disclosures about the City's pooled cash and investments may be found in the City's annual comprehensive financial report.

Fair Value Hierarchy – The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 2 inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs are significant unobservable inputs. Investments in LAIF are uncategorized as deposits and withdrawals are made on the basis of \$1 and not fair value. The Measure D funds subject to fair value measurements are not subject to fair value and considered uncategorized.

Note 4 - Transfers Out

The Measure D fund transferred \$66,567 to the City's general fund, \$108,839 to the City's general capital improvements fund, and \$10,700 to the City's parking fund for reimbursement of previously incurred Measure D allowable costs.



CPAs & BUSINESS ADVISORS

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 the City Council of the
City of Santa Cruz, California

We have audited, 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, the financial statements of the 2016 Measure D Fund (Measure D Fund) of the City of Santa Cruz, California (City), as of and for the year ended June 30, 2022, 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 March 22, 2023.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Measure D Fund are intended to present the financial position and the changes in financial position attributable to the transactions of that fund. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2022, 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.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Measure D Fund financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Measure D Fund’s internal control. Accordingly, we do not express an opinion on the effectiveness of Measure D Fund’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 or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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, 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 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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Menlo Park, California
March 22, 2023