

City of Watsonville, California

**Measure D Fund
Financial Statements**

For the Year Ended June 30, 2024

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CITY OF WATSONVILLE
MEASURE D FUND FINANCIAL STATEMENTS
For the Year Ended June 30, 2024

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of City Council
of the City of Watsonville, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Measure D Fund (the Fund) of the City of Watsonville, California (City), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Fund's basic 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 financial position of the Fund as of June 30, 2024, and the changes in the financial position and the budgetary comparison listed in the Table of Contents as part of the basic financial statements 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 requirement 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 a Matter

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not present fairly the financial position of the City of Watsonville as of June 30, 2024, 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.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 generally accepted auditing standards 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 generally accepted auditing standards 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2024, 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 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 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 City's internal control over financial reporting and compliance.



Pleasant Hill, California
December 27, 2024

**CITY OF WATSONVILLE
MEASURE D FUND
BALANCE SHEET
June 30, 2024**

ASSETS

Cash and investments	\$ 4,713,525
Taxes receivable	<u>186,954</u>
TOTAL ASSETS	<u>\$ 4,900,479</u>

LIABILITIES

Accounts payable	<u>\$ 128,400</u>
Total Liabilities	<u>128,400</u>

FUND BALANCE

Restricted for:	
Admin cost	6,380
Other Measure D programs	<u>4,765,699</u>
Total Fund Balance	<u>4,772,079</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 4,900,479</u>

See accompanying Notes to Basic Financial Statements.

CITY OF WATSONVILLE
MEASURE D FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE
For The Year Ended June 30, 2024

REVENUES

Sales tax - Transportation	\$ 1,299,249
Interest	144,708
Total Revenues	<u>1,443,957</u>

EXPENDITURES

Streets and sidewalks	1,003,689
Administrative costs	6,380
Total Expenditures	<u>1,010,069</u>

Excess (deficiency) of revenues over expenditures	<u>433,888</u>
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NET CHANGE IN FUND BALANCE	<u>433,888</u>
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FUND BALANCE

Beginning fund balance	4,338,191
Ending fund balance	<u>\$ 4,772,079</u>

See accompanying Notes to Basic Financial Statements.

CITY OF WATSONVILLE
MEASURE D FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
For The Year Ended June 30, 2024

	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Sales tax - Transportation	\$ 1,000,000	\$ 1,299,249	\$ 299,249
Interest Revenue	10,000	144,708	134,708
Total Revenues	<u>1,010,000</u>	<u>1,443,957</u>	<u>433,957</u>
EXPENDITURES			
Streets and sidewalks	5,156,422	1,003,689	4,152,733
Administrative costs	-	6,380	(6,380)
Total Expenditures	<u>5,156,422</u>	<u>1,010,069</u>	<u>4,146,353</u>
NET CHANGE IN FUND BALANCE	<u><u>\$ (4,146,422)</u></u>	433,888	<u><u>\$ 4,580,310</u></u>
FUND BALANCE			
Beginning fund balance		<u>4,338,191</u>	
Ending fund balance		<u><u>\$ 4,772,079</u></u>	

See accompanying Notes to Basic Financial Statements

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CITY OF WATSONVILLE
MEASURE D FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2024

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

On November 8, 2016, the voters of Santa Cruz County, pursuant to the provisions of the Local Transportation Authority and Improvement Act (the Act), California Public Utilities Code, Division 19, Section 180000 et seq. adopted an ordinance approving the Santa Cruz County Transportation Improvement Plan Measure (Measure D), thereby authorizing Santa Cruz County Regional Transportation Commission, referred to herein as the Local Transportation Authority (Authority), to administer the proceeds from a retail transaction and use tax of one-half of one-percent (0.5%) that will last for 30 years from the initial date of collection. The Measure D Ordinance authorizes the Authority to allocate, administer, and oversee the expenditure of all Measure D revenues and to distribute revenues no less than quarterly to local jurisdictions (including City of Watsonville), Santa Cruz Metropolitan Transit District, and the Consolidated Transportation Service Agency.

The financial statements present only the activities of the City's Measure D Fund, and are not intended to present fairly the financial position and changes in financial position of the City, in accordance with accounting principles generally accepted in the United States of America.

B. Basis of Accounting

The Measure D Fund of the City is maintained on the modified accrual basis of accounting. As such, revenues are recognized when they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

C. Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2024, consist of the following:

Pooled cash and investments with the City of Watsonville \$4,713,525.

Please refer to the notes of the City's June 30, 2024 Annual Comprehensive Financial Report regarding cash and investments for additional detail.

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**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 Watsonville, 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 basic financial statements of the City of Watsonville, California (City), Measure D Fund (the Fund) as of and for the year ended June 30, 2024, and have issued our report thereon dated December 27, 2024.

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 opinion 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control that we consider to be a material weakness as listed on the Schedule of Material Weakness included as part of our separately issued Memorandum on Internal Control dated December 26, 2024, which is an integral part of our audit and should be read in conjunction with this report.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of the City'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 any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We have also issued a separate Memorandum on Internal Control dated December 26, 2024, which is an integral part of our audit and should be read in conjunction with this report.

City's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in our separately issued Memorandum on Internal Control dated December 26, 2024, which is an integral part of our audit and should be read in conjunction with this report. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Pleasant Hill, California
December 27, 2024

CITY OF WATSONVILLE
MEMORANDUM ON INTERNAL CONTROL
SCHEDULE OF MATERIAL WEAKNESS

2024-01: Impact Fee Special Revenue Fund Budget

Criteria:

Generally accepted accounting principles (GAAP) require that budgetary comparison statements be presented in accordance with the budgetary basis of accounting to demonstrate legal compliance. In addition, the City’s budget policy requires all governmental funds be included in the annual appropriated budget.

Condition:

During our audit, we noted that the City did not include the Impact Fees Special Revenue Fund in the annual appropriated budget for fiscal year 2024. Furthermore, we noted that the Impact Fees Special Revenue Fund had actual revenue totaling \$1,697,352, actual expenditures totaling \$35,347, and transfers out totaling \$5,000 in fiscal year 2024.

Cause:

The City is aware of the fact that the Impact Fees Special Revenue Fund was not included in the annual appropriated budget for fiscal year 2024, however, the City has struggled with hiring engineers and a backlog of projects, which has prevented the City from having the resources to compile a budget for the fund.

Effect:

The City is not in compliance with GAAP and the City’s budget policy.

Recommendation:

We recommend that the City develop procedures to ensure that all governmental funds, including the Impact Fees Special Revenue Fund, are included in the annual appropriated budget each fiscal year.

Management’s Response:

The City plans to include the Impact Fees Special Revenue Fund in the upcoming annual appropriated budget.