

**CITY OF CAPITOLA  
CALIFORNIA**

**MEASURE D FUND**

**AUDITED FINANCIAL STATEMENTS &  
INDEPENDENT AUDITOR'S REPORT  
JUNE 30, 2024**



**Chavan & Associates, LLP**

Certified Public Accountants  
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**CITY OF CAPITOLA**  
**Measure D Fund**  
For the Fiscal Year Ended June 30, 2024

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## **FINANCIAL SECTION**



## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Audit of the Financial Statements**

#### ***Opinions***

We have audited the accompanying financial statements of Measure D Fund, a special revenue fund of the City of Capitola (the "City"), as of and for the fiscal year ended June 30, 2024, and the related notes to the financial statements.

In our opinion, the 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, 2024, and the changes in financial position thereof for the fiscal 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* (GAGAS), 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 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 opinions.

#### ***Emphasis of a Matter***

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

#### ***Responsibilities of Management for the Financial Statements***

City 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 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 GAAS and GAGAS 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 GAGAS, 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 February 11, 2025, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe



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the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*C & A LLP*

February 11, 2025  
Morgan Hill, California

**CITY OF CAPITOLA**  
**Measure D Fund**  
Balance Sheet  
June 30, 2024

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**Assets**

Cash and investments	\$ 499,928
Due from other governments	26,793
Interest receivable	<u>5,424</u>
 Total Assets	 <u><u>\$ 532,145</u></u>

**Fund Balance**

Restricted for transportation	<u>\$ 532,145</u>
 Total Fund Balances	 <u><u>\$ 532,145</u></u>

*The accompanying notes are an integral part of the financial statements.*

**CITY OF CAPITOLA**  
**Measure D Fund**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
For the Fiscal Year Ended June 30, 2024

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**Revenues**

Intergovernmental	\$ 359,670
Use of money and property	<u>19,644</u>

Total Revenues	<u>379,314</u>
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**Expenditures**

Capital outlay	<u>33,061</u>
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Total Expenditures	<u>33,061</u>
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Net Change in Fund Balances	346,253
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Fund Balances Beginning	<u>185,892</u>
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Fund Balances Ending	<u><u>\$ 532,145</u></u>
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*The accompanying notes are an integral part of the financial statements.*



**CITY OF CAPITOLA**  
**Measure D Fund**  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2024

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Description of Reporting Entity

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

B. Basis of Presentation

*Fund Accounting*

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

C. Basis of Accounting

The Measure D fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers the majority of revenues to be available if they are collected within 60 days of the end of the current fiscal period. The City's only exception to this timeline is Sales Tax receipts which are recorded as revenues if received within 90 days.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, pension and other postemployment benefits and claims and judgments, are recorded only when payment is due.

D. Assets, Liabilities, and Fund Balance

*1) Cash and Investments*

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

Changes in fair market value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in

**CITY OF CAPITOLA**  
**Measure D Fund**  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2024

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fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

The City pools cash and investments of all funds under management of the City's Treasurer. The pool is not registered with the SEC. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments.

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

*2) Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Noncurrent portions of long-term interfund loan receivables are reported as advances and such amounts are offset equally by a fund balance restricted account that indicates they do not constitute expendable available financial resources and therefore are not available for appropriation.

*3) Use of Estimates*

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

*4) Fund Balance*

As of June 30, 2024, fund balance of the Measure D Fund was classified as restricted which is defined as amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

**NOTE 2 – MEASURE D FUND**

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.

**CITY OF CAPITOLA**  
**Measure D Fund**  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2024

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**NOTE 3 – CASH AND INVESTMENTS**

Cash and investments held by the Measure D Fund at June 30, 2024, consisted of \$499,928 in cash pooled with the City's Cash and Investments.

Investments Authorized by the California Government Code and the City of Capitola'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 City's average maturity of its investments is less than one year.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF CAPITOLA**  
**Measure D Fund**  
Notes to Statement of Revenues, Expenditures, and Changes in Fund Balances –  
Budget and Actual  
For the Fiscal Year Ended June 30, 2024

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	Budget Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues:</b>				
Intergovernmental	\$ 371,000	\$ 371,000	\$ 359,670	\$ (11,330)
Use of money and property	-	-	19,644	19,644
Total Revenues	371,000	371,000	379,314	8,314
<b>Expenditures</b>				
Capital outlay	366,000	386,345	33,061	(353,284)
Total Expenditures	366,000	386,345	33,061	(353,284)
Net Change in Fund Balances	5,000	(15,345)	346,253	(344,970)
Fund Balances Beginning	185,892	185,892	185,892	(768,276)
Fund Balances Ending	\$ 190,892	\$ 170,547	\$ 532,145	\$ (1,113,246)

*The accompanying notes are an integral part of the financial statements.*

**CITY OF CAPITOLA**  
**Measure D Fund**  
Notes to Required Supplementary Information  
For the Fiscal Year Ended June 30, 2024

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**NOTE 1 – BUDGETS AND BUDGETARY ACCOUNTING**

The City adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for governmental funds. The City’s budget ordinance requires that in April of each fiscal year, the City Manager must submit a preliminary budget that includes projected expenditures and the means of financing them, to the City Council for the fiscal year commencing the following July 1. As modified during public study sessions, the preliminary budget becomes the proposed budget. Following public hearings on the proposed budget, the final annual budget is adopted by the City Council in June of the following fiscal year.

After adoption of the final budget, transfers of appropriations within a general fund department, or within each fund can be made by the City Manager. Budget modifications between funds, increases or decreases to a fund’s overall budget, transfers between general fund departments or transfers that affect capital projects must be approved by the City Council or Agency Board. Numerous properly authorized amendments are made during the fiscal year. Appropriations lapse at fiscal year-end.

Budgetary control is enhanced by integrating the budget into the general ledger. Encumbrance accounting is employed (e.g., purchase orders) to avoid over-expenditure. Encumbrances outstanding at fiscal year-end are automatically rebudgeted in the following fiscal year, unless specifically cancelled by Council action. Per Capitola Municipal Code 3.20.060.C: “The appropriation for the uncompleted balance of executory contracts should not lapse at year-end but is automatically appropriated for the succeeding fiscal year unless specifically cancelled by council action.”

**OTHER INDEPENDENT  
AUDITOR'S REPORTS**



**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 Capitola  
City of Capitola, 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 Measure D Fund of the City of Capitola (the City) as of and for the fiscal year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's Measure D Fund financial statements, and have issued our report thereon dated February 11, 2025.

***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 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 City'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 were not identified.

***Report on Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City of Capitola'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





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Certified Public Accountants

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 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.

*C & A LLP*

February 11, 2025  
Morgan Hill, California