

## General Compliance Reporting:

Confirm completion of the following Measure D Agreement requirements during the reporting year. The RTC shall utilize information from Recipient on expenditures to prepare a comprehensive report to the public on the expenditure of Measure D revenues.

Recipient - Update all highlighted fields on 3 tabs. Reporting Requirements (Articles from the Master Fund Agreement are referenced as comments)

**REPORTING YEAR:** **FY17/18**

**Recipient Agency** **City of Capitola**

Public Information/ Outreach	Date	Documentation (ex. copy of resolution, minutes, notices, articles, webpage, signage, etc) - please attach.	Comments, additional info. If applicable, briefly explain why publicity requirement was not completed
Date Initial 5-Year Plan Adopted	6/8/2017	Resolution	part of overall budget
Date of 5-Year Plan Public Hearing	6/8/2017	Staff report	part of overall budget
Date of annual audit of Measure D Expenditures	12/6/2018	audit	attached
News Article	ongoing		An article will be included in our next semi-annual newsletter in Jan. 2019
Website with info on Meas. D projects	ongoing	webpage	<a href="http://www.cityofcapitola.org/publicworks/page/streets">http://www.cityofcapitola.org/publicworks/page/streets</a>
Map of Measure D-funded Projects	ongoing	webpage	<a href="http://www.cityofcapitola.org/publicworks/page/streets">http://www.cityofcapitola.org/publicworks/page/streets</a>
Photos (before/after)	ongoing	Instagram	<a href="http://www.cityofcapitola.org/cityadministration/page/capitola-social-media">http://www.cityofcapitola.org/cityadministration/page/capitola-social-media</a>
Signage	ongoing	Instagram	<a href="http://www.cityofcapitola.org/cityadministration/page/capitola-social-media">http://www.cityofcapitola.org/cityadministration/page/capitola-social-media</a>
Describe any other public outreach conducted during the reporting year about Measure D	ongoing		We worked with the local biking community to establish the priority for the green bike lane program.

## Maintenance of Effort

FY17/18 LOCAL funds spent on multimodal local road repairs & maintenance (exclude HUTA, formula state & fed funds, special grants)	\$ 1,166,141	City General Fund	part of overall budget
Maintenance of Effort BASELINE (should match MOE report submitted to RTC in 2017)	\$ 1,005,819	Pre-Measure D Baseline of average of locally-generated revenues (ex. general funds, sales and property taxes and other fees) and expenditures for transportation purposes in the three to five fiscal years prior to the start of Measure D allocations to recipient agencies (FY16/17, FY15/16, FY14/15, and optionally FY13/14 and FY12/13).	
FY18/19 LOCAL (exclude HUTA, formula state & fed funds) funds BUDGETED on multimodal local road repairs & maintenance	\$ 1,571,392	Locally-generated funds beyond HUTA or Measure D (ex. general funds, city tax, developer fees, etc)	

<p><b>If FY17/18 local expenditures were lower than the baseline amount, explain why.</b> (e.g. emergencies, extraordinary event - fires, etc) Recipient agencies have up to three fiscal years to meet the adjusted minimum local revenue expenditure requirement.</p>	N/A	
<p><b>Does your agency have an indirect cost allocation plan?</b></p>	Yes	If "no", Measure D funds cannot be used for indirect costs.
<p><b>Cities/County Only: Does your agency have an adopted Complete Streets policy?</b></p>	Yes	It is included in the City's General Plan which was adopted June 26, 2014.

## Contacts

Administrative officer or designated staff available to report on or answer any and all inquiries in regard to Recipient's receipt, usage, and/or compliance audit findings regarding Measure D funds before the RTC and/or the Independent Oversight Committee or RTC advisory committees, as applicable.

Name	Title/Measure D tasks	Phone/email
Steve Jesberg	Public Works Director	(831) 475-7300; sjesberg@ci.capitola.ca.us
Jim Malberg	Finance Director	(831) 475-7300; jmalberg@ci.capitola.ca.us
Kailash Mozumder	Public Works Project Manager	(831) 475-7300; kmozumder@ci.capitola.ca.us

## MEASURE D EXPENDITURE REPORT

List how Measure D funds were expended. While backup documentation (e.g. invoices from contractors, payroll, etc) do not need to be submitted with this report, all Measure D funds must included in recipient agency's fiscal audit and projects will be randomly selected for more detailed review. Agencies should retain records documenting Measure D expenditures for at least 3 years on each project.

Agency	Beginning of Year Fund Balance	FY 16/17-17/18 Measure D Received (4/1/17-6/30/18)	Interest Earned on Measure D funds	Measure D Expended (4/1/17-6/30/18)	End of Year Fund Balance/ Carryover to be Spent in Future Years	Anticipated Future Interest (include in 5-Year plan updates)
City of Capitola	NA in first report	\$ 323,565.04	\$ 2,651.77	\$ 108,601.83	\$ 214,963.21	\$ 2,149.63

DETAILED SUMMARY OF EXPENDITURES AND ACCOMPLISHMENTS.												Consistency with 5-year plan	
#	Project Name	Total Project Cost	Past year(s) Measure D Expenditures on this project	FY17/18 Measure D Expenditures	(Est) Future Year(s) Measure D Expenditures	Measure D-funded Capital Costs	Measure D-funded Non-capital (non-infrastructure, outreach, admin, etc)	Measure D-funded indirect costs	Leveraged Funds (grants & other funds secured, which used Meas. D as match)	Leveraged Fund Source Name(s)	Project in approved 5-year plan?	If not in 5-year plan or different amount or scope, why different?	
1	Hwy 1 Enhanced Bike Lanes	\$ 148,645.00	\$ -	\$ 63,276.83	\$ -	\$ 63,276.83	\$ -	\$ -	\$ -	na	Yes	na	
2	City-wide Slurry Seal	\$ 380,967.00		\$ 45,325.00	\$ -	\$ 45,325.00	\$ -	\$ -	\$ -	na	Yes	na	
<b>Total</b>		\$ -	\$ -	\$ 108,601.83	\$ -	\$ 108,601.83	\$ -	\$ -	\$ -				

<b>Agency</b>
City of Capitola

MAILED SUMMARY OF EXPENSES		Project Information Continued		
Project Name	Location/Limits	Description <i>(may include additional project components, ex. complete streets, traffic calming, crossing improvements, drainage upgrades, etc.)</i>	Project Category <i>(Drop-down Menu)</i>	Primary Project Type <i>(Drop-down Menu)</i>
Hwy 1 Enhanced Bike Lanes	all intersections in city limits near HWY 1	installed green bike lanes	Bike only	Bikeways (non-Class I)
City-wide Slurry Seal	46th Avenue from Capitola Road to Clares Street Wharf Road from 49th Avenue to the northern boundary Prospect Avenue from 49th Avenue to Lincoln Avenue Beverly Avenue from Capitola Avenue to Burlingame Avenue Burlingame Avenue from Beulah Drive to Bay Avenue Capitola Avenue from Bay Avenue to northern boundary Del Monte Avenue from Pilgrim Drive to Bay Avenue Pilgrim Drive from Burlingame Avenue to Bay Avenue Pine Street from Capitola Avenue to Rosedale Avenue Plum Street from Capitola Avenue to Rosedale Avenue  A crack seal is also included along Bay Avenue from Oak Drive to Highway 1.	Type 2 Slurry Seal and bike lane restriping	Road Rehab	Street Resurfacing/Maintenance

# Agency

City of Capitola

PROJECT SUMMARY OF EXPENSE	Project Status/Timeline				Project Costs by Mode - estimate percent of project by mode				Additional Metrics - if applicable					Other
	Project Status	CEQA compliance <i>(List type of document &amp; certification date - e.x. CE, 5/1/18)</i>	Construction schedule	Completion Date <i>(actual or estimate)</i>	% System Preservation	% Roadway <i>(on local roads, non-sys. preservation - ex. traffic circulation, intersections, highway, etc.)</i>	% Bike	% Ped	New Bike Lane Miles	New Pedestrian Path or Sidewalk Miles	Miles of pavement rehab/ repair (pothole, seals, etc)	Rehab of bikeways, sidewalks, or ADA ramps included? <i>(describe)</i>	If Complete Streets not incorporated into project, why not?	Other Notes or Information <i>(optional)</i>
Hwy 1 Enhanced Bike Lanes	Complete	exempt	8/1/17-10/13/17	10/13/2017	0%	0%	100%	0%	0.25	0	0	Yes- upgrade of bike lanes	NA	na
City-wide Slurry Seal	Complete	exempt	7/1/2017-6/30/2018	6/30/2018	80%	0%	20%	0%	0	0	3	No	N/A	na
									0.25	0.00	3.00			

**Measure D: Neighborhood Projects Program** (Funds to Cities and County for Local Streets and Roads - LSR)

**Performance Measures**

AGENCY:

City of Capitola

Measure D recipients are to document the performance and benefits of the projects and programs funded with Measure D funds. The following performance measures are a selection of performance standards to be documented by the recipients, as applicable. Additional or alternate performance measures may be provided or requested by the RTC or recipients.

Submittal date

12/21/2018

Performance Measure	Performance Metric and Standard		Corrective Action
	Baseline/Prior Year	Current	
<b>Pavement State of Repair</b>	<i>Track city/countywide Pavement Condition Index (PCI), which rates the "surface condition" of local streets from 1 to 100, at least every three years.</i>		<i>Any agency with a falling PCI must provide an explanation. If the PCI drops, specify what funding amounts, policies, or other needs are required to enable increasing the PCI to 60 (fair) or above.</i>
Average Network PCI (0-100)*	65	65	
Date of PCI Analysis (month/year)	Jun-17	Jun-17	
Miles repaved in FY17/18 <i>(using all funds, not just Measure D)</i>		3	
Miles agency plans to repave in FY18/19 <i>(using all funds, not just Measure D)</i>		0.5	
Total centerline miles in jurisdiction	26	26	
<b>Complete Streets Implementation</b>			<i>Provide an explanation if less than 20% of Measure D funds are spent on bicycle and pedestrian facilities.</i>
Percent of annual Measure D funds used to support bicycling and walking.		67%	

Performance Measure	Performance Metric and Standard		Corrective Action
	Baseline/Prior Year	Current	
Number of linear feet or lane miles of bicycle facilities built or maintained (bike lanes, bike routes, multi-use pathways)		0.25	na
Number of pedestrian projects completed (linear feet of sidewalks, number of crossing improvements/striping, quantify traffic calming items, lighting, landscaping/streetscape, number of curb/ADA ramps, linear feet of trail/pathway built or maintained)		0	
Describe how school access was improved for children bicycling and walking, which may include collision data		Green bike lanes on Bay St, Porter St, and Park Ave. improve access to Soquel Elementary School and New Brighton Middle School	
<b>Capital Project and Program Investment</b>	<i>Investment into capital projects and programs is greater than funding program administration (outreach, staffing, administrative)</i>	<i>Investment into capital projects and programs is greater than funding program administration (outreach, staffing, administrative)</i>	<i>Any agency expending less on capital investments compared to other activities must explain how capital investments will increase in the subsequent years</i>
Amount expended on capital projects and programs by phase (design, right-of-way, construction and capital support)	na	\$108,601.83 = construction	
<b>Leveraged Funds</b>	<i>Report total grants and other funding secured using Measure D as a match.</i>	<i>Report total grants and other funding secured using Measure D as a match.</i>	<i>Explain if Measure D funds fully funding all projects.</i>
Amount of competitive grants secured using Measure D as match	na	\$0.00	Measure D was not used as match in any grants in FY17/18

# **CITY OF CAPITOLA, CALIFORNIA**

MEASURE D FUND  
FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Prepared by the Capitola Finance Department



**City of Capitola  
Measure D Fund Financial Statements  
Year Ended June 30, 2018**

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## INDEPENDENT AUDITOR'S REPORT

The Honorable City Council  
City of Capitola, California

### **Report on the Financial Statements**

We have audited the accompanying balance sheet and the statement of revenues, expenditures and changes in fund balance of the Measure D Fund, a special revenue fund of City of Capitola, California (City) as of and for the year ended June 30, 2018, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Measure D Fund of the City, as of June 30, 2018, and the change in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matters***

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 as of June 30, 2018, 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.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that budgetary comparison information for the General Fund as listed in the table of contents, be presented to supplement the basic financial statements. Such information, 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 auditing standards generally accepted in the United States of America, 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.

Management has omitted management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2018, 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 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.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California  
December 6, 2018

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**CITY OF CAPITOLA  
Measure D Fund  
Balance Sheet  
June 30, 2018**

	<u>Measure D Fund</u>
<b>ASSETS</b>	
Cash and investments	\$ 191,048
Due from other governments	<u>34,217</u>
Total Assets	<u><u>\$ 225,265</u></u>
<b>LIABILITIES</b>	
Accounts payable	<u>\$ 7,650</u>
Total Liabilities	<u>7,650</u>
<b>FUND BALANCE</b>	
Restricted for:	
Transportation	<u>217,615</u>
Total Fund Balance	<u>217,615</u>
Total Liabilities and Fund Balance	<u><u>\$ 225,265</u></u>

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

**CITY OF CAPITOLA**  
**Measure D Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Year Ended June 30, 2018**

	Measure D Fund
<b>REVENUES</b>	
Intergovernmental	\$ 312,311
Use of money and property	2,652
Total Revenues	314,963
<b>EXPENDITURES</b>	
Current:	
Transportation	108,602
Total Expenditures	108,602
Excess (Deficiency) of Revenues over (Under) Expenditures	206,361
Fund Balance, Beginning of Year	11,254
Fund Balance, End of Year	\$ 217,615

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



**CITY OF CAPITOLA**  
**Measure D Fund**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**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 Fund 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.

**CITY OF CAPITOLA**  
**Measure D Fund**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**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 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. 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 reserve 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.

**CITY OF CAPITOLA**  
**Measure D Fund**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**D. Assets, Liabilities, and Fund Balance (continued)**

**4) Fund Balance**

As of June 30, 2018, 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.

**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.

**3. CASH AND INVESTMENTS**

Cash and investments held by the Measure D Fund at June 30, 2018, consisted of \$191,048 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**  
**Supplementary Information**  
**Measure D Fund**  
**Budgetary Comparison Schedule**  
**Year Ended June 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Intergovernmental	\$ 285,000	\$ 285,000	\$ 312,311	\$ 27,311
Use of money and property	-	-	2,652	2,652
Total revenues	<u>285,000</u>	<u>285,000</u>	<u>314,963</u>	<u>29,963</u>
Expenditures:				
Current:				
Transportation	485,000	485,000	108,602	(376,398)
Total expenditures	<u>485,000</u>	<u>485,000</u>	<u>108,602</u>	<u>(376,398)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(200,000)</u>	<u>(200,000)</u>	<u>206,361</u>	<u>406,361</u>
Fund balance, beginning of year	<u>11,254</u>	<u>11,254</u>	<u>11,254</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ (188,746)</u></u>	<u><u>\$ (188,746)</u></u>	<u><u>\$ 217,615</u></u>	<u><u>\$ 406,361</u></u>

**CITY OF CAPITOLA**  
**Notes to Supplementary Information**  
**Year Ended June 30, 2018**

**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."



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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**

The Honorable City Council  
City of Capitola, 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 (Measure D Fund) of the City of Capitola, California (City), as of and for the year ended June 30, 2018, and have issued our report thereon dated December 6, 2018. Our opinion included an emphasis of matter as discussed in Note 1, that the financial statements present only the Fund specific to Measure D Fund, and are not intended to present fairly the financial position and results of operations of the City in conformity with accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 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 over financial reporting 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.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Measure D Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements including the applicable compliance requirements specified in the Measure D agreement between the City and Santa Cruz Regional Transportation Commission, and noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 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.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California  
December 6, 2018