



To the City Council of the
City of Capitola

We have audited the basic financial statements of the City of Capitola as of and for the year ended June 30, 2024, and have issued our report thereon dated February 11, 2025. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility under Generally Accepted Auditing Standards and Government Auditing Standards

As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City of Capitola solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing City of Capitola's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.



Planned Scope and Timing of the Audit

The interim and year-end phases of the audit were conducted consistent with the planned scope and timing we previously communicated with management. The reporting phase of the audit was delayed by two months because the engagement partner assigned to the City was on leave for family bereavement.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

We did not identify any significant risks that required special audit consideration.

Qualitative Aspects of the City's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City of Capitola is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during June 30, 2024 except for the implementation of GASB Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*. However, this standard did not have a significant impact on the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements include accumulated depreciation, depreciation expense, market value adjustments related to investments, and actuarial assumptions included in employee retirement plans that impact pension and other



postemployment balances reported in the financial statements.

We evaluated the key factors and assumptions used to develop the identified estimates and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting City of Capitola's financial statements relate to cash and investments, capital assets, pensions and other postemployment benefits.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. No significant unusual transactions were identified as a result of our audit procedures that required the attention of management.

Identified or Suspected Fraud

We did not identify nor obtain information that indicates that fraud may have occurred.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. There were no uncorrected financial statement misstatements identified.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. There was one material adjustment that we identified as a result of our audit procedures that was brought to the attention of, and corrected by, management. See adjusting journal entry number 7 in the following page. The remaining entries summarized in the following list were either provided by management, immaterial, or related to conversions from the modified



accrual to full accrual basis of accounting as required for the presentation of the government-wide financial statements.

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries				
Adjusting Journal Entries JE # 1				
		1300.10		
CAJE #1 - Provided by client to correct disability access fee				
1000.3150.115.10	Business license Disability access & education		5,392.00	
1000.2800.150.00	Fund Balance Reserved Disability access & education			4,845.00
1000.4335.703.10	CS-Fin Svcs State Architect fee - SB1186			547.00
Total			5,392.00	5,392.00
Adjusting Journal Entries JE # 2				
Reclassification of transfers in from other revenue				
2212.3700.001.00	Other revenue other grants, donations, contrib		250,000.00	
2212.3910.100.00	Interfund transfer in General Fund			250,000.00
Total			250,000.00	250,000.00
Adjusting Journal Entries JE # 3				
Report only - reclassification of negative cash to interfund payable				
1000.1700.000.00	Due from other funds		79,229.00	
1350.1000.000.00	Cash Operating		79,229.00	
1000.1000.000.00	Cash Operating			79,229.00
1350.2700.000.00	Due to other funds			79,229.00
Total			158,458.00	158,458.00
Adjusting Journal Entries JE # 4				
To update interest payable as year end.				
1910.2060.000.00	Accrued payable Interest		25,159.00	
1910.1600.010.00	Other assets Amount to be provided - LT Debt			25,159.00
Total			25,159.00	25,159.00
Adjusting Journal Entries JE # 5				
To record DOR and DIR for OPEB				
1910.1720.000.00	Deferred Outflows OPEB		1,018,598.00	
1910.1600.010.00	Other assets Amount to be provided - LT Debt			335,516.00
1910.2500.000.00	Deferred Inflows OPEB			683,082.00
Total			1,018,598.00	1,018,598.00
Adjusting Journal Entries JE # 6				
Pension conversion entries and adjustments				
1920.1720.900.00	Deferred Outflows of Resources Diff projected & actual earnings		1,552,606.00	
1920.1720.900.00	Deferred Outflows of Resources Diff projected & actual earnings		8,578,463.00	
1920.2500.500.00	Deferred Inflows of Resources Changes of assumptions		405,659.00	
1920.2500.600.00	Deferred Inflows of Resources Diff btw expected & actual expnc		61,916.00	
1920.2850.200.00	Fund balance - undesignated GASB 68		4,511,823.00	
1920.1720.400.00	Deferred Outflows of Resources Contributions after measmnt date			1,053,235.00
1920.1720.600.00	Deferred Outflows of Resources Diff btw expected & actual expnc			16,037.00
1920.1720.800.00	Deferred Outflows of Resources Change in proportion			483,334.00
1920.2400.000.00	Net Pension Liability GASB 68			12,721,709.00
1920.2500.700.00	Deferred Inflows of Resources Diff actual vs projected contribn			467,575.00
1920.2500.700.00	Deferred Inflows of Resources Diff actual vs projected contribn			368,577.00
Total			15,110,467.00	15,110,467.00
Adjusting Journal Entries JE # 7				
To record transfers to PARS and investment earnings per statement. Please be sure your JE matches ours.				
1000.4910.105.99	Interfund transfer out PERS Contingency		250,000.00	
1015.1020.010.00	Cash with fiscal agent		250,000.00	
1015.1020.010.00	Cash with fiscal agent		126,867.00	
1000.2000.000.00	Accounts payable Operating			250,000.00
1015.3610.000.00	Investment earnings Investment earnings			126,867.00
1015.3910.100.00	Interfund transfer in General Fund			250,000.00
Total			626,867.00	626,867.00
Total Adjusting Journal Entries			17,194,941.00	17,194,941.00

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City of Capitola's financial statements or



the auditor's report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. There were no circumstances that affect the form and content of our auditor's report.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated February 11, 2025.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the City of Capitola, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the City, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City of Capitola's auditors.

This report is intended solely for the information and use of the Board and management of the City of Capitola and is not intended to be and should not be used by anyone other than these specified parties.

C & A LLP

February 11, 2025
Morgan Hill, California