

Comprehensive Annual Financial Report



City of Capitola, California

For Fiscal Year Ended June 30, 2014



CITY OF CAPITOLA, CALIFORNIA

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**City Of Capitola
Comprehensive Annual Financial Report
Year Ended June 30, 2014**

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INTRODUCTORY SECTION

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December 30, 2014

Honorable Mayor,
Members of the City Council, and
Citizens of the City of Capitola

SUBJECT: Comprehensive Annual Financial Report - June 30, 2014

The Comprehensive Annual Financial Report (CAFR) for the City of Capitola for the fiscal year ended June 30, 2014 is hereby submitted.

REPORT PURPOSE AND ORGANIZATION

State law requires that the accounts and fiscal affairs of all municipal entities be examined annually by an independent certified public accountant. The City's independent auditor, Rogers, Anderson, Malody, and Scott, LLP has audited the City's financial statements and issued an unqualified opinion that financial statements for fiscal year ended June 30, 2014 are fairly presented in conformity with generally accepted accounting principles (GAAP). This opinion, along with the basic financial statements of the City, are hereby submitted as the CAFR for the City of Capitola for the fiscal year ended June 30, 2014 and included in the financial section of this report in fulfillment of the above requirement.

The independent audit of the financial statements is also typically conducted in conjunction with the federally mandated Single Audit. The standards governing the Single Audit require the independent auditor to report on items beyond fair presentation of the financial statements, including internal controls and compliance with legal requirements involving the administration of federal awards. A Single Audit Report on Federal Award Programs was not required or prepared in FY 13/14 because the City had less than \$500,000 in federal grant expenditures. The City's last required Single Audit Report is available for the year ended June 30, 2012.

This report consists of City management's representations concerning the finances of the City of Capitola. Consequently, management assumes full responsibility for completeness, accuracy of data, and fairness of presentation, including all footnotes and disclosures. Management believes the data presented are accurate in all material respects and that they are presented in a manner designed to fairly set forth the financial position and results of operations of the City. To provide a reasonable basis for making these representations, City management has established a comprehensive framework of internal controls designed both to protect the City's assets from loss, theft, or misuse and to compile sufficiently reliable information for the preparation of the City's financial statements in conformity with generally accepted accounting principles. Because the cost of internal controls should not exceed their benefits, the City's internal controls have been designed to provide reasonable rather than absolute assurance that the financial statements are free of material misstatements. The audit provides users

with reasonable assurance that the information presented is free from material misstatements. As management, we assert that to the best of my knowledge and belief, this financial report is complete and reliable in all material respects.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found in the Financial Section of this document, immediately following the report of the independent auditor.

CITY OF CAPITOLA PROFILE



The City of Capitola is a small coastal community located in Santa Cruz County that occupies approximately two square miles and serves a population 10,136. Located on the northern edge of Monterey Bay, approximately 35 miles north of Monterey and 75 miles south of San Francisco, Capitola enjoys a rich history and offers residents diverse recreational opportunities. Capitola Village is located along a wide beach with expansive views of Monterey Bay and is home to numerous craft galleries, boutiques, and restaurants. The City is host to numerous events, including the Begonia Festival, Capitola Art and Wine Festival, and the annual Wharf to Wharf race.

Voted as one of the best small coastal towns by Sunset Magazine, Capitola offers fishing and boating services in addition to its beachfront restaurants, shops, and entertainment. Other visitor attractions include the Capitola Historical Museum and Capitola Wharf.

Although Capitola is considered a central coast beach destination, it is also one of two major retail centers in Santa Cruz County. The Capitola Mall combined with Brown Ranch and 41st Avenue businesses are the retail hub of the central county. With major retailers such as Macy's, Sears, Kohl's, CVS, Orchard Supply, Ross, Target, and Bed Bath and Beyond, Capitola is a "net regional retail provider" bringing in five to six times the City household retail demand of Capitola city residents. The City also has two major car dealerships.

Capitola is also fortunate to have outstanding educational opportunities. In addition, to having the New Brighton Middle School within its City limits, both Cabrillo Community College and the University of California, Santa Cruz are within eight miles of the City. According to the U.S. Census Bureau's 2010 data, 95% of Capitola residents are high school graduates and 41% possess a Bachelor's Degree or higher level degree.

Form of Government

Capitola is a General Law City which was incorporated in January 11, 1949. The City is subject to the framework and procedures established by State Law and operates under the Council – City Manager form of government. The Council is comprised of four Council Members and a Mayor, all of whom are directly elected by the citizens. The Council Members serve four-year staggered terms; and the Mayor and Vice-Mayor are elected annually by the Council. The Council has the authority to establish all laws and regulations with respect to municipal affairs, subject only to the limitations of the City Municipal Code and the State legislation.

The City Council appoints a City Manager to serve as the City's chief administrative officer. The City Manager provides direction and leadership to all City departments; and ensures that all City Council policies are implemented.

City Services

The City provides police protection, street, park and facilities maintenance, recreation, building, planning, zoning, administrative, and financial services for Capitola. Independent special districts provide fire protection, water, sewer, and drainage services.

The Comprehensive Annual Financial Report includes all financial activities of the City and the Successor Agency to the former Redevelopment Agency of the City of Capitola, two separate legal entities. City Council members also serve as the governing board members of the Successor Agency and the City Manager serves as its Executive Director. Financial activities of the Successor Agency are also subject to approval by an independent Oversight Board.

Financial data for all funds through which services are provided by the City have been included in this report based on the criteria adopted by the Government Accounting Standards Board (GASB), which is the authoritative body in establishing U.S. Generally Accepted Accounting Procedures (GAAP) for local governments.

Budgetary Policy and Control

The City's budgetary records are maintained on a modified accrual basis. Revenues are recorded when measurable and available and expenditures are recorded when goods or services are received and the liability incurred. The City produces a two-year annual budget, which serves as the foundation for the City of Capitola's financial planning and control. Based on the City's Financial Management Policies, the City is required to maintain a balanced operating budget; along with using one-time revenues to fund non-recurring expenditures. In the budget development process, the City references the following Budgeting Principles to identify key projects and goals: Fiscal Policy, Public Service, Public Improvement, and Public Improvement Possibilities.

In accordance with the City's Municipal Code, the budget is adopted by resolution on or before June 30th for the ensuing fiscal year. Expenditures authorized in the final budget resolution are appropriated at the budget unit. Capital projects are budgeted at the individual project level. City Council may appropriate, amend, or transfer funds by an affirmative vote of three Council members at any regular or special Council meeting.

The Successor Agency's two-year budget is incorporated into the City's budget process; however, all obligations are subject to semi-annual approval by the Oversight Board and the Department of Finance.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the environment in which the City operates.

Local Economy

The City of Capitola, like many local governments, was previously challenged due to the economic downturn, State take-aways, and reduced reserves; however Fiscal Year 13/14 marks the second year of continued economic recovery. The budget for core revenues, such as sales, property, and transient occupancy taxes were increased at mid-year by \$437,265 or 4.48% to reflect increased performance, with the combined year-end amounts relatively consistent with the budget. This increased performance, combined with salary and contract savings resulted in a net surplus in the General Fund's

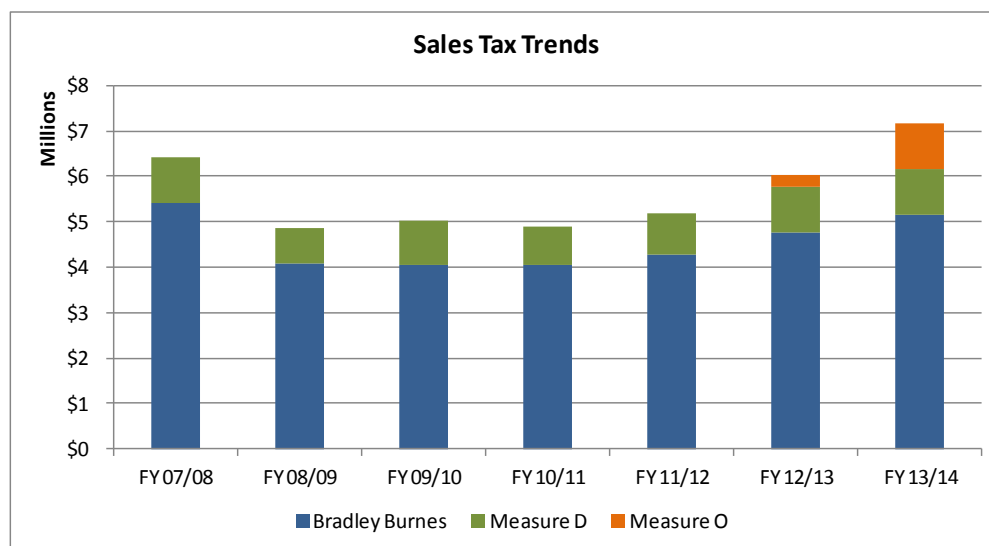
primary operations of \$331,074 after reserve contributions and CIP transfers. Cautious optimism was reflected in developing the City's two-year budget plan, with an emphasis on solidifying the City's fiscal position, planning for the long-term and implementing capital improvements. All core FY 14/15 revenues are performing relatively consistent with the budget.

The local unemployment rate provides a good indication of the area's economic stability. In Santa Cruz County, the unemployment rate declined from a five-year high of 12.7% in 2010 to 7.5% in 2013. This reduction was consistent with an overall decline in the State's unemployment rate. In the City of Capitola, unemployment rates were moderately more favorable with a five-year high of 7.3% in 2011, and a 2013 rate of 5.0%. The effect of increased regional employment is reflected in the growth of sales and hotel occupancy rates.

The three major sources of General Fund revenue include Sales Tax, Property Tax, and Transient Occupancy Tax (TOT). These three revenues account for over 70% of all General Fund Revenues.

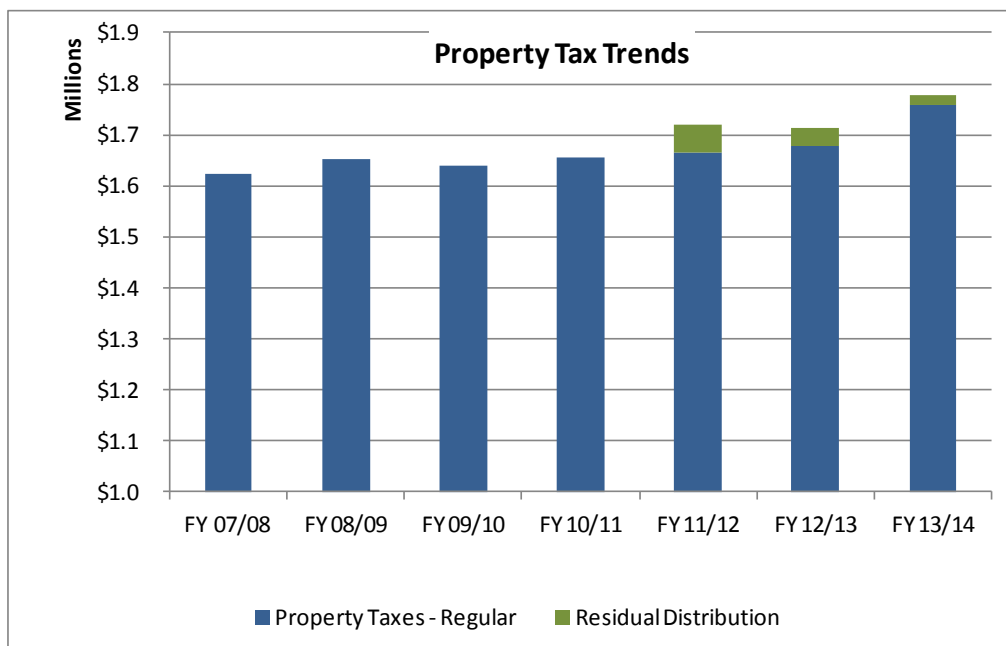
Sales tax is the City's largest source of revenue, accounting for just under 50% of the General Fund Revenues. The City sales tax consists of 1% Bradley Burns; 0.25% Capitola District Tax (Measure D); and a new 0.25% Capitola District Tax (Measure O) that became effective in the last quarter of FY 12/13. In FY 12/13, the combined sales tax receipts of \$7.2 million were 0.57% less than amended budgetary estimates, and \$1.14 million or approximately 18.9% higher than the prior year. Approximately \$750,000 of the increase can be attributed to three additional quarters of Measure O receipts and a greater than typical In-Lieu tax payment, which represented a \$249,915 increase over the prior year.

Sales tax receipts typically respond quickly to economic conditions. As displayed in the following chart, sales tax revenues responded to the weakening economy in FY 08/09 after the closure of two auto dealerships and two major department stores. In FY 09/10, the economy began to slowly show signs of recovery, with the existing auto dealerships expanding their product line and increasing sales; and a new department store opening in the Capitola Mall. These factors, along with a continuing increase in spending and the addition of a major retailer in the FY11/12 sales tax revenues. The following chart also demonstrates proportional share of District and Bradley Burns Sales taxes.

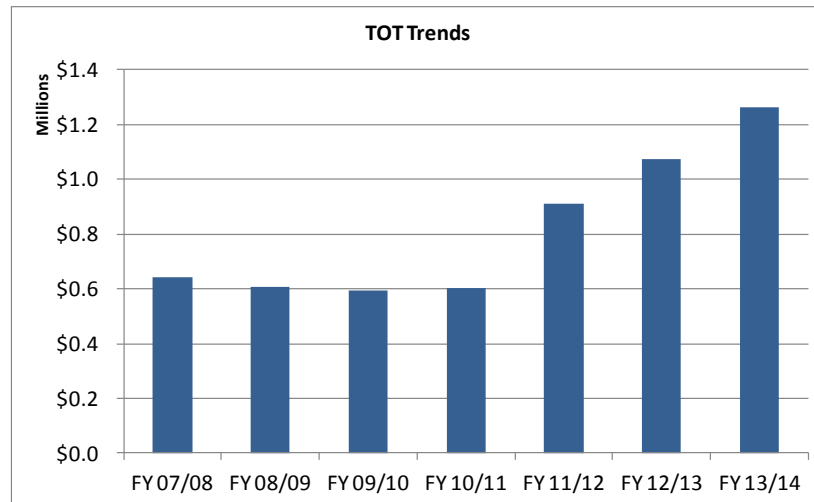


Capitola's second major source of revenue is property tax. In FY 10/11, the General Fund and the Capitola Redevelopment Agency (RDA) received property tax revenues of \$1.7 million and \$2.4 million, respectively. Due to the dissolution of the RDA, the RDA's tax increment revenues are distributed to the Successor Agency Private Purpose Trust Fund in amounts that are only sufficient to fund obligations approved by the independent Oversight Board. In FY13/14 the General Fund received \$1.76 million in property tax receipts, prior to inclusion of Documentary Transfer Tax and Residual RDA distributions. This base amount was approximately \$81,000 more than the prior year, and within \$7,900 of the final budgeted amount. In FY 11/12, City received \$52,534 in RPTTF revenues with declining receipts in FY 12/13 and FY 13/14 of \$37,928 and \$19,870 respectively. These residual distributions are not indicative of a change in property values, but represent the distribution of excess property tax funds, beyond those necessary to fund the Successor Agency obligations, that were redistributed as part of the RDA dissolution process. It is anticipated that the City will receive residual distributions of RPTTF revenues in FY 14/15 due to a reduction in required Successor Agency obligations.

The City's property tax revenues do not respond to economic conditions as quickly as sales tax revenues. This delayed response, along with less volatility, assists the City in adjusting to economic downturns by lessening the immediacy of revenue loss. The following chart includes Property Tax Revenue, as well as Property Tax In-Lieu of Vehicle License Fees. Based on the historical data, property tax revenues have remained relatively consistent. It is anticipated this trend will continue in the next fiscal year.



Transient occupancy tax (TOT) represents over 8% of General Fund revenues. In FY 11/12, revenues increased by \$310,000 over the prior year due to increased economic performance and the addition of a new 84-room major hotel. Economic growth has continued through FY 13/14 with TOT revenues rising by \$188,669 or 17.6% over the prior year. This increase can be attributed to increased tourism and potentially an extended warm weather season that prompted vacationers to choose a coastal, rather than mountain destination. In FY 14/15, the City has projected a growth rate of 1.8%. The first quarter revenues are trending relatively consistent to the prior year, net of a one-time internal hotel adjustment of \$48,300.



Long-term Financial Planning

In the past, the City has made strategic decisions to help maintain resiliency in difficult economic times. As a continuation of this practice, the City is focusing on the following planning measures:

Planning for Sales Tax Revenues

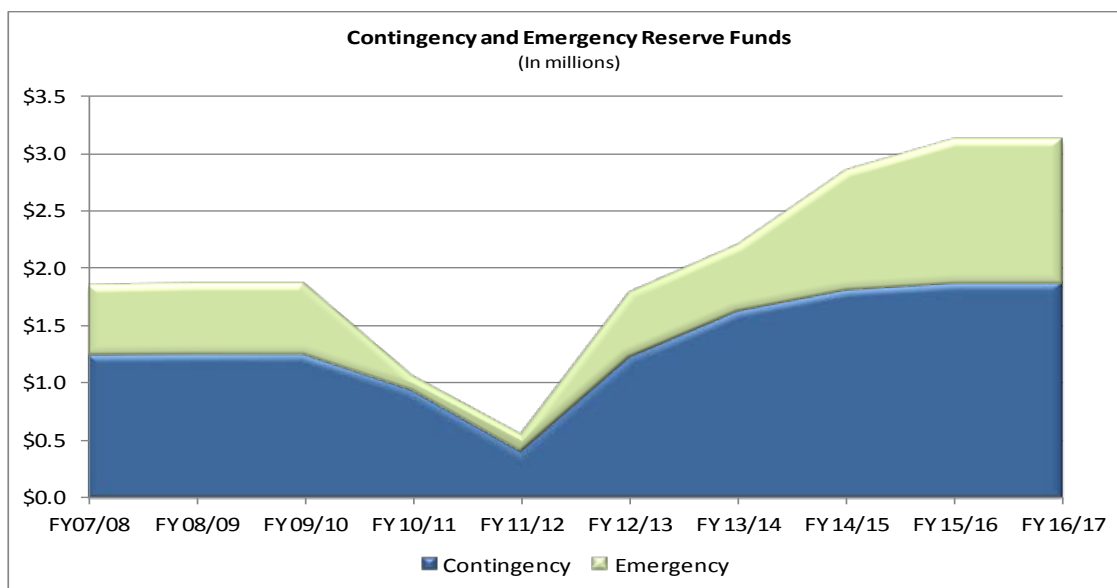
The City of Capitola sales tax revenue consists of 1% Bradley Burns Sales tax and two 0.25% District taxes. The first District tax, Measure D, extended an existing 0.25% temporary sales tax that was scheduled to sunset in 2008. Measure D is now scheduled to expire in December of 2017. The second District sales tax, Measure O, is a permanent 0.25% quarter sales tax that was approved by voters in November 2012 and went into effect April 1, 2013. Measure O was implemented with the goal of replenishing reserves, funding CIP projects, and providing support for public safety initiatives. The City developed a five year plan to ensure that Measure O funds were applied to their stated priorities.

Each of the district taxes is anticipated to yield approximately \$1 million in General Fund revenues annually. Due to the April implementation of the new sales tax measure, the FY 12/13 revenues reflect only one quarter or \$254,000 of Measure O receipts. The City's intent is to use the combined sales tax revenues to finance economic recovery efforts until the sunset date of Measure D. It is anticipated that the loss of Measure D revenues could be offset by the retirement of a 2007 Pension Obligation Bond, which requires annual debt service payments of \$670,000; increased sales tax revenue from a major retailer, and general economic growth.

Replenishing and Increasing Reserves

In March of 2011, an underground storm drain failed which resulted in damage to the Pacific Cove Mobile Home Park, City Hall, and portions of Capitola Village. As a result, the City paid \$1.4 million in flood related costs over a two-year period; and assumed a \$2.39 million debt to relocate residents of the City-owned mobile home park. This incident reduced the City's reserves from \$1.87 million in FY 09/10 to \$561,000 in FY 11/12, with an additional \$200,000 spent on related retaining wall repairs in FY 13/14. This incident, along with the economic downturn, emphasized the need to review reserve policy levels to ensure the City was maintaining a sufficient balance to effectively manage unforeseen events.

The City reviewed GFOA's Best Practice in Determining the Unrestricted Fund Balance in the General Fund and historical finances to determine whether reserve policy levels were adequate. The City's 2012 Benchmark Report also indicated that Capitola had the lowest reserve to operating expenditure ratios when compared to six comparative cities. In FY 12/13, it was determined that Emergency Reserves would be increased from 5% to 10% of operating expenditures, while Contingency Reserves would be increased from 10% to 15% of operating expenditures. To assist with the funding effort, a five-year plan was developed to use a portion of Measure O tax revenues to fully fund reserves by FY 16/17; however through an additional \$300,000 contribution from an insurance settlement and \$400,000 in General Fund transfers, the reserves are now expected to be fully funded in FY 15/16. Additional contributions may also be made as part of the FY 14/15 Mid-Year Budget Review.



Establishing a Facilities Reserve Fund

Due to the economic downturn, maintenance and repair of City facilities have been deferred due to fiscal constraints. As part of the FY 14/15 budget process, a Facilities Reserve Fund was established. This new fund would serve as a resource to address long term maintenance needs, as well as deferred projects. The City referenced the National Research Council Stewardship of Federal Facilities guidelines in preliminary policy development which recommend setting aside 2%-4% of building replacement costs to preserve or extend the life of facilities. The City plans to target a 2% annual funding contribution; however the actual funding would be determined each year during the annual budget process. Based on the current \$17.5 million estimated replacement value of City facilities, the annual contribution would be \$350,000. In FY 14/15, the City chose to transfer \$167,000 or approximately 50% of the

targeted amount to the Facilities Reserve Fund. An appropriation of \$80,000 was made to remodel the City Hall Community Room, as well as renovate the entry way that is shared with Council Chambers. An additional \$20,000 from the Public Education & Government Cable TV Access Fund was allocated to purchase and install qualifying equipment.

Funding Other Post Employment Benefit Obligation (OPEB)

In FY 13/14, the City planned to begin partial funding of an OPEB Trust Fund for retiree medical benefits. The City has historically contributed the Minimum Employer Contribution required under the Public Employees' Medical and Hospital Care Act (PEMHCA). The FY 13/14 annual cost of retiree health care benefits was \$27,000. After evaluating three different providers, the City chose the California Employer's Retirement Benefit Trust Fund (CERBT), which is administered by the same public agency that manages the City's retirement plan. While the City planned to establish the fund with a \$30,000 contribution, a decision was made to fully fund the actuarially determined contribution of \$43,000. The transition from "pay as you go" financing to full funding, reduced the City's long-term liability from \$1,011,800 to \$657,500. In the FY 14/15 Adopted and FY 15/16 Planned Budgets the City has planned to fully fund the annual actuarially determined contribution amount.

Managing Retirement Costs / Acknowledging Employee Commitment

The City of Capitola participates in the California Public Employees Retirement System (CalPERS). Due to rising pension costs, the City has negotiated caps on the employer's share of Classic Employee retirement contributions through June 30, 2018. The CalPERS Board has recently approved three measures that will increase the City's employer's contribution rates by greater than five percentage points in FY 15/16. While the City has planned for a reduction in the actuarial discount rate on investment pool earnings from 7.75% to 7.5%, and a change to amortization and smoothing policies; a significant adjustment to the risk pool structure was not confirmed until FY 13/14. The risk pool adjustment, which was an unanticipated consequence of the State's Public Employee Pension Reform Act (PEPRA) allocated each employer's unfunded liabilities to individual plans. Due to City's high retiree to active employee ratio, Capitola, like many smaller cities were adversely impacted. Five year projections included in the actuarial report indicate that rates will most likely continue to rise through FY 20/21.

While all labor agreements include a CPI-based Cost of Living Adjustment (COLA) through the contract period, it may be challenging for employees to bear the complete cost of the increase. Capitola employees have previously foregone raises over a five-year period, deferred previously negotiated salary increases, and accepted mandatory furloughs to assist with cost-containment during difficult fiscal times. The City is in the process of meeting with bargaining groups to discuss solutions, while also reviewing long-term financial projections. Rate calculations based on the PERS actuarial report, projected payroll, and the value of employer paid member contributions are provided below:

Plans	Employer Contribution Cap	FY 14/15 Employee Contribution	Unadjusted FY 15/16 Employee Contribution
Miscellaneous - Classic I	16.488%	10.292%	16.965%
Miscellaneous - Classic II	11.488%	15.292%	21.965%
Safety – Classic I	28.291%	11.874%	17.314%
Safety – Classic II	23.291%	16.874%	22.314%

Employees enrolled in PERPA plans are not affected by the recent CalPERS Board policy changes. For a complete discussion of the City's retirement plans, please see Note 11.

Major Initiatives

Seeking Resolution on City / Successor Agency Loans

In 2011, the Governor of the State of California signed Assembly Bill X1 26 which dissolved California Redevelopment Agencies. On January 12, 2012, the City of Capitola adopted a resolution to serve as the Successor Agency for the RDA and the RDA's Low/Moderate Income Housing Fund. This legislation provides for the Successor Agency to receive Real Property Tax Trust Fund (RPTTF) revenues sufficient to pay items on an approved Recognized Obligation Payment Schedule (ROPS). The payments listed on the Successor Agency's ROPS were subject to the initial certification by the County Auditor-Controller; and semi-annual approval from the Successor Agency, the Oversight Board to the Successor Agency, and the Department of Finance. While all obligations were certified on the ROPS, the City/Successor Agency Loans were initially disallowed by the Department of Finance.

In June 14, 2012, the Successor Agency and City approved exchanging the \$1.35 million Rispin Property Loan for the original subject property. Due to delays in Department of Finance approval, the City formally accepted the Rispin property in October of 2013, after successfully completing a Long Range Property Management Plan. The City plans to open the park to the public after completing ADA improvements funded by City, grant funds, and RPPTF distributions related to a Rispin Settlement Agreement. A complete discussion of the related Rispin Settlement Agreement is included in Note 18. The Successor Agency also plans to seek reinstatement of the \$618,028 Loan and Cooperative Agreement in accordance with provisions outlined in AB 1484. The loan will only be approved for funding after residual distributions to taxing entities exceed a threshold based on FY 12/13 residual distributions. In addition, AB1484 requires the accumulated interest on the principal be recalculated from the origin of the loan at the interest rate earned by funds deposited into the Local Agency Investment Fund.

Receiving Significant Grant Funding

Community Development Block Grant

On October of 2014, the City was awarded a \$500,000 grant to offer Housing Rehabilitation and Homeowner Assistance Programs. Over \$215,000 of the Housing Rehabilitation funds will be used to provide loans to homeowners who earn less than 80% of the median income. These loans will cover health and safety improvements; and energy saving activities such as weatherization, new windows, and installation of solar collection units. The Homebuyer Program will also be directed towards buyers who earn less than 80% of the median income. Over \$195,000 will be used to assist buyers with the purchase of homes in Capitola by providing gap financing above their first mortgage. The remaining funds are provided for delivery and grant administration costs.

Housing-Related Parks Grant – Rispin/Peery Park

In July of 2014, the City was awarded a \$383,925 grant to assist with the improvements to the Rispin/Peery Park. These funds will be used with an additional \$300,000 from the City's CIP Fund to provide new accessible pathways, a stairway, new lighting, and driveway/path rehabilitation.

Planning for a New Library

In 1999, the City of Capitola developed a temporary 4,320 square foot library at the corner of Clares Street and Wharf Road. The City's former RDA established plans to construct a permanent library building by making annual contributions to a County Trust Fund. It is anticipated the \$2.64 million obligation will be fulfilled in FY 14/15; however additional funds will be needed to complete the library

construction. In April of 2013, the Santa Cruz Public Libraries (SCPL) commissioned and accepted a \$63 million Facilities Master Plan. Currently the SCPL is considering a Community Facilities District tax to fund the plan. If successful, it is estimated that Capitola could receive an additional contribution of up to \$11 million towards the construction of a new library.

Developing a Multi-Use Park

In FY13/14, Council approved converting about 1.4 acres of property on the City-owned McGregor site to a multi-use park. The proposed recreational site will include a skate park, bicycle pump track, and a dog park. A budget of \$165,000 was appropriated to grade, fence, landscape, and improve the parking lot and related park features. Funding for park elements are anticipated to be funded through a sponsorship program. In FY 14/15, the City received an \$8,000 donation from Ozzi Dog Park, Inc. a non-profit organization and \$2,000 from Plantronics for dog park elements. In addition, the City participated in a fundraising event with the Monte Foundation which led to a \$50,000 commitment for skate park improvements. An additional \$50,000 from the General Fund was appropriated in FY 14/15 to augment the skate park improvements, bringing the total budget for the skate park to \$100,000.

Relevant Financial Policies

Financial Management Policies

The City has developed comprehensive Financial Management Policies to assist with the management of the operating and capital budgeting process; and to standardize and rationalize the issuance of debt. This document focuses on Capital Budgeting and Reserves – Issuance of Debt, Operating Budgeting and Reserves; and Other Policies, which addresses conformance with Generally Accepted Accounting Principles (GAAP), and Internal Borrowings. This policy requires the City to maintain a balanced operating budget; along with the use of one-time revenues to fund non-recurring expenditures.

A key component of this policy focuses on reserve requirements. Each fiscal year, the final adopted General Fund budget is required to have a Contingency Reserve appropriation equal to 15% of the General Fund operating expenditures; and an Emergency Reserve appropriation equal to 10% of the General Fund operating expenditures. The purpose of the Contingency Reserve is to provide a prudent level of financial resources to protect against temporary revenue shortfalls; unanticipated operating costs; and/or to meet short-term cash flow requirements. The purpose of the Emergency Reserve Fund is to protect against one-time significant costs that may arise from major unpredictable emergency events.

Investment Policy

The City's Investment Policy governs the investment of temporary cash excesses. Investments are prioritized based on the following order of importance: Safety of principal, liquidity, and earnings. Various low risk investments, such as U.S. Treasury bills are permitted. During the year, all excess cash balances, which were not held by a fiscal agent, were invested in the California Local Agency Investment Fund (LAIF). At no time during the year was the City's cash invested in a manner that violates this policy.

AWARD FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) also awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Capitola's CAFR for the fiscal years ended June 30, 2012 and June 30, 2013. This Certificate of Achievement is a prominent national award recognizing conformance with the highest standards for preparation of State and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A GFOA Certificate of Achievement is valid for a period of only one year. The City of Capitola believes this current CAFR conforms to the Certificate of Achievement program requirements; and will be submitting it to GFOA for review.

Prior to receiving the GFOA Award, the City received the Certificate for Outstanding Financial Reporting for the City of Capitola for the Comprehensive Annual Financial Report (CAFR) by the California Society of Municipal Finance Officers (CSMFO). This award was received consistently since FY 99/00. Once a GFOA Award is received, CSMFO prohibits cities from applying and receiving both awards.

ACKNOWLEDGEMENTS

The preparation of this report would not have been possible without the efficient and dedicated services of the entire Finance Department staff. I would like to also express our appreciation to the partners and staff of our auditors for their assistance and support.

I wish to express my thanks and appreciation to the Mayor, members of the City Council, and the City Treasurer for their unfailing leadership and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Jamie Goldstein
City Manager

CITY OF CAPITOLA
LIST OF PRINCIPAL OFFICIALS
FOR
FISCAL YEAR ENDED JUNE 30, 2014

ELECTED OFFICIALS

Mayor - Sam Storey
Vice Mayor - Dennis Norton
Council Member - Ed Bottorff
Council Member - Stephanie Harlan
Council Member - Michael Termini
City Treasurer - Christine McBroom

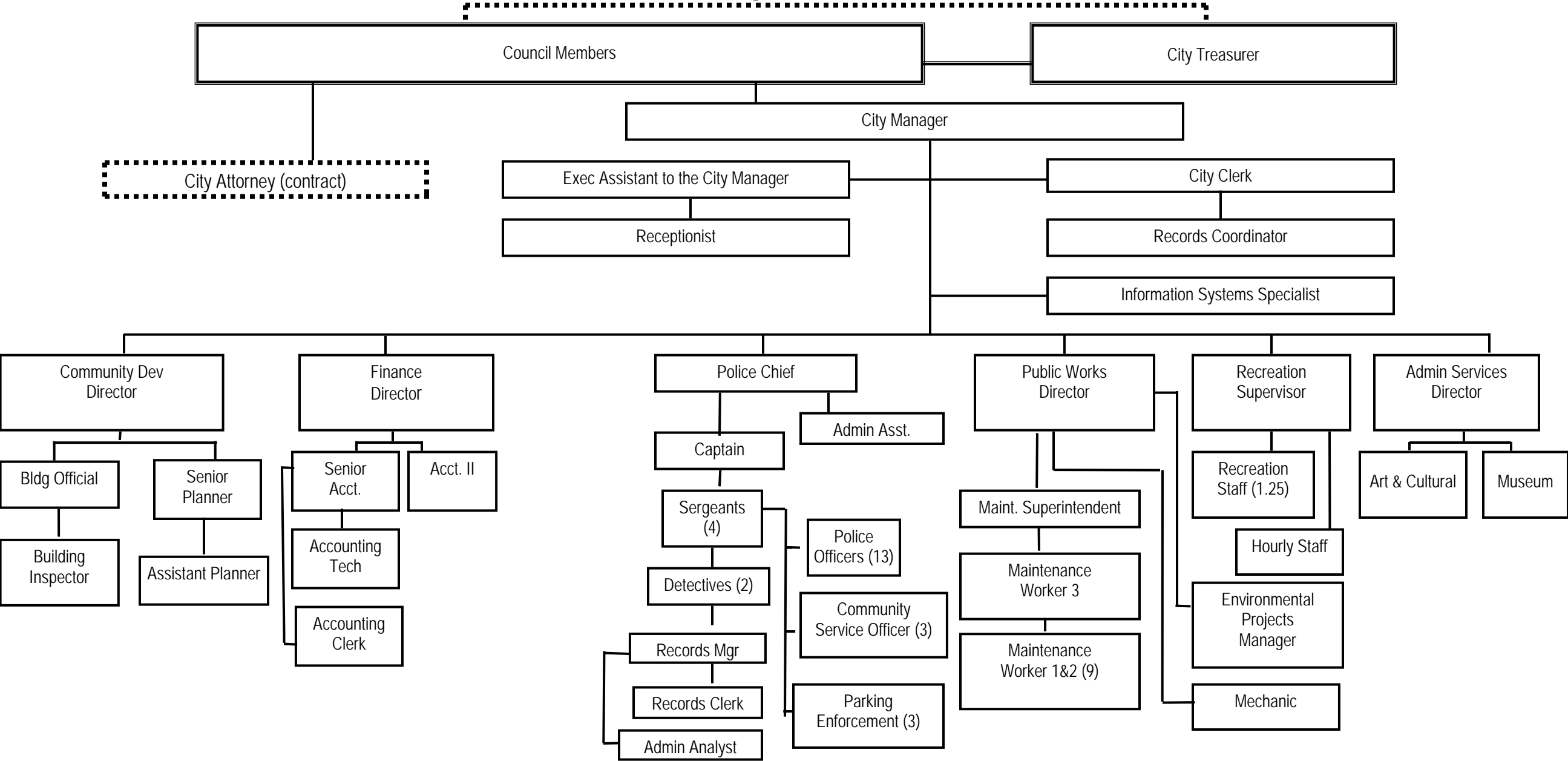
APPOINTED OFFICIALS

City Manager - Jamie Goldstein
City Attorney - Atchison, Barisone, Condotti & Kovacevich

DEPARTMENT HEADS/ADMINISTRATORS

Administrative Services Director - Lisa Murphy
Chief of Police - Rudy Escalante
City Clerk - Su Sneddon
Community Development Director - Rich Grunow
Finance Director - Tori Hannah
Public Works Director - Steve Jesberg

Citizens of the City of Capitola





Government Finance Officers Association

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**City of Capitola
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

FINANCIAL SECTION

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CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

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INDEPENDENT AUDITOR'S REPORT

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The Honorable City Council
City of Capitola, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Capitola, California (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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 governmental activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2014, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2014 the City adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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 the management's discussion and analysis, budgetary comparison information, and schedule of funding progress, as listed in the accompanying 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and the statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and nonmajor fund budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and nonmajor fund budgetary comparison schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2014 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.

Rogers Anderson Malouly & Scott, LLP

San Bernardino, California
December 29, 2014

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Management's Discussion and Analysis

As management of the City of Capitola, California, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2014. Readers are encouraged to consider the information presented here in conjunction with the accompanying letter of transmittal and the basic financial statements.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights

- The assets of the City exceeded its liabilities and deferred inflows of resources, at the close of the most recent fiscal year by \$23.2 million (*net position*). Of this amount, \$6.0 million (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The total net position increased by \$1,722,916 from FY 12/13. This included a prior period adjustment of \$128,071 related to the implementation of GASB Statement No. 65, which amended prior guidance with respect to the treatment of debt issuance costs. GASB 65 requires that accounting changes adopted to conform to the Statement be applied retroactively. Additional details can be found in Note 17.
- The City's net capital assets increased by \$2,868,499 from the prior year.
- The City's long-term liabilities increased by \$805,230 from the prior year.

Fund Highlights

- The City's governmental funds reported combined fund balances of \$7.7 million, a decrease of \$267,873 from the prior year. Of the \$7.7 million fund balance, \$619,812 is reported as nonspendable, \$2.3 million is assigned, and \$3.7 million is unassigned, or available for spending at the City's discretion. An additional \$1.0 million is restricted for specific purposes by their providers through constitutional provisions or by enabling legislation. This is in compliance with Governmental Accounting Standard Board's (GASB) Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions, which is further described in Note 1, Section D10.
- The \$267,873 million decrease in the City's governmental funds reported combined fund balances was primarily the result of exchanging a \$1.35 million Rispin Property Purchase Loan receivable for the related asset, net of a \$1.1 million net increase in the combined fund balance. This \$1.1 million increase was primarily the result of \$1.4 million in increased tax revenues, net of increased expenditures.
- The Unassigned fund balance for the General Fund was \$3.7 million or 27% of the total General Fund operating expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as the introduction to the City's basic financial statements. The City's basic financial statements are comprised of the following three components: (1) Government-Wide Financial Statements, (2) Fund Financial Statements, and (3) Notes to the Financial Statements. This report also contains supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The *Government-Wide Financial Statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported, as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City of Capitola that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through users fees and charges (business-type activities). The governmental activities of the City include general government, public safety, transportation, community development, and culture and recreation. The City does not have any business-type activities.

The government-wide financial statements previously included the primary government activities; and one legally separate entity: The City of Capitola Redevelopment Agency (RDA). Due to the dissolution of the RDA, activities in the government-wide statements are now reported in a Private Purpose Trust Fund. These activities were previously blended with those of the primary government because the City Council served as the governing board for each of these component units and the component units functioned as part of the City's government.

The Government-Wide Financial Statements can be found on pages 18-19 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements; however governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains three major governmental funds: General Fund, Federal Home Loan Reuse, and Capitola Housing Successor. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances. Data from the other governmental funds are combined into a single, aggregated presentation. The City maintains seven internal service funds that provide goods and services solely for governmental activities. The activities are eliminated at the end of the fiscal year and any residual fund balances are combined with the General Fund.

The City adopts an annual appropriated budget for all funds. A budgetary comparison statement is provided for each of the City's governmental funds to demonstrate compliance with this budget. This comparison for the General Fund, Federal Home Loan Reuse Fund, and the Capitola Housing Successor are presented in the Required Supplementary Information section of this document. The budgetary comparison statements for Non-Major Governmental Funds and Fiduciary Funds are presented in the Supplementary Information Section of this report.

The basic governmental fund financial statements can be found on pages 20-25 of this report.

Fiduciary Funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because these resources are not available to support the City's programs. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position are presented in the Basic Financial Statement section of this document. The City's agency funds include: Brookvale Assessment District and Auto Center Assessment District. The Private Purpose Trust Fund includes the Successor Agency to the Capitola Redevelopment Agency.

Notes to the Financial Statements

The Notes to the basic financial statements provide additional information that is not essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 29-62 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information including the City of Capitola's progress in funding the Capitola Retiree Health Plan, budget to actual comparisons, and statistics. This information can be found beginning on page 63 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City of Capitola, assets exceeded liabilities and deferred inflows of resources by \$23.2 million at the close of the most recent fiscal year.

	Governmental Activities	
	2014	2013
Current and other assets	\$ 17,224,155	\$ 17,138,332
Capital assets	16,236,344	13,367,845
Total Assets	\$ 33,460,499	\$ 30,506,177
Other liabilities	1,720,832	1,179,070
Long term liabilities		
Due in one year	748,591	663,578
Due in more than one year	5,837,037	5,116,820
Total Liabilities	8,306,460	6,959,468
Total Deferred Inflows of Resources	1,943,443	1,930,958
Net Position:		
Net investment in capital assets	12,750,861	11,520,709
Restricted	4,503,092	5,201,814
Unrestricted	5,956,643	4,765,157
Total Net Position	\$ 23,210,596	\$ 21,487,680

The largest portion of the City's net position, \$12.8 million or 54.9%, is reflected in its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets were not available for future spending. Although the City of Capitola's investment in capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, \$4.5 million or 19.4%, represented resources that were subject to external restrictions on how they may be used. The remaining \$6.0 million or 25.7%, of the City's net position, were "unrestricted," and may be used to meet the government's ongoing obligations to citizens and creditors.

Further analysis is provided in the governmental activities section of this report.

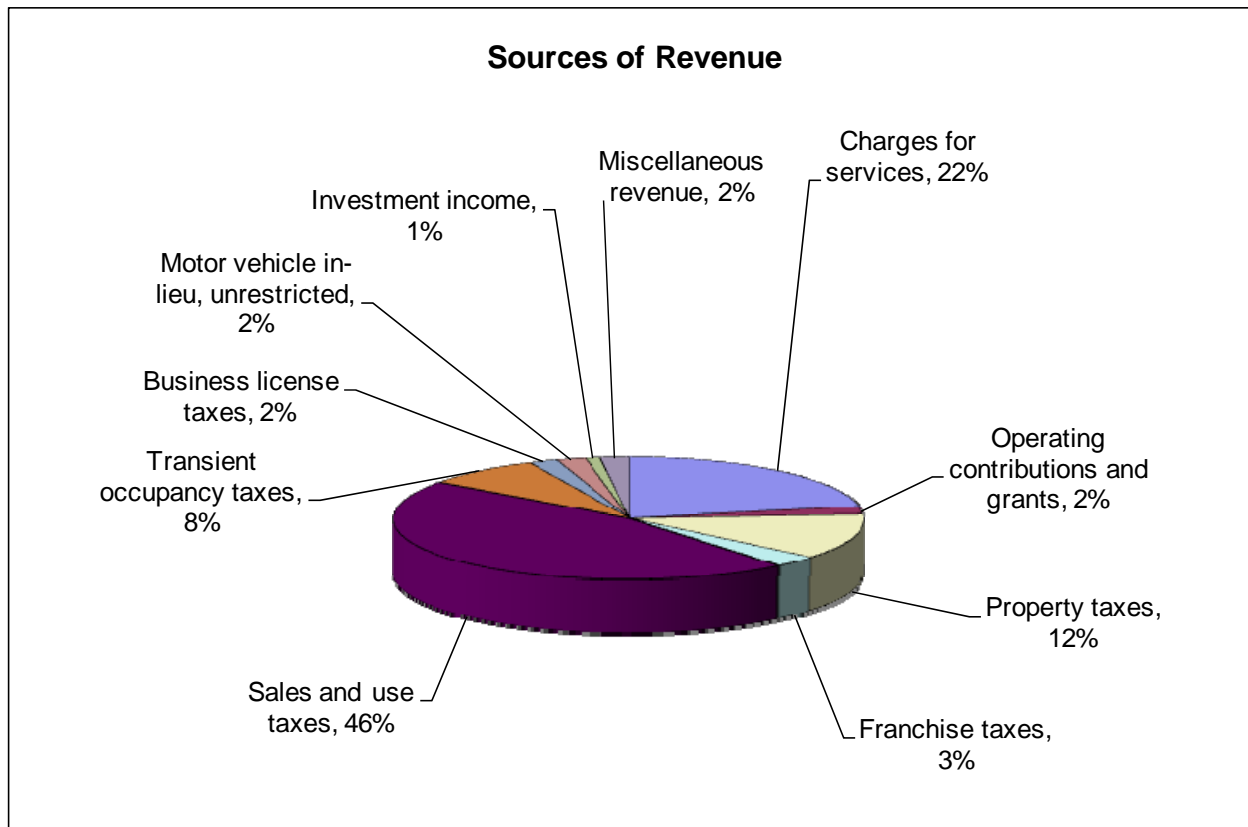
Governmental Activities

Governmental activities increased the City of Capitola's net position by \$1,722,916. This increase is primarily due to \$1.4 million in increased tax revenues and \$421,034 in increased Charges for Services, net of planned growth in functional expenditures. This growth included \$613,448 in increased Transportation costs for non-capitalized street projects, increased compliance and utility costs, and full staffing in the Public Works Department. Fiscal Year 12/13 includes recognition of \$1.6 million in deferred loan revenue contributions associated with the RDA dissolution, \$1.0 million in General Government costs to close the Pacific Cove Mobile Home Park and relocate residents; and a \$1 million disaster recovery settlement. These unique items affect the comparability between the two years. In FY 13/14, all core revenues trended positive, with the City realizing savings from reductions in salary and contract costs. Emphasis was also placed on increasing reserve levels and setting aside funds for capital projects. The FY 13/14 beginning net position was restated to \$21,487,680 as a result of a \$128,071 prior period adjustment related to the implementation of GASB Statement 65. The Statement of Changes in Net Position is provided below, followed by an explanation of key changes in FY 13/14:

	2014	2013
Revenues		
Program revenues:		
Charges for services	\$ 3,454,623	\$ 3,033,589
Operating contributions and grants	312,633	2,291,742
Capital contributions and grants	14,928	2,762
General revenues:		
Taxes:		
Property taxes	1,849,375	1,778,037
Franchise taxes	496,759	478,627
Sales and use taxes	7,179,727	6,040,542
Transient occupancy taxes	1,263,175	1,074,507
Business license taxes	286,638	291,642
Motor vehicle in-lieu, unrestricted	327,281	240,891
Investment income	107,218	230,166
Miscellaneous revenue	237,520	398,320
Extraordinary items:		
Disaster recovery	-	1,118,086
Total revenues	15,529,877	16,978,911
Expenses		
General government	3,402,777	4,862,155
Public safety	5,411,550	5,410,926
Community development	740,990	727,123
Culture and recreation	970,486	1,397,858
Transportation	3,069,903	2,456,455
Interest and other charges	211,255	287,557
Total expenses	13,806,961	15,142,074
Change in Net Position	1,722,916	1,836,837
Ending Net Position	\$ 23,210,596	\$ 21,487,680

Revenues

As shown in the in the Statement of Activities, revenues for FY 13/14 were \$15.5 million. The following graph includes program and general revenues and shows the percentage of governmental revenues by source:



These revenues represent a decrease of approximately of \$1.4 million over the prior year. This was primarily the result of the following factors:

- Charges for Services – Increase of \$421,034 which is primarily the result of \$264,399 in increased Planning and Building fees which can be attributed to two major development projects; a \$56,000 increase in parking revenues; \$64,859 in recreation fees, and \$50,448 in fines and forfeitures. While recreational fee increases represent a return to FY 11/12 levels, parking revenues increased due to economic improvement, opening of the Beach and Village Parking Lot II, and the retrofit of parking meters to paystations.
- Grants and Contributions – Reduction of approximately \$2.0 million in Operating Grants and Contributions, with \$1.6 million related to the FY 12/13 recognition of deferred loans associated with the Housing Successor and RDA dissolution process. Additional reductions included \$154,294 in Federal and State Grants as a result of grant close-outs and decreased reimbursable activities.
- Property Taxes – Increase of approximately \$71,000 in property tax revenues. This increase was consistent with property valuation increases provided by the County Auditor Controller.

- Sales Tax Revenues – Increase of approximately \$1.14 million or 18.9% greater than the prior year. This is largely due to a full year of Measure O sales tax receipts and a greater than typical in-lieu sales tax receipts. In FY 12/13, Measure O revenues provided one quarter or \$254,668 in sales tax revenues, while FY 13/14 included a full year of revenues at just over \$1 million. The annual sales tax performance increased on average by 2.9%, with slowing growth in the last two quarters.
- Transient Occupancy Taxes – Increase of \$188,668 or 17.5% over the prior year. This increase can be attributed to general economic improvement, visitor interest in Capitola, and potentially an extended warm weather season.
- Extraordinary Items – In FY 12/13, the City received a \$1,349,000 insurance settlement related to the 2011 storm drain failure. Attorney fees of \$230,914 reduced the proceeds to \$1,118,086. There were no extraordinary items in FY 13/14.

Cost of Services

Under GASB 34, program revenues are derived directly from programs or from parties outside the reporting government's taxpayers or citizenry. These revenues reduce the net cost of the function to be financed from the government's general revenues. General revenues are all other revenues not categorized as program revenues, and include taxes, unrestricted grants, contributions, investment earnings, and miscellaneous revenues. Total program revenues from governmental activities were \$3.8 million. The table below presents the costs of each of the following City's programs:

	Total Cost of Services	Program Revenues	Net Cost of Services
General government	\$ 3,402,777	\$ 1,169,655	\$ 2,233,122
Public safety	5,411,550	1,031,660	4,379,890
Community development	740,990	682,713	58,277
Culture and recreation	970,486	749,586	220,900
Transportation	3,069,903	148,570	2,921,333
Interest and other charges	211,255	-	211,255
Totals	\$ 13,806,961	\$ 3,782,184	\$ 10,024,777

A description of each program is listed below:

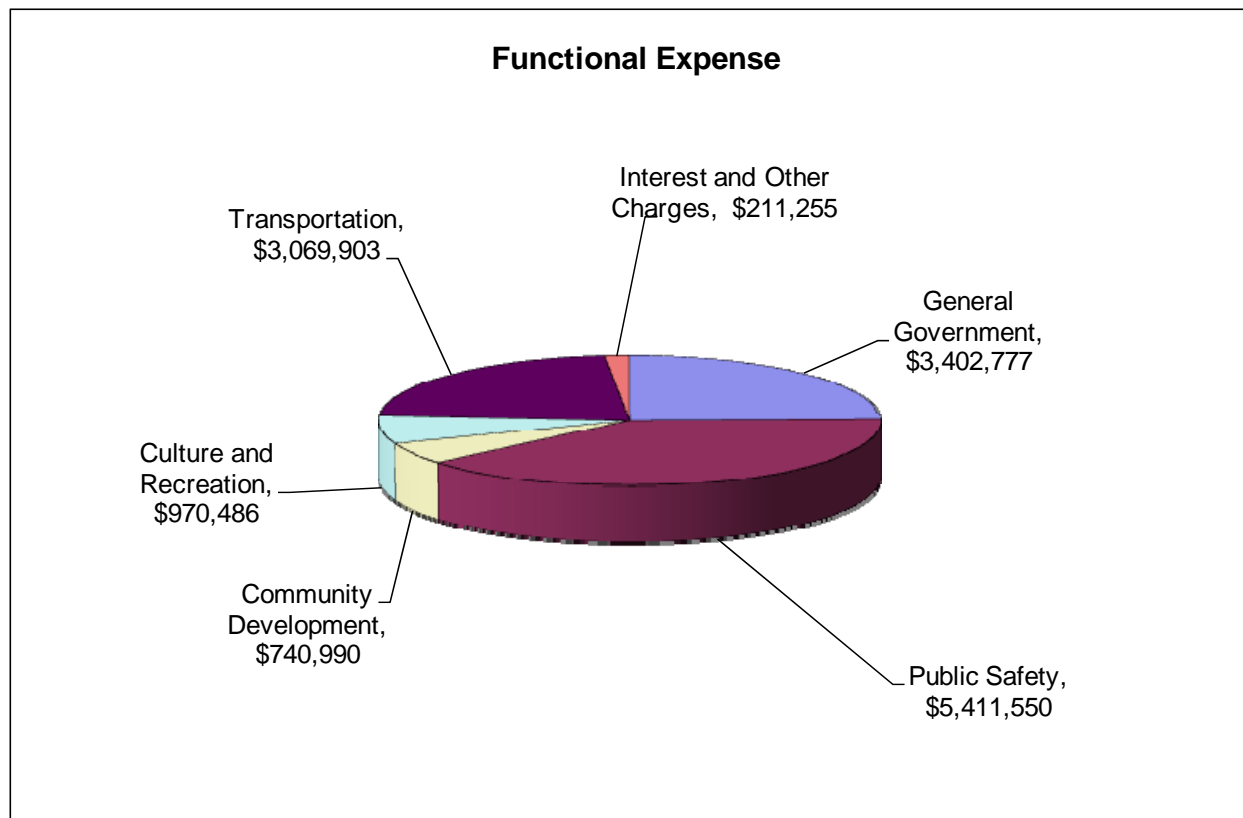
- General Government expenses comprise approximately 25% of all government expenses. This includes City Council, City Manager, City Clerk, City Attorney, Finance, Administrative Services, and Risk Management. These programs are offset by parking meter collections, grants, and administrative support fees.
- Public Safety expenses comprise 39% of all governmental expenses. Revenues from fines, citations, grants, and animal services partially offset the cost of this program.
- Community Development expenses comprise approximately 5% of all governmental expenses. Various building and planning fees, along with grant revenues, assist in funding these program costs.

- Culture and Recreation expenses comprise 7% of all governmental expenses. These programs are primarily funded through recreational classes and sports fees.
- Transportation/Public Works expenses comprise 22% of all governmental expenses. This includes street, facility, park, and fleet maintenance; and oversight of the Pacific Cove Mobile Home Relocation Plan. Costs are partially offset by motor vehicle fuel taxes and various fees.
- Interest expense comprises 2% of all governmental expenses. This interest expense is used to pay long-term debt obligations.

Expenses

As shown in the Statement of Activities, expenses decreased by approximately \$1.3 million. This was primarily the result of one-time expenditures in FY 12/13, which included \$1.0 million in General Government costs to close the Pacific Cove Mobile Home Park and relocate residents; \$408,000 in special litigation costs, \$200,000 in RDA dissolution recaptures, and \$300,000 for a public art project funded by fees. Transportation expenditures increased by approximately \$613,000 in FY 13/14 primarily due to \$225,000 in non-capitalized street projects, increased compliance, utility, and equipment costs; filling of vacant positions; and a new Measure O funded Maintenance Worker position. Additional savings resulted from reduced salary and contract costs.

A distribution of expenses by Function is provided below:



Financial Analysis of the City's Funds

As noted earlier, the City of Capitola uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City of Capitola's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Capitola's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Capitola's governmental funds reported a combined ending fund balance of \$7.7 million, a decrease of \$267,873 in comparison with the prior fiscal year. Approximately \$619,812 is reported as nonspendable and \$2.3 million is assigned to the following priorities: \$584,106 allocated to Emergency Reserves, \$483,800 assigned to debt service on the 2007 Pension Obligation Bond, and \$1.3 million assigned to the Capital Projects Fund. An additional \$3.7 million is available for spending at the City's discretion, while \$1.0 million is restricted for specific purposes, which includes \$329,658 in debt proceeds to complete the Pacific Cove Mobile Home Park project.

General Fund

The General Fund is the chief operating fund of the City of Capitola. At the end of the current fiscal year, the total fund balance was \$4.9 million. This represents a decrease of \$549,608 or 10% below the prior year. Approximately 75% was unassigned fund balance, which was available for spending at the government's discretion. The majority of the nonspendable balance represents a \$618,028 Loan and Cooperative Agreement with the Successor Agency that was used to establish the former Redevelopment Agency. Additional information regarding this agreement can be found in Note 15.

It should be noted that the presentation of the General Fund in the City's budget document is different than its presentation in the Governmental Fund Financial Statements. This is primarily due to the consolidation of the following funds for financial statement reporting purposes: General Fund, Contingency Reserve, Emergency Reserve, Open Spaces, General Plan Update and Maintenance; Stores, Information Technology, Equipment Replacement, Self-Insurance Liability, Workers Compensation, PERS, and Compensated Absences.

A reconciliation of the General Fund operating activities presented in the City budget documents to the Governmental General Fund Financial Statements is presented below:

	City Budget Documents	General Plan / Open Space	Emergency / Contingency Reserve	Internal Service Fund	Financial Statements
Beginning Fund Balance	\$ 2,727,487	\$ 153,747	\$ 1,792,352	\$ 765,614	\$ 5,439,200
Revenues	14,475,266	123,387	-	-	14,600,953
Expenditures	13,313,921	178,052	-	(107,136)	13,429,280
Net Operating Difference	1,161,345	(54,665)	-	107,136	1,171,673
Financing Sources/Uses	(2,619,254)	-	413,100	442,730	(1,721,281)
Net Change in Fund Balance	(1,457,909)	(54,665)	413,100	549,866	(549,608)
Ending Fund Balance	\$ 1,269,578	\$ 99,082	\$ 2,205,452	\$ 1,315,480	\$ 4,889,592

The Federal Home Loan Reuse fund receives loan payments from recipients of HOME Program loans; and uses these revenues to fund additional affordable housing activities. All housing funded activities must be within the City and be in accordance with the Federal Home Reuse Guidelines. The FY13/14 revenues represent the receipt of principal and interest payments from loan recipients.

Capitola Housing Successor

This fund is used to account for the assets of the former RDA Low and Moderate Income Fund; and related housing activities. The funds are restricted in their use, reuse, and repayment pursuant to the original program requirements. It is anticipated that as loan payments are received, the revenue generated would provide a funding source for new housing assistance programs. Additional information regarding this transition can be found in Note 15.

GENERAL FUND BUDGETARY HIGHLIGHTS

A detailed budgetary comparison schedule for the year ended June 30, 2014 is presented as Required Supplementary Information following the notes to the financial statements. This information can be found on page 64. Key budgetary differences are provided below.

Revenues:

Revenues exceeded the Final Budget by approximately \$123,000. The greater than anticipated revenues resulted from approximately \$138,000 in increased building permits and planning services related to two major developments; along with \$45,000 in parking revenues; and \$79,000 in combined taxes. These increases were offset by approximately \$160,000 in lower than projected Intergovernmental Revenues. Over 50% or \$88,000 of this reduction resulted from Police and Transportation grants that were carried forward into FY 14/15.

Expenses:

Expenses prior to transfers were approximately \$258,222 below the Amended budget. This was primarily the result of the following factors:

- General Government savings of approximately \$70,000: Approximately \$18,000 in savings resulted from partial year vacancies in the Finance Department, while \$52,000 was related to contract and supply savings within the City Manager, City Attorney, and Finance Departments.
- Public Safety savings of approximately \$77,000: This savings was primarily achieved from \$57,000 in reduced overtime costs and the delayed use of \$34,000 in grant-funded expenditures; net of additional operating costs.
- Community Development and Culture and Recreation savings of approximately \$82,000: This savings primarily resulted from \$34,000 in Community Development engineering, planning, and legal contracts; and \$46,000 in combined salary savings resulting from position transitions.

Appropriations:

Variances between the Original and Final budgets are primarily due to the inclusion of continuing appropriations for special projects from the prior year; mid-year adjustments to reflect updated revenue estimates, and new funding appropriated for additional CIP projects. A \$1.35 million non-cash appropriation was recorded to recognize the acceptance of the Rispin Mansion in exchange for the termination of a Loan Receivable from the Successor Agency. This loan was originally used to purchase the property from the City.

Fund Balance:

The General Fund Ending Fund Balance was \$4,889,592 as of June 30, 2014. This amount was \$383,857 greater than the final budget projection based on the revenue and expenditure information noted above. The Unassigned amount identified for Contingency Reserves is provided for reference. An additional discussion of the City's Contingency and Emergency Reserves can be found in the Financial Management Policies section of the Transmittal letter.

Fund balance:	
Nonspendable:	
Prepaid items	\$ 1,784
Due from successor agency	618,028
Assigned:	
Emergency reserve	584,106
Unassigned:	
Contingencies	1,621,346
Unassigned	<u>2,064,328</u>
 Total fund balance	 <u>\$ 4,889,592</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's value of governmental assets (net of accumulated depreciation) at the end of FY 13/14 was \$16,236,344. This investment in capital assets includes land, building, equipment, vehicles, and infrastructure. The infrastructure classification typically includes roads, streets, sidewalks, medians, and bridges. The total increase in the City of Capitola's investment in capital assets for the current fiscal year was 21.5% or \$2,868,499. This increase includes acquisition of the Rispin Property with a value of \$1,350,000, \$1.9 million in Construction in Progress costs, with \$1.6 million attributed to the development of the Beach and Village Lot II. Equipment purchases of \$549,625 include \$177,600 for new paystations, \$174,770 to purchase a new street sweeper, and \$126,000 to fund planned vehicle replacements. These additions were net of \$940,070 in annual depreciation costs and a vehicle disposal in the amount of \$24,134.

Additional information on the City of Capitola's capital assets can be found in Note 4 to the financial statements.

Governmental Activities

Land	\$ 4,883,789
Buildings and improvements	3,090,083
Equipment	3,214,014
Infrastructure	24,257,833
Construction in progress	2,632,639
Depreciation	<u>(21,842,014)</u>
Total fixed assets	<u>\$ 16,236,344</u>

Long-Term Debt

The City's long-term debt at the end of FY13/14 was \$6,585,628. This represents an increase of \$805,266 or 15% when compared to the FY 12/13. Significant changes include the addition of a \$1,372,500 Capital Lease to finance the development of Beach & Village Lot II, less a \$515,000 principal payment on the 2007 Pension Obligation Bond, and a \$95,647 payment towards the Pacific Cove Financing Lease.

An overview of all long-term obligations is presented below; while comprehensive information can be found in Note 6.

Governmental Activities

Bonds Payable:	
2007 POB Bonds	\$ 2,375,000
Loans Payable:	
Capital Lease Payable - Pacific Cove Financing	1,751,489
Capital Lease Payable - Beach & Village Financing	1,372,500
Notes Payable	29,799
Compensated absences	695,346
Net OPEB Obligation	<u>361,494</u>
Total	<u>\$ 6,585,628</u>

ECONOMIC FACTORS, NEXT YEAR'S BUDGETS, AND RATES

On June 12, 2014, the Council adopted the FY 14/15 Budget, with a total appropriation of \$20.4 million, and a General Fund appropriation of \$14.3 million. Adequate resources were projected to be available to fund the proposed expenditures. The General Fund budget reflects a conservative growth estimate with projected increases to sales tax revenues at 2.5%, transient occupancy tax revenues at 1.8%; and property tax revenues at approximately 2.7%. Over \$1 million in Measure O sales tax receipts were appropriated with an equivalent amount of expenditures that are consistent with the ballot's stated priorities. The Measure O priorities include CIP/Street projects, reserves, and public safety initiatives.

The City has negotiated contracts with all bargaining units through FY 17/18 which include caps on the City's share of pension costs, along with cost of living adjustments (COLA's) equivalent to changes in the Consumer Pricing Index (CPI). These caps on pension costs have proven to assist the City in maintaining relatively flat payroll expenses over the last few years; while also insulating the City from rising pension costs. In FY 14/15 budget were sufficient to offset the COLA's.

Prospects for the Future

Measure O sales tax revenues are projected to fully fund reserves at their increased levels in FY 15/16; while also allowing the City to fund over \$2.1 million in CIP projects over the next three years. The City's initial five-year projections estimated conservative increases in core revenues to be relatively consistent with CPI-based cost of living adjustments. Any increases in retirement costs through FY 17/18, were initially negotiated to be paid by employees. If this balanced approach were maintained, the City projected that operational functions would not be impacted by the \$1 million loss of Measure D revenues. These multi-year projections are currently being revisited as a result of risk pool changes to the PERS Classic retirement plans. These changes are anticipated to increase retirement contributions by approximately five percentage points beginning in FY 15/16, followed by a five-year ramp-up period to fund pension liabilities. While these cost increases are currently slated to be paid by employees, the City is meeting with employee groups to review strategies to assist with the rising costs. Additional information regarding the retirement increases can be found in the Transmittal Letter.

Opportunities for development include completion of the City and sponsor-funded McGregor Multi-Use Recreational Site, capital improvements at Rispin/Peery Park, and the conversion of City Hall office space to a Community Room. At the end of FY 13/14, the City opened a 226-space parking lot adjacent to the Beach and Village Parking Lot and City Hall. It is anticipated that this new parking lot will generate over \$20,000 in additional parking revenues, relieve congestion in the Village, and provide much-needed parking spaces to facilitate a potential new hotel development in the Village.

The City has successfully completed all current RDA dissolution and Assembly Bill 1484 (AB 1484) reporting and audit requirements; however there is still uncertainty regarding whether the City will receive compensation for a \$618,028 loan made to the former RDA. The City has not incorporated the recognition of principal payments or interest revenues in financial forecasts; however the City is cautiously optimistic about recovering the loan principal through the AB 1484 loan reinstatement process. Additional information can be found in the Transmittal, as well as Note 15.

Local, State, and National Economy

In 2008, events in the local, state, and national economies led to a significant downturn in financial markets. In FY 11/12, there were beginning signs of economic recovery, with increased sales tax, TOT tax, and an increasing demand for building/planning services. This trend continued through FY 13/14, with Capitola's annual sales tax and transient occupancy tax levels rising by over 18.6%; increased home sales and prices; and a reduction in unemployment rates. This trend is consistent with the statewide economic conditions and the Conference Board's June 2014 survey, which indicated that national consumer confidence levels were at a their highest level since January 2008.

While the November Conference Board survey indicated there was a slight decrease in consumer confidence, this could be an indicator that the economy is beginning to level. This information is consistent with FY 14/15 budget and the City's first quarter performance.

Requests for Information

This financial report is designed to provide a general overview of the City's finances and to demonstrate the City's accountability for its fiscal activities to citizens, taxpayers, investors, creditors, and any other interested parties. If you have questions about this report or need additional information, contact the City Manager, City of Capitola at 420 Capitola Avenue, Capitola, California 95010.

BASIC FINANCIAL STATEMENTS

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CITY OF CAPITOLA
Statement of Net Position
June 30, 2014

	Governmental Activities
ASSETS	
Cash and investments	\$ 6,593,076
Accounts receivable, net of allowance for uncollectibles	645,490
Due from other governments	1,675,077
Due from successor agency	618,028
Loans receivable	7,690,700
Prepays	1,784
Capital assets:	
Non-depreciable:	
Land	4,883,789
Construction in progress	2,632,639
Depreciable:	
Equipment	3,214,014
Buildings and improvements	3,090,083
Infrastructure	24,257,833
Accumulated depreciation	(21,842,014)
Total Assets	33,460,499
LIABILITIES	
Accounts payable	623,050
Accrued liabilities	465,063
Interest payable	88,472
Deposits payable	323,645
Unearned revenue	220,602
Noncurrent liabilities:	
Due within one year	748,591
Due in more than one year	5,837,037
Total Liabilities	8,306,460
DEFERRED INFLOWS OF RESOURCES	1,943,443
NET POSITION	
Net investment in capital assets	12,750,861
Restricted for:	
Public safety	118,743
Transportation	416,639
Community development	3,851,803
Culture and recreation	115,907
Unrestricted	5,956,643
Total Net Position	\$ 23,210,596

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

CITY OF CAPITOLA
Statement of Activities
Year Ended June 30, 2014

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government	\$ 3,402,777	\$ 1,109,353	\$ 60,302	\$ -	\$ (2,233,122)
Public safety	5,411,550	782,280	234,452	14,928	(4,379,890)
Community development	740,990	682,713	-	-	(58,277)
Culture and recreation	970,486	749,586	-	-	(220,900)
Transportation	3,069,903	130,691	17,879	-	(2,921,333)
Interest and other charges	211,255	-	-	-	(211,255)
Total Governmental Activities	<u>\$ 13,806,961</u>	<u>\$ 3,454,623</u>	<u>\$ 312,633</u>	<u>\$ 14,928</u>	<u>(10,024,777)</u>
General Revenues:					
Taxes:					
Property taxes					1,849,375
Franchise taxes					496,759
Sales and use taxes					7,179,727
Transient occupancy taxes					1,263,175
Business license taxes					286,638
Motor vehicle in-lieu, unrestricted					327,281
Investment income, unrestricted					107,218
Miscellaneous revenue					<u>237,520</u>
Total General Revenues					<u>11,747,693</u>
Change in Net Position					1,722,916
Net Position, Beginning of Year, as Restated (note 17)					<u>21,487,680</u>
Net Position, End of Year					<u>\$ 23,210,596</u>

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

GOVERNMENTAL FUNDS

Major Governmental Funds

GENERAL FUND

The General Fund accounts for all financial resources except those to be accounted for in another fund. It is the general operating fund for the City.

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service and capital projects. The following special revenue funds have been classified as major funds:

Federal Home Loan Reuse Fund - This fund accounts for housing loan principal and interest payments that will be available for a similar future federal program.

Capitola Housing Successor Fund - This fund is used to account for the assets of the former RDA Low and Moderate Income Fund, and related housing activities. The funds are restricted in their use, reuse, and repayment pursuant to the original program requirements. It is anticipated that as loan payments are received, the revenue generated would fund new housing activities.

Non-Major Governmental Funds

Other Governmental Funds - These funds constitute all other governmental funds that do not meet the GASB Statement No. 34 major fund test of assets, liabilities, revenues or expenditures for the governmental funds. These funds consist of other Special Revenue Funds, Debt Service Funds and a Capital Projects Fund of the City for the year ended.

CITY OF CAPITOLA
Governmental Funds
Balance Sheet
June 30, 2014

	General	Special Revenue Fund Federal Home Loan Reuse
ASSETS		
Cash and investments	\$ 3,798,445	\$ 59,707
Accounts receivable	58,322	-
Due from other governments	1,619,550	-
Due from successor agency	618,028	-
Due from other funds (note 3)	364,312	-
Loans receivable	-	3,808,200
Prepays	1,784	-
	<hr/>	<hr/>
Total Assets	<u>\$ 6,460,441</u>	<u>\$ 3,867,907</u>
LIABILITIES		
Accounts payable	\$ 400,835	\$ -
Accrued liabilities	465,063	-
Unearned revenue	220,602	-
Due to other funds	-	-
Deposits payable	278,811	-
	<hr/>	<hr/>
Total Liabilities	<u>1,365,311</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue	<u>205,538</u>	<u>3,808,200</u>
FUND BALANCES		
Nonspendable	619,812	-
Restricted	-	59,707
Assigned	584,106	-
Unassigned	3,685,674	-
	<hr/>	<hr/>
Total Fund Balances	<u>4,889,592</u>	<u>59,707</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 6,460,441</u>	<u>\$ 3,867,907</u>

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

Special Revenue Fund			
Capitola Housing Successor	Non-Major Governmental Funds	Totals	
\$ 99,358	\$ 2,635,566	\$ 6,593,076	
-	587,168	645,490	
-	55,527	1,675,077	
-	-	618,028	
-	-	364,312	
3,564,918	317,582	7,690,700	
-	-	1,784	
<u>\$ 3,664,276</u>	<u>\$ 3,595,843</u>	<u>\$ 17,588,467</u>	
\$ 14,736	\$ 207,479	\$ 623,050	
-	-	465,063	
-	-	220,602	
-	364,312	364,312	
-	44,834	323,645	
<u>14,736</u>	<u>616,625</u>	<u>1,996,672</u>	
<u>3,564,918</u>	<u>317,582</u>	<u>7,896,238</u>	
-	-	619,812	
84,622	899,240	1,043,569	
-	1,764,865	2,348,971	
-	(2,469)	3,683,205	
<u>84,622</u>	<u>2,661,636</u>	<u>7,695,557</u>	
<u>\$ 3,664,276</u>	<u>\$ 3,595,843</u>	<u>\$ 17,588,467</u>	

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CITY OF CAPITOLA
Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Position
June 30, 2014

Fund balances of governmental funds	\$	7,695,557
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets net of depreciation have not been included in governmental fund activity:

Capital assets		38,078,358
Accumulated depreciation		(21,842,014)

Long-term debt has not been included in the governmental fund activity:

Notes payable		(29,799)
Bonds payable		(2,375,000)
Capital lease financing		(1,751,489)
Lease-back financing		(1,372,500)
Compensated absences		(695,346)
Net OPEB Obligation		(361,494)
Accrued interest payable		(88,472)

Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.

Long-term receivables		5,952,795
		5,952,795
Net position of governmental activities	\$	23,210,596

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

CITY OF CAPITOLA
Governmental Fund Types
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2014

	General	Special Revenue Fund Federal Home Loan Reuse
REVENUES		
Taxes	\$ 10,789,036	\$ -
Licenses and permits	590,855	-
Fines and forfeitures	730,668	-
Intergovernmental	410,672	-
Charges for services	1,973,526	-
Use of money and property	22,013	47,656
Other revenue	84,183	-
	<u>14,600,953</u>	<u>47,656</u>
Total Revenues		
EXPENDITURES		
Current:		
General government	2,564,349	-
Public safety	5,679,845	-
Community development	586,948	6,400
Culture and recreation	914,184	-
Transportation	2,333,260	-
Capital outlay	1,350,694	-
Debt service:		
Principal	-	-
Interest and fiscal charges	-	-
Debt issuance costs	-	-
	<u>13,429,280</u>	<u>6,400</u>
Total Expenditures		
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>1,171,673</u>	<u>41,256</u>
OTHER FINANCING SOURCES (USES)		
Issuance of debt	-	-
Transfers in	-	-
Transfers out	(1,721,281)	(4,770)
	<u>(1,721,281)</u>	<u>(4,770)</u>
Total Other Financing Sources (Uses)		
Net Change in Fund Balances	(549,608)	36,486
Fund Balances, Beginning of Year	5,439,200	23,221
Fund Balances, End of Year	<u>\$ 4,889,592</u>	<u>\$ 59,707</u>

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

Special Revenue Fund		
Capitola Housing Successor	Non-Major Governmental Funds	Totals
\$ -	\$ 322,955	\$ 11,111,991
-	112,418	703,273
-	-	730,668
-	226,601	637,273
-	79,001	2,052,527
36,166	113,135	218,970
500	43,325	128,008
<u>36,666</u>	<u>897,435</u>	<u>15,582,710</u>
-	184,987	2,749,336
-	158,127	5,837,972
32,241	96,627	722,216
-	51,276	965,460
-	449,226	2,782,486
-	1,976,886	3,327,580
-	615,984	615,984
-	210,382	210,382
-	11,667	11,667
<u>32,241</u>	<u>3,755,162</u>	<u>17,223,083</u>
<u>4,425</u>	<u>(2,857,727)</u>	<u>(1,640,373)</u>
-	1,372,500	1,372,500
-	1,860,851	1,860,851
-	(134,800)	(1,860,851)
<u>-</u>	<u>3,098,551</u>	<u>1,372,500</u>
4,425	240,824	(267,873)
80,197	2,420,812	7,963,430
<u>\$ 84,622</u>	<u>\$ 2,661,636</u>	<u>\$ 7,695,557</u>

CITY OF CAPITOLA
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2014

Net change in fund balances - total governmental funds	\$	(267,873)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlays		3,808,569
Depreciation		(940,070)

Repayment of debt service principal and capital lease liabilities are expenditures in the governmental funds but the repayment reduces long-term liabilities in the statement of net position.		615,984
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The issuance of long-term debt provides current financial resources to governmental funds. This transaction, however, does not have an effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Issuance of long-term debt		(1,372,500)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in compensated absences payable		(46,933)
Change in OPEB		(1,781)
Change in accrued interest expense		(873)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Grant revenues		(71,607)
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Change in net position of governmental activities	\$	1,722,916
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The accompanying notes are an integral part of these financial statements.

CITY OF CAPITOLA
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2014

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and investments	\$ 607,859	\$ 36,325
Total Assets	<u>607,859</u>	<u>\$ 36,325</u>
LIABILITIES		
Deposits	-	\$ 36,325
Long-term liabilities (note 15):		
Due within one year	287,116	-
Due in more than one year	<u>776,031</u>	<u>-</u>
Total Liabilities	<u>1,063,147</u>	<u>\$ 36,325</u>
NET POSITION (DEFICIT)		
Held in trust for successor agency and other purposes	<u>(455,288)</u>	
Total Net Position (Deficit)	<u>\$ (455,288)</u>	

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

CITY OF CAPITOLA
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2014

	Private Purpose Trust Fund
ADDITIONS	
RPTTF distributions	\$ 1,193,431
Other revenue	<u>52,313</u>
Total additions	<u>1,245,744</u>
DEDUCTIONS	
Administrative expenses	250,000
Enforceable obligations	246,063
Loss from disposal of asset	<u>694</u>
Total deductions	<u>496,757</u>
Change in net position	748,987
Net position (deficit), beginning of the period	<u>(1,204,275)</u>
Net position (deficit), end of the period	<u><u>\$ (455,288)</u></u>

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

City of Capitola
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Year Ended June 30 2014

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CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Description of Reporting Entity

The City of Capitola (the City) was incorporated in 1949 under the laws of the State of California. Capitola is a General Law City and is subject to the framework and procedures established by State law. The City operates under the Council-City Manager form of government. The City provides police protection, street, park and facilities maintenance; recreation, building, planning, zoning, administrative, and financial services for Capitola. Independent special districts provide fire protection, water, sewer, and drainage services.

B) Basis of Presentation

The City's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

Government-Wide Financial Statements: The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All City activities are governmental; no business-type activities are reported in the statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are expenses that are clearly identifiable with a specific program, project, function or segment. Program revenues of the City include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items that are properly not included among program revenues are reported instead as general revenues.

Fund Financial Statements: Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the providers have been met.

Governmental 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. Sales Tax is recorded in the period it is earned, which results in a 90 day accrual on this revenue.

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 and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, transient occupancy taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual, and are therefore recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation,
(continued)

The City reports the following major governmental funds:

General Fund

The General Fund accounts for all financial resources except those to be accounted for in another fund. It is the general operating fund for the City.

Federal Home Loan Reuse Fund

The Federal Home Loan Reuse Fund accounts for housing loan principal and interest payments that will be available for a similar future federal program.

Capitola Housing Successor Fund

This Capitola Housing Successor Fund is used to account for the assets of the former RDA Low and Moderate Income Fund; and related housing activities. The funds are restricted in their use, reuse, and repayment pursuant to the original program requirements. It is anticipated that as loan payments are received, the revenue generated would provide a funding source for new housing assistance programs.

The City also reports the following:

Agency Funds

The Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City maintains the following two Agency funds as an agent for bondholders: Brookvale Assessment District and Auto Center Assessment District.

Private Purpose Trust Funds

The Private Purpose Trust Fund accounts for the activities of the City of Capitola as Successor Agency to the Capitola Redevelopment Agency. The Successor Agency's primary purpose is to expedite the dissolution of the former Redevelopment Agency's assets in accordance with AB X1 26 and AB 1484.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

D) Assets, Liabilities, and Net Position or Equity

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 market 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 market 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 monthly 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) Property Taxes

California Constitution Article XIII A, limits the combined property tax rate to one percent of a property's assessed valuation. Additional taxes may be imposed with voter approval. Assessed value is calculated at one hundred percent of a property's fair value, as defined by Article XIII A, and may be increased no more than two percent per year unless a change in ownership occurs. The state legislature has determined the method of distributing the one percent tax levy among the various taxing jurisdictions.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

D) Assets, Liabilities, and Net Position or Equity, (continued)

3) Property Taxes (continued)

Property tax revenues are recognized in the fiscal year for which taxes have been levied, and collected within sixty days of fiscal year end. Property taxes are billed and collected as follows:

	<u>Secured</u>	<u>Unsecured</u>
Valuation/Lien Date(s)	January 1	January 1
Levy Date(s)	July 1	July 1
Due Date(s)	November 1 (50%) February 1 (50%)	August 1
Delinquency Date(s)	December 10 (Nov.) April 10 (Feb.)	August 31

The City adopted an alternative method of property tax distribution (the "Teeter Plan"). Under this method, the City receives 100% of its secured property tax levied in exchange for foregoing any interest and penalties collected on delinquent taxes. The City receives payments as a series of advances made by the County throughout the fiscal year. The secured property tax levy is recognized as revenue upon receipt including the final payment, which generally is received within 60 days after the fiscal year.

4) Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. City policy is to capitalize all tangible property with a useful life of two or more years and a cost or assigned value exceeding \$5,000, with the exception of infrastructure valued at \$50,000 or more.

With the implementation of GASB Statement No. 34, the City recorded all its public domain (infrastructure) capital assets placed in service after June 30, 1980, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

D) Assets, Liabilities, and Net Position or Equity, (continued)

4) Capital Assets (continued)

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each fiscal year represents that fiscal year's pro rata share of the cost of capital assets. GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over the estimated useful lives. Depreciation is provided using the straight line method which means the cost of the assets is divided by its expected useful life in years and the result is charged to expense each fiscal year until the assets are fully depreciated. The City has assigned the useful lives listed below to capital assets.

Structures and Improvements	50 years
Equipment	5 – 25 years
Infrastructure	15 – 50 years

5) Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are reported as prepaid items in both government-wide and fund financial statements. The City accounts for such items using the consumption method.

6) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position (balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial element, *deferred outflows of resources*, represents a consumption of net position or fund balance that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City currently has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position (balance sheet) will sometimes report a separate section for deferred inflows of resources. This separate financial element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of this item, one of which arises only under a modified accrual basis of accounting, and the other which arises under both full accrual and modified accrual of accounting, that qualify for reporting in this category. Accordingly, a portion of the item, unavailable revenues, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from one source: grant revenue. The second item, which also considered unavailable revenue, is reported on both the governmental funds balance sheet and the statement of net position. This item is offset by a loan receivable and is therefore considered unavailable revenue at both the fund and government wide level due to the nature of the loan agreement. Amounts for both types of deferred inflows are deferred and recognized as an inflow of resources in the period that the amounts become available.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

D) Assets, Liabilities, and Net Position or Equity, (continued)

7) Compensated Absences

In compliance with Governmental Accounting Standards Board Statement No. 16, the City has established a liability for accrued vacation in relevant funds. Based on prior MOU language, a sick leave liability is also accrued for one remaining employee. For governmental fund types, the current liability appears in the respective funds and the long-term liability appears in the government-wide financial statements.

This liability is set up for the current employees at the current rates of pay. If vacation and the sick leave balances are not used by employees during the term of employment, compensation is payable to the employee at the time of retirement. Such compensation is calculated at the employee's prevailing rate at the time of retirement or termination. Each fiscal year, an adjustment to the liability is made based on pay rate changes and adjustments for the current portion. The General Fund is primarily responsible for the repayment of the governmental portion of compensated absences.

8) Reclassifications and Eliminations

Interfund balances must generally be eliminated in the government-wide statements, except for net residual amounts due between governmental activities. Amounts involving fiduciary funds should be reported as external transactions. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that the expenses are reported only once - in the function in which they are allocated.

9) 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.

10) Fund Equity

The City has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. These classifications and constraints have been incorporated into the City's Fund Balance Policy, Administrative Policy III-10. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

D) Assets, Liabilities, and Net Position or Equity, (continued)

10) Fund Equity (continued)

Nonspendable – Amounts that are not in a spendable form or are legally or contractually required to be maintained intact.

Restricted – Amounts that have constraints placed on them by third-party providers (grantors, bondholders, and higher levels of government) or by law through constitutional provisions or by enabling legislation.

Committed – Amounts constrained to specific purposes by a government itself, using the highest level of decision-making authority. This includes an action by City Council, ordinance, or resolution. The Committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action it previously employed to commit those amounts.

Assigned – Amounts the City intends to use for a specific purpose, but are neither restricted nor committed. Intended use can be established by the City Council, or by a City official designated as having that authority, such as the City Manager or Finance Director.

Unassigned – Amounts that are for any purpose; positive amounts are reported only in the General Fund.

When an expenditure is incurred for which both restricted and unrestricted (committed, assigned, or unassigned) are available, it is the City's policy to consider restricted amounts first, then unrestricted resources. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance appropriations could be used, it is the City's Policy that committed amounts would be used first, followed by assigned, and then unassigned fund balance classifications.

11) Implementation of New Pronouncement

Effective July 1, 2013, the City adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 amended prior guidance with respect to the treatment of debt issuance costs. Under GASB 65, debt issuance costs, except any portion related to prepaid insurance costs, are recognized as an expense in the period incurred rather than reported as an asset on the statement of net position and recognized as an expense in a systematic and rational manner over the duration of the related debt. Accordingly, as noted in Note 17 of the financial statements, the City has restated beginning net position for any unamortized debt issuance costs previously reported on the statement of net position in conformity with GASB 65.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

2) **CASH AND INVESTMENTS**

Cash and investments held by the City at June 30, 2014 are classified in the accompanying financial statement as follows:

Statement of Net Position:	
Cash and investments	\$ 6,593,076
Statement of Fiduciary Net Position:	
Cash and investments	644,184
Total cash and investments	<u>\$ 7,237,260</u>

Cash and investments held by the City consisted of the following:

Petty cash	\$ 1,450
Demand deposits	5,214,731
Investments	<u>2,021,079</u>
Total cash and investments	<u>\$ 7,237,260</u>

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 table below identifies the investment types that are authorized by the City's investment policy and the California Government Code (or the City's investment policy, if more restrictive). The table also identifies certain provisions that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type *	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U. S. Treasury Bills	5 years	60%	None
Negotiable Certificates of Deposit (CD)	1 year	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Guaranteed Investment Contracts	15 months	None	None

* Maximums based on state law requirements or investment policy requirements, whichever is more restrictive.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

2) CASH AND INVESTMENTS, (continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment is, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rates risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

Investment Type	Remaining Maturity				Total
	12 months or less	13 to 24 months	25 to 60 months	More than 60 months	
Local Agency Investment Fund	\$ 2,021,079	\$ -	\$ -	\$ -	\$ 2,021,079
Total	<u>\$ 2,021,079</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,021,079</u>

Investment with Fair Values Highly Sensitive to Interest Rate Fluctuations

During the fiscal year ended June 30, 2014, the City did not hold any investments that were highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or the City's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Total	Minimum Legal Rating	Exempt From Disclosure	Not Rated
Local Agency Investment Fund	\$ 2,021,079	N/A	N/A	\$ 2,021,079
Total	<u>\$ 2,021,079</u>			<u>\$ 2,021,079</u>

* The State investment pool does not offer an investment rating.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

2) CASH AND INVESTMENTS, (continued)

Concentration of Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total City investments, required to be disclosed.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., brokerdealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2014 the City had deposits with financial institutions in excess of federal depository insurance limits by \$5,062,191 that were held in collateralized accounts.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF). LAIF was established in 1977 under the California Government Code Section 16429.1 et seq. as an investment alternative for local California governments and special districts. LAIF oversight is governed by a five member board designated by law, with the State Treasurer as Board Chairman. The State Treasurer elected to invest these monies as part of the State's Pooled Money Investment Account (PMIA) to achieve the maximum rate of return, while maintaining the goals of safety, liquidity, and yield. All LAIF funds are insulated from State borrowing including State General Fund transfers or loans and AB 55 loans.

The total LAIF balance at June 30, 2014 was \$21 billion with 2,539 participating agencies. The total Capitola LAIF investment on June 30, 2014 was \$2 million or less than 0.01% of the total LAIF funding. The fair value of the City's investment in this pool is also \$2.0 million and is reported in the accompanying financial statements based on the on the City's pro rata share of the fair value provided by LAIF (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded as an amortized cost basis.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

3) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Due To/From Other Funds

Due to/from other funds at June 30, 2014 is as follows:

<u>Due from other funds</u>	<u>Due to other funds</u>	<u>Amount</u>
General Fund	Non-Major governmental funds	\$ 364,312

The interfund payable balances represent routine and temporary cash flow assistance from and to the General Fund until the amounts receivable from other agencies are collected to reimburse eligible expenditures.

Interfund Transfers

Interfund transfers for the year ended June 30, 2014 are as follows:

	<u>Transfers In Non-Major Governmental Funds</u>	<u>Total</u>
Transfers Out		
General Fund	\$ 1,721,281	\$ 1,721,281
Federal Home Reuse Fund	4,770	4,770
Non-Major Governmental Funds	<u>134,800</u>	<u>134,800</u>
Total	<u>\$ 1,860,851</u>	<u>\$ 1,860,851</u>

The General Fund transferred \$780,381 in debt service payments to Non-Major Funds, including \$677,699 to the Pension Obligation Bond Fund, \$88,000 to the Pacific Cove Debt Financing Fund; and \$14,682 to the Beach & Village Lot II Debt Financing Fund. Additional General Fund transfers included \$840,900 and \$100,000 to the CIP and Parking Reserve Funds, respectively. A transfer of \$4,770 was also initiated from the Federal Home Reuse Fund to the Federal Home Grant Fund to fund relevant expenditures. Additional transfers to the Pacific Cove Debt Financing Fund for debt service payments originated from the following Non-Major Funds: Parking Reserve for \$84,800 and the Affordable Housing Trust for \$50,000.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

4) **CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2014 is as follows:

	Beginning balance	Additions	Deletions	Ending balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,844,909	\$ 1,038,880	\$ -	\$ 4,883,789
Construction in progress	724,389	1,908,250	-	2,632,639
Total capital assets, not being depreciated	4,569,298	2,947,130	-	7,516,428
Capital assets, being depreciated:				
Equipment	2,688,523	549,625	(24,134)	3,214,014
Building and improvements	2,778,269	311,814	-	3,090,083
Infrastructure	24,257,833	-	-	24,257,833
Total capital assets, being depreciated	29,724,625	861,439	(24,134)	30,561,930
Less accumulated depreciation for:				
Equipment	(2,020,115)	(137,326)	24,134	(2,133,307)
Building and improvements	(1,536,416)	(72,157)	-	(1,608,573)
Infrastructure	(17,369,547)	(730,587)	-	(18,100,134)
	(20,926,078)	(940,070)	24,134	(21,842,014)
Total capital assets, being depreciated, net	8,798,547	(78,631)	-	8,719,916
Total governmental activities capital assets, net of accumulated depreciation	<u>\$ 13,367,845</u>	<u>\$ 2,868,499</u>	<u>\$ -</u>	<u>\$ 16,236,344</u>

Depreciation Allocations

Depreciation expense was charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program were as follows:

Governmental Activities:	
General government	\$ 593,060
Public safety	54,567
Cultural and recreation	5,026
Transportation	287,417
Total Depreciation Expense - Governmental Activities	<u>\$ 940,070</u>

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

5) OTHER ASSETS

Due from Successor Agency

The City provided support services without compensation to the former Redevelopment Agency for the period from July 1, 1997 through June 30, 2001. During this period, the Redevelopment Agency incurred substantial costs for a proposed expansion of the redevelopment area and amendment of the redevelopment plan. The uncompensated administrative support costs incurred by the City were determined to be \$618,028. The City and RDA entered into a Cooperation Agreement for the RDA to repay this amount at a 5% simple interest rate, with interest payments due annually. In June 2006, the City and Agency agreed to amend the interest rate to the greater of the following: a) the interest rate charged by the Public Employees Retirement System for the City's unfunded liability; b) the true interest cost of any obligation bond sold by the City; c) the State of California LAIF rate, or d) 5%. The principal amount of the reimbursement was originally to be paid as Agency funds become available, but in no event later than twenty-five years from the Agreement date. As of June 30, 2014, the principal owed to the City is \$618,028.

In July 2003, the City of Capitola sold the Rispin Mansion property to the RDA in exchange for a \$1,350,000 note. The City and the RDA agreed to calculate interest on the note at a 5% simple interest rate, with interest payments due quarterly. As with the Cooperation Agreement, in June of 2006, the City and Agency amended the interest rate to the greater of the following: a) the interest rate charged by the Public Employees Retirement System for the City's unfunded liability; b) the true interest cost of any pension obligation bond sold by the City; c) the State of California LAIF rate; or d) 5%. The outstanding principal sum of this Note is due and payable in full on June 24, 2017 ("Maturity Date").

Due to the Dissolution of the Agency in January of 2012, the combined loan balances of \$1,968,028 were transferred to the Successor Agency in accordance with AB X1 26 and AB 1484. In FY 12/13, the City did not receive any principal or interest payments on these loans due to conflicting interpretations of the legislation; and the timelines and requirements associated with the loan reinstatement process. Subsequently, the City and the Oversight Board resolved to transfer the Rispin Property to the City and terminate the \$1.35 million loan. This transfer was not recognized in FY 12/13, due to uncertainties regarding the transaction. After successfully completing the legislatively required Long Range Property Management Plan, the City accepted the property by resolution in October of 2014 in exchange for the Rispin Property. Additional information regarding the Cooperative Agreement can be found in the Risk and Uncertainties; and Successor Agency Notes.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

5) OTHER ASSETS, (continued)

Housing and Community Development Loan Program

The City uses Federal Home Loan Reuse, Affordable Housing and CDBG Program Income funds to provide housing loans to eligible applicants. Such loans are made to low and moderate income households to improve or rehabilitate residences. The City accounts for this program in the Special Revenue Funds. Total loans receivable of \$7.7 million at June 30, 2014 are listed below:

	CDBG Program Income	Federal Home Loan Reuse	Affordable Housing	Capitola Housing Successor	Total
Individual Loans	\$ 143,569	\$ 536,008	\$ -	\$ 751,601	\$ 1,431,178
Bay Avenue Senior Apartments	-	3,071,159	-	1,594,337	4,665,496
Castle Mobile Home Park	-	-	174,013	1,218,980	1,392,993
Wharf Road Manor	-	201,033	-	-	201,033
Totals	<u>\$ 143,569</u>	<u>\$ 3,808,200</u>	<u>\$ 174,013</u>	<u>\$ 3,564,918</u>	<u>\$ 7,690,700</u>

They have been reflected in the accompanying financial statements as loans receivable and are offset with deferred inflows of resources.

6) LONG TERM DEBT

A summary of changes in long-term debt for the fiscal year ended June 30, 2014 was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due Within One Year
2007 POB Bonds	\$ 2,890,000	\$ -	\$ (515,000)	\$ 2,375,000	\$ 545,000
Capital Lease - Cove Financing	1,847,136	-	(95,647)	1,751,489	73,676
Beach & Village Lot II Financing	-	1,372,500	-	1,372,500	55,040
Notes Payable	35,136	-	(5,337)	29,799	5,340
Compensated Absences	648,413	394,684	(347,751)	695,346	69,535
Net OPEB Obligation	359,713	1,781	-	361,494	-
Totals	<u>\$ 5,780,398</u>	<u>\$ 1,768,965</u>	<u>\$ (963,735)</u>	<u>\$ 6,585,628</u>	<u>\$ 748,591</u>

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

6) LONG TERM DEBT, (continued)

2007 Pension Obligation Bonds

In July of 2007, the City issued \$5,040,000 of Pension Obligation Bonds in order to pre-fund a portion of the PERS Side Fund liability as determined by PERS for the City's Safety and Miscellaneous Plans. Payments of interest are payable semi-annually on August 1 and February 1 of each year with a stated interest rate of 6.010%. The Bonds mature through August 1, 2017. The bonds are payable from any source of legally available funds of the City, including amounts on deposit in the General Fund.

The debt-service maturity schedule for the Pension Obligation Bonds is as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2015	\$ 545,000	\$ 126,360	\$ 671,360
2016	575,000	92,704	667,704
2017	610,000	57,095	667,095
2018	645,000	19,382	664,382
Total	<u>\$ 2,375,000</u>	<u>\$ 295,541</u>	<u>\$ 2,670,541</u>

Capital Leases Payable - Pacific Cove Debt Financing

On March 23, 2012, the City executed a \$2.39 million lease/sublease agreement to facilitate relocating the residents of the Pacific Cove Mobile Home Park. The City-owned mobile home park was permanently closed for safety reasons after a pipe failure flooded the park. This lease agreement used the existing City Hall site and the adjacent Upper Pacific Cove Parking lot as the subject lease property. The original lease agreement was for 20 years at 5.14% fixed interest rate for the first 10 years, with a reset to 10 year T-Bill plus 3%. The lease was renegotiated during fiscal year 2012-13 to a tax-exempt lease with a 3.25% interest rate, with a reset in year 10 to a 10 year T-Bill + 1.5%. As a result of the refinancing, annual loan payments were reduced by approximately \$28,000. Savings on interest over the first nine years is estimated to be \$350,000.

In Fiscal Year 2012-13, the City made a decision to apply \$500,000 from the disaster recovery insurance settlement to the Pacific Cove Lease. This resulted in a principal reduction of \$476,190, with a prepayment penalty of \$23,810.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

6) LONG TERM DEBT, (continued)

Capital Leases Payable - Pacific Cove Debt Financing, (continued)

Future lease payments under the capital lease as of June 30, 2014 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2015	\$ 73,676	\$ 56,890	\$ 130,566
2016	76,090	54,476	130,566
2017	78,583	51,983	130,566
2018	81,157	49,409	130,566
2019	83,816	46,750	130,566
2020-2024	462,118	190,711	652,829
2025-2029	542,948	109,881	652,829
2030-2032	353,101	21,347	374,448
Total	<u>\$ 1,751,489</u>	<u>\$ 581,447</u>	<u>\$ 2,332,936</u>

Capital Leases Payable - Beach & Village Lot II Financing

On March 14, 2014, the City of Capitola executed a \$1,372,500 low-interest loan with the California Infrastructure and Economic Development Bank (IBank). This loan is considered a lease-lease back obligation with the General Fund as the source of repayment; and the City Public Works Corporation Yard serving as the leased asset. The loan term is 20 years at a fixed 2.26% interest rate. Loan proceeds are being used for the construction of new parking lot in the vacant Pacific Cove Mobile Home Park, which includes construction of a walkway to the adjacent lot, restroom renovations, installation of signage, and the placement of paystations in the two City parking lots.

Future lease payments under the capital lease as of June 30, 2014 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2015	\$ 55,040	\$ 26,692	\$ 81,732
2016	56,284	29,138	85,422
2017	57,556	27,852	85,408
2018	58,856	26,537	85,393
2019	60,187	25,192	85,379
2020-2024	321,962	104,691	426,653
2025-2029	360,026	66,198	426,224
2030-2032	402,589	23,153	425,742
Total	<u>\$ 1,372,500</u>	<u>\$ 329,453</u>	<u>\$ 1,701,953</u>

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

6) LONG TERM DEBT, (continued)

Note Payable

On January 26, 2012 the City Council approved the City's participation in a financing program and retrofit project with PG&E to place LED fixtures in City-owned streetlights. The City has executed a loan document with PG&E in the amount of \$38,249. The terms of the loan are at 0% interest and will be paid off over 86 months. The monthly payment will be \$445 per month.

Compensated Absences

Governmental Accounting Standards Board Statement No. 16 identifies certain items that should be accrued as a liability as the benefits are earned by the employees but only to the extent it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employee's termination or retirement.

City employees accumulate earned but unused benefits that can be converted to cash at termination of employment. The non-current portion of these vested benefits, payable in accordance with various collective bargaining agreements, totals \$695,346 as of June 30, 2014.

7) FUND BALANCE CLASSIFICATIONS

The details of the fund balances as of June 30, 2014 are presented below:

	General Fund	Federal Home Loan Reuse	Capitola Housing Successor	Non-Major Governmental Funds	Total Governmental Funds
Nonspendable:					
Prepays	\$ 1,784	\$ -	\$ -	\$ -	\$ 1,784
Due from successor agency	618,028	-	-	-	618,028
Restricted for:					
Public Safety	-	-	-	118,743	118,743
Transportation	-	-	-	446,438	446,438
Community Development	-	59,707	84,622	218,152	362,481
Culture and Recreation	-	-	-	115,907	115,907
Assigned to:					
Other Capital Projects	-	-	-	1,764,865	1,764,865
Emergency Reserve	584,106	-	-	-	584,106
Unassigned:					
Contingencies	1,621,346	-	-	-	1,621,346
Unassigned	2,064,328	-	-	(2,469)	2,061,859
Total	<u>\$ 4,889,592</u>	<u>\$ 59,707</u>	<u>\$ 84,622</u>	<u>\$ 2,661,636</u>	<u>\$ 7,695,557</u>

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

8) OTHER REQUIRED DISCLOSURES

Deficit Fund Balances

The following funds reported deficit fund balances at June 30, 2014:

CDBG Program Income	\$ (2,469)
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These deficits are expected to be reduced by future revenues or transfers from other funds.

9) RISK MANAGEMENT

The City participates in the Monterey Bay Area Self-Insurance Agency (Authority), a joint powers agency comprising the City and nine other local jurisdictions, created pursuant to California law for liability and workers compensation insurance services. The Monterey Bay Area Self-Insurance Authority's Board of Directors is elected from representatives of the member governments, and controls operations of the fund, including selection of management and approval of operating budgets. It is independent of the individual member influence, except for their representation on the board, and is therefore not a component unit of the City for reporting purposes.

The City is exposed to various risks including worker injuries, tort liability, theft, damage or destruction of assets, errors and omissions, and natural disasters. With respect to risks other than workers' compensation, the City and other pool participants pay an annual premium estimated by the pool administrator to be sufficient to cover all liability claims for which the pool is obligated. If a covered entity's losses exceed its premiums, there is no individual supplemental assessment, and if a covered entity's losses are lower than its assessment, it does not receive a refund. However, annual budget appropriations are experience-based. The pool views its activities in the aggregate and makes overall adjustments to the premiums charged, and is therefore intended to be self-sustaining through member contributions (premiums). Risk of loss is retained by the City for general liability claims up to \$10,000 per occurrence. The fund carries excess loss coverage for general liability claims between \$990,000 and \$20,000,000 per insured event, and is uninsured for losses in excess of \$20,000,000 per event. Unpaid claims at fiscal year end, as reported by the fund, were not material. There was no reduction in the City's insurance coverage as compared to the previous fiscal year, nor have there been any losses exceeding coverage during any of the three previous years.

Premium payment amounts are determined by the fund's Board, and are charged to the City's general fund as expenditures when paid.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

9) RISK MANAGEMENT, (continued)

In the proper course of operation, the Authority issued debt in the aggregate principal amount of \$5,150,000 on October 1, 2004. The Authority is required to collect and disburse the loan premiums in accordance with the loan agreement, Article VI, Section 6.03. The Member agencies are required by the Amended and Restated Joint Powers Agreement Relating to the Monterey Bay Area Self-Insurance Authority, Article 20 to pay to the Authority their individual debt service amount and associated expenses, as determined by the Authority. Furthermore, the Member Agencies contribution will be payable from any source of available funds of the Member, including amounts on deposit in the general fund of the Member. Audited financial statements of the Authority can be obtained at 1 Civic Center Drive, Scotts Valley, CA 90566.

10) JOINT VENTURES

Santa Cruz Consolidated Emergency Communications Center

The City is a member of the Santa Cruz Consolidated Emergency Communications Center, a Joint Powers Authority created to establish and operate a consolidated communications center which provides emergency call receiving and dispatching services. Other members of the Authority include the Cities of Santa Cruz and Watsonville, and the County of Santa Cruz. The members, including the City of Capitola, are responsible for funding the operations of the Authority through annual assessments. The annual assessments are based on percentages calculated for each member. Audited financial statements of the Authority can be obtained at 495 Upper Park Rd, Santa Cruz, CA 95065.

In addition, the Authority and member agencies have entered into a Use Agreement relating to the issuance of the Authority's Santa Cruz County Public Financing Authority 2002 Lease Revenue Refunding Bonds, Series A, in the aggregate principal amount of \$5,760,000. These bonds were refunded in May as 2012 Lease Revenue Bonds, Series A with a principal of \$3,965,000. The proceeds were used to refinance the existing debt that was used for building costs; purchase additional equipment, and make a lease termination payment to the County to acquire space that is currently being used for the Emergency Operations Center (EOC). The term bonds are due on June 15, 2034.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

10) JOINT VENTURES, (continued)

Santa Cruz Consolidated Emergency Communications Center, (continued)

The following represents the City of Capitola's obligation for future use payments:

Fiscal Year Ending June 30,	Annual Use Payment
2015	\$ 33,988
2016	34,256
2017	34,450
2018	33,989
2019	34,085
2020-2024	170,781
2025-2029	170,957
2030-2034	171,230
Total	<u>\$ 683,736</u>

Other Activities

The City participates in other joint activities for the provisions of law enforcement activities, including the Santa Cruz County Narcotics Enforcement Team (SCCNET) and the Criminal Justice Council. None of these activities are conducted as a separate legal entity; therefore, they are not joint ventures, but are cost-sharing arrangements only. No separate financial statements are prepared for these activities, nor is the City exposed to risk of additional costs beyond reimbursement of its share of on-going operating costs.

11) CITY'S EMPLOYEES' RETIREMENT PLAN

Plan Description

The City of Capitola contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance.

On January 1, 2013, the State of California's Public Employees' Pension Reform Act of 2013 (PEPRA) became effective. This legislation established the maximum defined benefit retirement formulas that could be offered by a public agency. The new PEPRA plans must be offered to employees who were hired after January 1, 2013; and who did not participate in CalPERS or a reciprocal system. PEPRA plans are also applicable to employees who participated in CalPERS or a reciprocal system prior to January 1, 2013, but who had a six month break in service before they were hired. Existing and new employees that did not meet the PEPRA criteria are enrolled in the City's original or "Classic" retirement plan.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

11) CITY'S EMPLOYEES' RETIREMENT PLAN, (continued)

The City of Capitola offers the following retirement plans:

Miscellaneous Employees

- Classic: 2.5% at 55
- PEPRA: 2.0% at 62

Safety Employees

- Classic: 3.0% at 50
- PEPRA: 2.7% at 57

Copies of CalPERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute a percentage of their annual covered salary. The City of Capitola actuarially determined FY13/14 member contribution rates for both the Miscellaneous Plan and the Safety Plans are provided in the following table:

	Miscellaneous	
	Classic Plan	PEPRA Plan
Benefit Vesting Schedule	5 Years Service	5 Years Service
Benefit Payment	Monthly for Life	Monthly for Life
Benefit Plan	2.5% at 55	2.0% at 62
Benefit Provision	1 Year Final Compensation	3 Year Final Compensation
Actuarially Required Employee Contribution Rates	8.000%	6.25%
Actuarially Required Employer Contribution Rates	15.684%	6.25%
	Safety	
	Classic Plan	PEPRA Plan
Benefit Vesting Schedule	5 Years Service	5 Years Service
Benefit Payment	Monthly for Life	Monthly for Life
Benefit Plan	3.0% at 50	2.7% at 57
Benefit Provision	1 Year Final Compensation	3 Year Final Compensation
Actuarially Required Employee Contribution Rates	9.000%	11.5%
Actuarially Required Employer Contribution Rates	26.149%	11.5%

In 2007, all memoranda of understandings (MOU's) capped the City's share of retirement contributions at 16.488% for Miscellaneous employees and 28.291% for Safety employees. These caps, which were applicable to Classic plans, were renegotiated in Fiscal Year 2012-13; however a provision was added to reduce the City's cap on retirement costs for new hires during their first five years of employment. This resulted in a Classic Tier II cap on the City's retirement costs of 11.488% and 23.291% for Miscellaneous and Safety employees, respectively. All PEPRA employees were not subject to this cap.

All actuarially determined contribution requirements for plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

11) CITY'S EMPLOYEES' RETIREMENT PLAN, (continued)

Three Year Trend Information for the City of Capitola Miscellaneous Employees' Retirement Plan

<u>Fiscal Year</u>	<u>Required Contributions</u>	<u>Percentage Contributed</u>
2012	\$ 542,125	100%
2013	506,191	100%
2014	538,669	100%

Three Year Trend Information for the City of Capitola Safety Employees' Retirement Plan

<u>Fiscal Year</u>	<u>Required Contributions</u>	<u>Percentage Contributed</u>
2012	\$ 478,776	100%
2013	553,407	100%
2014	593,467	100%

12) PUBLIC AGENCY RETIREMENT PLAN

Overview

The Federal Omnibus Budget Reconciliation Act of 1990 (FOMBRA 90), mandated that all public sector employees not covered by their employers' existing retirement system(s) as of January 1, 1992, be covered by Social Security or an alternate plan. The City has provided these employees with a plan called The Public Agency Retirement System, which qualifies under Internal Revenue Code Sections 401(a) and 501.

Plan Description

The Public Agency Retirement System (PARS) is a defined contribution plan covering part-time, temporary or seasonal employees and all employees not covered by another retirement plan. The Plan is sponsored and paid for by employees and employer contributions. Members are 100% vested. Benefits are paid to the members in lump sum payments at termination, or if payment is in excess of \$3,500, the employee has the option of a lump sum payment at termination or at normal retirement age (60).

The City has the right to terminate or amend the Plan at any time.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

12) PUBLIC AGENCY RETIREMENT PLAN, (continued)

Contributions

A total annual contribution of 7.5% of covered earnings is contributed to the PARS account for each eligible employee. The City of Capitola contributes 1.3% and the employee contributes 6.2%. During the fiscal year ending June 30, 2014, contributions totaled \$20,400. This included contributions of \$3,487 by the City and \$16,913 by employees. The City acts as administrator with a trustee managing the investments and accounts. Fees are charged by the trustee and are paid from member earnings. Employer liabilities under the Plan are limited to the amount of the current contributions.

The City's contribution for fiscal year 2013-14 differs from the contribution totals provided by PARS in the following table because PARS reports on a calendar year, rather than a fiscal year basis.

Plan Net Position and Changes in Net Position

Balance 1/1/13	\$	60,200
Contributions		19,500
Earnings		423
Subtotal		80,123
Less: Expenses		(4,359)
Disbursements		(8,027)
Balance 12/31/13	\$	67,737

13) OTHER POST EMPLOYMENT BENEFITS

Plan Description

The City's defined benefit postemployment healthcare plan, (City of Capitola Retiree Healthcare Plan, CRHP), provides medical benefits to eligible retired City employees and spouses. CRHP is an agent multiple-employer plan administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions, as well as other requirements, is established by State statute within the Public Employees' Retirement Law. The CRHP's plan provisions are established and may be amended through negotiation and Memoranda of Understanding between the City Council and the various bargaining units. All contracts with CalPERS are approved through City resolution. CalPERS issues a Comprehensive Annual Financial Report (CAFR). The CAFR is issued in aggregate and includes the sum of all CalPERS plans. Copies of the CalPERS CAFR may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

13) OTHER POST EMPLOYMENT BENEFITS, (continued)

Funding Policy

The contribution requirements of plan members and the City are established and may be amended by the City Council. The City currently contributes the Public Employees' Medical and Hospital Care Act (PEMHCA) minimum.

The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover the normal cost each year and amortize any unfunded liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 1.45% of the annual covered payroll.

On May 14, 2009, the City Council adopted a resolution indicating that it would finance CRHP benefits on a "pay-as-you-go" basis. The method recognizes monthly benefit costs as the actual benefits are paid. On March 27, 2014, the City Council adopted a resolution to elect to prefund other post employment benefits through the California Public Employees Retirement System (PERS) and deposit contributions in the California Public Employees Retirement Benefit Trust Fund (CERBT). In FY 13/14, the City contributed the actuarially determined ARC of \$69,900. This transition from a "pay as you go" basis to a prefunding method reduced the City's FY 13/14 unfunded actuarial accrued liability (UAAL) from \$1,011,800 to \$657,500.

Annual OPEB Cost

The City's annual OPEB cost, net OPEB obligation and the related information for 2014 were as follows:

	<u>Total</u>
Annual required contribution	\$ 69,900
Interest on net OPEB obligation	26,978
Adjustments to annual required contribution	<u>(23,932)</u>
Annual OPEB cost (expense)	72,946
Contributions made	<u>(71,165)</u>
Increase in net OPEB obligation	1,781
Net OPEB obligation - beginning of year	359,713
Net OPEB obligation - end of year	<u><u>\$ 361,494</u></u>

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

13) OTHER POST EMPLOYMENT BENEFITS, (continued)

For 2014, the City's annual OPEB cost (expense) of \$72,946 for CRHP was more than the ARC by \$3,046. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the two preceding years were as follows:

THREE YEAR TREND INFORMATION FOR CRHP			
Fiscal Year	Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 89,186	25%	\$ 291,131
6/30/2013	93,835	27%	359,713
6/30/2014	72,946	98%	361,494

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2014, was as follows:

Actuarial Accrued Liability (AAL)	\$ 657,500
Actuarial Value Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 657,500
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll (Active Plan Members)	\$ 4,821,600
UAAL as a Percentage of Covered Payroll	13.64%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

13) OTHER POST EMPLOYMENT BENEFITS, (continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following is a summary of the actuarial assumptions and methods:

Valuation Date	July 1, 2013
Actuarial Cost Method	Projected Unit Credit Method
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	30 Years as of the Valuation Date, Open Period
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Projected Salary Increase	3.00%
Health Care Trend Rate	4.00%
Inflation Rate	3.00%

14) COMMITMENTS AND CONTINGENT LIABILITIES

Claims and lawsuits have been filed against the City in the normal course of business. The outcome of these matters is not presently determinable. However, in the opinion of management, the resolution of these matters is not expected to have a significant impact on the financial condition of the City.

15) SUCCESSOR AGENCY TO THE FORMER CAPITOLA REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill X1 26 that provided for the dissolution of all redevelopment agencies in the State of California. Most cities in California established a redevelopment agency that was included in the reporting entity of the city as a blended component unit (since the governing board of the city or county in many cases, also served as the governing board for those agencies). The Bill provided that upon dissolution of a redevelopment agency, either the city or another unit of local government could agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On January 12, 2012, the City Council met and created a Successor Agency in accordance with the Bill as part of City resolution number 3906.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

15) **SUCCESSOR AGENCY TO THE FORMER CAPITOLA REDEVELOPMENT AGENCY,**
(continued)

After the law was enacted on June 28, 2011, redevelopment agencies in the State of California could not enter into new projects, obligations or commitments. Upon the date of dissolution, February 1, 2012, significant matters previously controlled by the City Councils of the cities that created each redevelopment agency were now subject to the approval of the seven-member Oversight Board, and typically the California Department of Finance (DOF):

- Sale and distribution of assets
- Any change in obligation of terms
- Prepayment or defeasance of debt
- Acceptance of grants
- Funding of debt service reserves
- Budget for any remaining activities

In the current and future years, successor agencies are only allocated tax revenue in the amount that is necessary to pay the estimated annual payments on approved Recognized Obligation Payment Schedules (ROPS) until all enforceable obligations are paid in full. All obligations listed on the Capitola ROPS were approved by the Successor Agency and the Oversight Board, however the Department of Finance disallowed payment requests on two City/RDA loans. These loans included a \$618,028 Loan and Repayment Agreement and a \$1.35 million loan to purchase the City-owned Rispin Mansion property.

In June 2012, the California legislature passed AB 1484. This legislation provided clarification regarding the dissolution process and imposed new requirements. AB 1484 declared Successor Agencies are separate legal entities distinct from the sponsoring government, clarified matters pertaining to the affordable housing programs previously performed by the former RDA; and clarified matters pertaining to Enforceable Obligation and Recognized Obligation Payment Schedules (EOPS/ROPS). The legislation also established a requirement for all Successor Agencies to complete a due diligence review, established a process to receive a Finding of Completion that will provide significant benefits to local agencies (allowing them to begin spending debt proceeds and providing a formula for the repayment of money previously borrowed from the sponsoring government); and made a number of other significant changes in the dissolution process and the post-dissolution activities of Successor Agencies.

In Fiscal Year 2012-13, the Successor Agency completed two Due Diligence Reviews as required by the legislation. The Due Diligence review resulted in a recapture of the residual fund balance in the Successor Agency's primary operating account of \$89,536 and a disallowed payment to the City in the amount of \$47,895 for a City/RDA loan. While the Successor Agency and the City disagreed with this determination, the combined amount of \$137,431 was remitted to the County Auditor-Controller to maintain compliance. The completion of these two reviews resulted in the Successor Agency receiving a Finding of Completion on May 24, 2013.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

15) **SUCCESSOR AGENCY TO THE FORMER CAPITOLA REDEVELOPMENT AGENCY,**
(continued)

The Bill also directed the California State Controller to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers was not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller was required to order the available assets to be transferred to the public body designated as the Successor Agency. The Capitola Successor Agency completed the Asset Transfer Review on October 7, 2013. The report findings required the City to return \$52,313 to the Successor Agency for an interest payment on a City/RDA loan. The Successor Agency and the City also disagreed with this determination.

The Successor Agency and Oversight Board have approved reinstatement of the \$618,028 Loan and Repayment Agreement at a reduced interest rate; however this reinstatement was initially denied by the Department of Finance. The Department of Finance has indicated that application for this reinstatement should be subject to the timelines established in AB 1484.

The Successor Agency, City, and the Oversight Board approved a resolution to terminate the Rispin Property Purchase Loan in exchange for the return of the property. This would result in the reduction of \$1.35 million dollars in Successor Agency debt. The Department of Finance requested the Oversight Board reconsider this decision; and the Oversight Board unanimously reaffirmed their property transfer decision in August. The City did not receive a response from the Department of Finance in relation to this action, and the statutory time to deny the action has elapsed. The City's RDA attorney believed the action was effective due timing; however the official property transfer was delayed until after the Successor Agency successfully completed a Long Range Property Management Plan. This plan was completed on March 21, 2014; followed by the termination of the Rispin Purchase Loan and the City's acceptance of the property by Resolution on October 10, 2013. This transaction relieved the Successor Agency of all capital assets.

After the date of dissolution, activities of the dissolved redevelopment agency are reported in a fiduciary trust fund (private purpose trust fund) in the financial statements of the City. The assets and liabilities relating to the Successor Agency are provided in the following sections:

Capital Assets

The capital assets of the Successor Agency as of June 30, 2014 are as follows:

	Beginning balance	Additions	Deletions	Ending balance
Successor Agency Assets:				
Capital assets, not being depreciated:				
Land	\$ 1,038,880	-	\$ (1,038,880)	-
Building and improvements	311,814	-	(311,814)	-
Total capital assets, not being depreciated	<u>\$ 1,350,694</u>	<u>\$ -</u>	<u>\$ (1,350,694)</u>	<u>\$ -</u>

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

- 15) SUCCESSOR AGENCY TO THE FORMER CAPITOLA REDEVELOPMENT AGENCY,
 (continued)

Long-Term Debt

In accordance with the provisions of California AB X 1 26 (Bill), the obligations of the former Redevelopment Agency became vested with the funds established for the Successor Agency upon the date of dissolution, February 1, 2012. Former tax increment revenues pledged to fund the debts of the former Redevelopment Agency are distributed to the Successor Agency subject to the reapportionment of such revenues as provided by the Bill.

The debt of the Successor Agency as of June 30, 2014 is as follows:

	Beginning Balance	Additions	Reductions	Ending balance	Due Within One Year
Advances Payable -					
Due to the City	\$ 1,968,028	\$ -	\$ (1,350,000)	\$ 618,028	\$ -
RDA Pass-Throughs	1,176,339	-	(731,220)	445,119	287,116
Totals	<u>\$ 3,144,367</u>	<u>\$ -</u>	<u>\$ (2,081,220)</u>	<u>\$ 1,063,147</u>	<u>\$ 287,116</u>

Due to the City

The obligations due to the City represent a loan in the amount of \$618,028 for staff and administrative costs associated with the expansion of the redevelopment area and the amendment of the redevelopment plan. A note in the amount of \$1,350,000 for the purchase of the City-owned Rispin Mansion property was terminated in exchange for the return of the Rispin Property. Complete details on these obligations can be found in the Note 5.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

- 15) SUCCESSOR AGENCY TO THE FORMER CAPITOLA REDEVELOPMENT AGENCY,
(continued)

Long-Term Debt, (continued)

Redevelopment Agency Pass-Through Agreements: County Library Building Fund

Previous California redevelopment law permitted redevelopment agencies to negotiate agreements with overlapping taxing jurisdictions, whereby the Agency pays a portion of its tax increment revenues to other jurisdictions whose revenue and function(s) may be adversely impacted by the Agency. The terms of such agreements were negotiable in accordance with the needs of the Agency and the jurisdictions. Accordingly, the Agency negotiated agreements with certain overlapping jurisdictions, which called for deferred payment of portions of the Agency's tax increment revenues.

In August 2004, the Agency entered into an Implementation Agreement with the County of Santa Cruz to clarify and confirm provisions in the original Pass-Through Agreement, and First and Second Library Agreements. The Implementation Agreement requires that the Agency design and commence construction of a library building and related on-site improvements no later than June 30, 2018. The Agency's maximum obligation for this project, beginning with the 2004-05 fiscal year, was \$1,400,000, which increases 5% per annum (compounded annually) until the fiscal year in which the library construction is completed or the full amount of the Agency portion has been paid to the County.

Beginning February 1, 2005, and February 1st of each fiscal year thereafter through February 1, 2018, or until the total amount of the Agency is funded or the Library construction is completed, the Agency is required to pay minimum scheduled payments into a County trust account, which earns interest at a rate equivalent to the County's pooled investment fund rate.

The Agency is provided with the opportunity to prefund any portion of the obligation at any time. "Prefund" means to provide the total amount of funding needed in a particular year to achieve the total Agency obligation as of that fiscal year. Prefunding in the amount of the maximum obligation of the Agency through the fiscal year ending June 30, 2018 is \$2,640,000. The Agency recorded the initial debt of \$1,400,000 as of the 2004-05 fiscal year. The outstanding balance was required to be increased by 5% each year and reduced by the minimum scheduled payment each year. In FY 12/13, the City chose to record the full value of the remaining debt, less any payments, to be consistent with the Recognized Obligation Payment Schedule and to reflect the impact of accelerated principal payments.

In Fiscal Year 2012-13, the Oversight Board and the Department of Finance approved two payments in excess of the required \$211,720 minimum payment. This trend continued in Fiscal Year 2013-14, with disbursements approved for the minimum payment of \$250,243 and an additional payment of \$480,977. The Capitola Branch Library Trust obligation balance was reduced to \$445,119 on June 30, 2014. It is anticipated that the Oversight Board and Department of Finance will continue to fund increased payments in Fiscal Year 2014-15.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

- 15) SUCCESSOR AGENCY TO THE FORMER CAPITOLA REDEVELOPMENT AGENCY,
 (continued)

Long-Term Debt, (continued)

Redevelopment Agency Pass-Through Agreements: County Library Building Fund,
 continued)

If sufficient funds are available for distribution from the Redevelopment Property Tax Trust Fund in Fiscal Year 2014-15, it is anticipated the Successor Agency will continue to pursue accelerating payments on this debt. The proposed funding plan is provided below; while a schedule detailing the minimum scheduled payments under the original obligation are provided for reference.

	FY 13/14	FY 14/15
Outstanding Liability: July 1	\$ 1,176,339	\$ 445,119
Payment / Planned Payments	731,220	445,119
Outstanding Liability: June 30	\$ 445,119	\$ -

Minimum scheduled payments/original obligation:

Fiscal Year	Minimum Scheduled Payment Amount
2014-15	\$ 287,116
2015-16	158,003

- 16) RISKS AND UNCERTAINTIES

Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

16) RISKS AND UNCERTAINTIES, (continued)

City/Successor Agency Obligations

Deductions (expenses) incurred by the Successor Agency for the year ended June 30, 2014 (and subsequent years in which the Successor Agency is in operation) are subject to review by various State agencies and the County in which the Successor Agency resides. If any expenses incurred by the Successor Agency are disallowed by the State agencies or County, the City, acting as the Successor Agency could be liable for the repayment of the disallowed costs from either its own funds or by the State withholding remittances normally paid to the City. Over the last fiscal year, the Successor Agency has been successful in receiving funding for all approved obligations, with the exception of City/RDA loans. The amount, if any, of expenses that may be disallowed by the State agencies or County cannot be determined at this time as to be immaterial or not.

The City and the Successor Agency plan to pursue reinstatement of the \$618,028 Loan and Repayment Agreement through the AB 1484 reinstatement process. The Successor Agency and Oversight Board approved the reinstatement of the loan at a reduced interest rate on the most recent Recognized Obligation Payment Schedule (ROPS). This reinstatement was initially met with denial from the Department of Finance due to timing; however they have suggested that the Successor Agency reapply for reinstatement within the legislatively determined timeline. Health and Safety Code Section 34191.4 (b) (2) (A), also limits the maximum annual repayment amount to one-half of the increase between the amount distributed to the taxing entities in that fiscal year and the amount distributed to taxing entities in the 2012-13 base year. It is not anticipated that the Capitola Successor Agency will be able to seek repayment in Fiscal Year 2014-15.

17) CHANGE IN ACCOUNTING PRINCIPLE

As discussed in Note 1, the City implemented GASB Statement No. 65 effective July 1, 2013. GASB 65, among other provisions, amended prior guidance with respect to the treatment of debt issuance costs. Under GASB 65, debt issuance costs, except any portion related to prepaid insurance costs, are recognized as an expense in the period incurred rather than reported as an asset on the statement of net position and recognized as an expense in a systematic and rational manner over the duration of the related debt. The City's unamortized balance of debt issuance costs, at the beginning of the year was \$128,071. GASB 65 requires that accounting changes adopted to conform to the provisions of the Statement be applied retroactively by restating financial statements.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2014

17) CHANGE IN ACCOUNTING PRINCIPLE, (continued)

Accordingly, beginning net position on the Statement of Activities has been restated for any unamortized debt issuance costs previously reported on the statement of net position as follows:

GOVERNMENT WIDE STATEMENTS

Net position - beginning, as previously reported	\$ 21,615,751
Change in accounting principle	<u>(128,071)</u>
Net position - beginning, as restated	<u><u>\$ 21,487,680</u></u>

18) SUBSEQUENT EVENT

The City and the Successor Agency were named in a legal action regarding an incident that took place at the Rispin/Peery Park Property. At the time of the incident, the Successor Agency owned the property. In August of 2014, the City, Successor Agency, and the Plaintiff reached a \$295,000 Settlement Agreement, with additional injunctive relief to correct compliance issues with the Americans with Disabilities Act (ADA). The Monterey Bay Area Self Insurance Authority (MBASIA), the City's liability insurer, paid \$147,500 of the settlement costs, while the City and Successor Agency paid \$59,000 and \$88,500, respectively. The injunctive relief called for repairs to park infrastructure to ensure ADA compliance. The repairs entailed modification and reconstruction of ADA pathways from the Nob Hill Shopping center to Wharf Road pursuant to a four-year schedule. The estimated cost for repairs is \$800,000 - \$900,000, with costs shared equally between the City and the Successor Agency. The \$88,500 for the Successor Agency's share of the settlement costs has been approved by the Oversight Board and the Department of Finance for payment from Redevelopment Property Tax Trust Funds (RPTTF). The City's \$59,000 share of settlement costs has been paid through the City's internal Liability Fund's available balance. It is anticipated that the City's share of injunctive relief repairs will be paid over a four-year period from grants and General Fund contributions. The Successor Agency's share will be placed on future Recognized Obligation Payment Schedules for funding consideration. The first injunctive relief payment of \$20,000 has been approved for payment in January 2015 by the Oversight Board and the Department of Finance. It is anticipated that future injunctive relief payments will continue to be approved. The Successor Agency's payments made through RPTTF amounts are not anticipated to impact the City's General Fund or the Successor Agency's pending obligations.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CAPITOLA
Schedule of Funding Progress for Capitola Retiree Healthcare Plan
Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B - A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B - A) / C]
7/1/2008	\$ -	\$ 1,043,809	\$ 1,043,809	\$ -	\$ 3,125,748	33.39%
7/1/2011	-	1,006,309	1,006,309	-	4,686,029	21.48%
7/1/2013	-	657,500	657,500	-	4,821,600	13.64%

GENERAL FUND

The General Fund accounts for all financial resources except those to be accounted for in another fund. It is the general operating fund for the City.

CITY OF CAPITOLA
Required Supplementary Information
General Fund
Budgetary Comparison Schedule
Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Taxes	\$ 10,241,400	\$ 10,710,051	\$ 10,789,036	\$ 78,985
Licenses and permits	504,600	515,550	590,855	75,305
Fines and forfeitures	707,500	725,200	730,668	5,468
Intergovernmental	483,400	570,629	410,672	(159,957)
Charges for services	1,796,200	1,844,700	1,973,526	128,826
Use of money and property	19,300	34,200	22,013	(12,187)
Other revenue	74,200	77,145	84,183	7,038
Total revenues	13,826,600	14,477,475	14,600,953	123,478
Expenditures:				
Current:				
General government	2,565,052	2,634,378	2,564,349	70,029
Public safety	5,661,951	5,756,893	5,679,845	77,048
Community development	50,699	624,613	586,948	37,665
Culture and recreation	932,501	958,512	914,184	44,328
Transportation	2,353,547	2,362,412	2,333,260	29,152
Capital Outlay	1,350,000	1,350,694	1,350,694	-
Total expenditures	12,913,750	13,687,502	13,429,280	258,222
Excess (deficiency) of revenues over (under) expenditures	912,850	789,973	1,171,673	381,700
Other financing sources (uses):				
Transfers out	(1,251,638)	(1,723,438)	(1,721,281)	2,157
Net change in fund balance	(338,788)	(933,465)	(549,608)	383,857
Fund balance, beginning	5,439,200	5,439,200	5,439,200	
Fund balance, ending	\$ 5,100,412	\$ 4,505,735	\$ 4,889,592	\$ 383,857

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service and capital projects. The following funds have been classified as major funds:

Federal Home Loan Reuse Fund - This fund accounts for housing loan principal and interest payments that will be available for a similar future federal program.

Capitola Housing Successor Fund - This fund is used to account for the assets of the former RDA Low and Moderate Income and related housing activities. The funds are restricted in their use, repayment, and reuse pursuant to the original program requirements. It is anticipated that as loan payments are received, the revenue generated would fund new housing activities.

CITY OF CAPITOLA
Federal Home Loan Reuse Fund
Major Special Revenue Fund
Budgetary Comparison Schedule
Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Use of money and property	\$ 12,300	\$ 25,231	\$ 47,656	\$ 22,425
Total revenues	12,300	25,231	47,656	22,425
Expenditures:				
Community development	5,000	6,400	6,400	-
Total expenditures	5,000	6,400	6,400	-
Excess (deficiency) of revenues over (under) expenditures	7,300	18,831	41,256	22,425
Other financing sources (uses):				
Transfers out	-	(4,770)	(4,770)	-
Total other financing sources (uses)	-	(4,770)	(4,770)	-
Net change in fund balance	7,300	14,061	36,486	22,425
Fund balance, beginning	23,221	23,221	23,221	-
Fund balance, ending	\$ 30,521	\$ 37,282	\$ 59,707	\$ 22,425

CITY OF CAPITOLA
Capitola Housing Successor
Major Special Revenue Fund
Budgetary Comparison Schedule
Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Use of money and property	\$ -	\$ 30,195	\$ 36,166	\$ 5,971
Other revenue	-	500	500	-
Total revenues	-	30,695	36,666	5,971
Expenditures:				
Community development	13,900	23,900	32,241	(8,341)
Total expenditures	13,900	23,900	32,241	(8,341)
Net change in fund balance	(13,900)	6,795	4,425	(2,370)
Fund balance, beginning	80,197	80,197	80,197	-
Fund balance, ending	\$ 66,297	\$ 86,992	\$ 84,622	\$ (2,370)

CITY OF CAPITOLA
Notes to Required Supplementary Information
Year Ended June 30, 2014

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.

While the General Fund's budgetary control is defined at the department level, their presentation in the financial statements are slightly different. This difference includes the presentation of the City Council, City Manager, City Attorney, and Finance Departments under the General Government classification.

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."

Budgets were adopted for all governmental funds with the exception of the following special revenue fund: Development Fees Fund.

There were no excess expenditures over appropriations in the General Fund departments. The excess of expenditures over appropriations in individual funds are listed below:

FUNDS	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
Non-Major Governmental:			
Capital Housing Successor	\$ 23,900	\$ 32,241	\$ (8,341)
Gas Tax Fund	262,950	314,110	(51,160)
GDBG Fund	12,949	18,594	(5,645)
CDBG Program Income Fund	2,400	2,630	(230)
Beach & Village Lot II Financing Fund	1,313,615	1,386,251	(72,636)

Sufficient revenues in listed funds were used to subsidize the excess expenditures.

SUPPLEMENTARY INFORMATION

NON-MAJOR FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Supplemental Law Enforcement Fund - This fund accounts for the receipt and expenditure of Supplemental Law Enforcement revenues provided by the State of California.

Gas Tax Fund - This fund accounts for receipts and expenditures of gasoline tax revenues as provided by State law.

Wharf Fund - In accordance with the State law and contractual commitments, this fund accounts for wharf operating revenues and expenditures.

Parking Reserve Fund - This fund accounts for 16% of parking meter revenue from the village area (Parking Meter Zone A1). The fund was established to fund parking improvement projects throughout the village.

Technology Fees Fund - This fund accounts for revenues received from technology fees to be used for new permit processing program.

PEG Cable TV Access Fee Fund - This fund accounts for Public Education and Government (PEG) Cable TV access fees.

Capitola Village and Wharf BIA Fund - This fund accounts for the receipt and expenditure of assessments for the Business Improvement Area.

Community Development Block Grants (CDBG) Fund - This fund accounts for grant revenue applied for and received from the Federal Department of Housing and Urban Development (HUD) through the California Small Cities Grant Program administered by California Department of Housing and Community Development (HCD) to address local community development needs.

CDBG Program Income - This fund accounts for housing loan principal and interest repayments for the Community Development Block Grant (CDBG) Program.

HOME Grant Fund - This fund accounts for the revenues and expenditures for the CalHOME grant to assist with affordable housing within the City.

Affordable Housing Fund - This fund accounts for the creation of new affordable housing and rehabilitation of existing affordable housing.

NON-MAJOR FUNDS, (CONTINUED)

DEBT SERVICE FUNDS

Beach & Village Lot II Financing Fund - This fund account for the debt proceeds and the corresponding expenditures for the Beach & Village Lot II project. This fund is also used for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs of the long-term debt issued by the City.

Pacific Cove Debt Financing Fund - This fund account for the debt proceeds and the corresponding expenditures for the Pacific Cove Mobile Home Park Relocation Plan. This fund is also used for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs of the long-term debt issued by the City.

2007 POB Debt Service Fund - Accounts for the accumulation of resources for, and payment of long-term debt principal and interest related to the 2007 Pension Obligation Bonds.

CAPITAL PROJECTS FUND

Capital Projects Fund - Accounts for financial resources segregated for the acquisition of major capital facilities and equipment by the City.

CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Balance Sheet
June 30, 2014

	SPECIAL REVENUE FUNDS		
	Supplemental Law Enforcement	Gas Tax	Wharf
Assets			
Cash and investments	\$ 127,062	\$ 8,440	\$ 70,444
Accounts receivable	15,940	-	8,530
Due from other governments	13,488	32,273	-
Loans receivable	-	-	-
Total Assets	<u>\$ 156,490</u>	<u>\$ 40,713</u>	<u>\$ 78,974</u>
Liabilities			
Accounts payable	\$ 15,245	\$ 19,844	\$ 5,179
Due to other funds	22,502	-	-
Deposits payable	-	-	1,000
Total Liabilities	<u>37,747</u>	<u>19,844</u>	<u>6,179</u>
Deferred Inflows of Resources			
Unavailable revenue	-	-	-
Fund Balances			
Restricted	118,743	20,869	72,795
Assigned	-	-	-
Unassigned	-	-	-
Total Fund Balances (Deficit)	<u>118,743</u>	<u>20,869</u>	<u>72,795</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 156,490</u>	<u>\$ 40,713</u>	<u>\$ 78,974</u>

SPECIAL REVENUE FUNDS

Parking Reserve	Technology Fees	PEG Cable TV Access	Capitola Village and Wharf BIA	CDBG
\$ 21,662	\$ 48,467	\$ 43,351	\$ 4,722	\$ 25,454
-	-	-	4,126	11,800
-	-	4,561	-	5,205
-	-	-	-	-
<u>\$ 21,662</u>	<u>\$ 48,467</u>	<u>\$ 47,912</u>	<u>\$ 8,848</u>	<u>\$ 42,459</u>
\$ -	\$ 26	\$ 4,800	\$ 2,172	\$ -
-	-	-	-	-
-	-	-	-	-
-	26	4,800	2,172	-
-	-	-	-	-
21,662	48,441	43,112	6,676	42,459
-	-	-	-	-
-	-	-	-	-
<u>21,662</u>	<u>48,441</u>	<u>43,112</u>	<u>6,676</u>	<u>42,459</u>
<u>\$ 21,662</u>	<u>\$ 48,467</u>	<u>\$ 47,912</u>	<u>\$ 8,848</u>	<u>\$ 42,459</u>

CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Balance Sheet
June 30, 2014

	SPECIAL REVENUE FUNDS		
	CDBG Program Income	HOME Grant	Affordable Housing
Assets			
Cash and investments	\$ -	\$ -	\$ 124,876
Accounts receivable	-	-	-
Due from other governments	-	-	-
Loans receivable	143,569	-	174,013
	<u>143,569</u>	<u>-</u>	<u>174,013</u>
Total Assets	<u>\$ 143,569</u>	<u>\$ -</u>	<u>\$ 298,889</u>
Liabilities			
Accounts payable	\$ -	\$ -	\$ 4,300
Due to other funds	2,469	-	-
Deposits payable	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>2,469</u>	<u>-</u>	<u>4,300</u>
Deferred Inflows of Resources			
Unavailable revenue	143,569	-	174,013
	<u>143,569</u>	<u>-</u>	<u>174,013</u>
Fund Balances			
Restricted	-	-	120,576
Assigned	-	-	-
Unassigned	(2,469)	-	-
	<u>(2,469)</u>	<u>-</u>	<u>-</u>
Total Fund Balances (Deficit)	<u>(2,469)</u>	<u>-</u>	<u>120,576</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 143,569</u>	<u>\$ -</u>	<u>\$ 298,889</u>

DEBT SERVICE FUNDS			CAPITAL PROJECTS FUND	Total Non-Major Governmental Funds
Beach & Village Lot II Debt Financing	Pacific Cove Debt Financing	2007 POB Debt Service	Capital Projects	
\$ -	\$ 329,658	\$ 483,820	\$ 1,347,610	\$ 2,635,566
538,522	-	-	8,250	587,168
-	-	-	-	55,527
-	-	-	-	317,582
<u>\$ 538,522</u>	<u>\$ 329,658</u>	<u>\$ 483,820</u>	<u>\$ 1,355,860</u>	<u>\$ 3,595,843</u>
\$ 124,932	\$ -	\$ -	30,981	\$ 207,479
339,341	-	-	-	364,312
-	-	-	43,834	44,834
<u>464,273</u>	<u>-</u>	<u>-</u>	<u>74,815</u>	<u>616,625</u>
-	-	-	-	317,582
74,249	329,658	-	-	899,240
-	-	483,820	1,281,045	1,764,865
-	-	-	-	(2,469)
<u>74,249</u>	<u>329,658</u>	<u>483,820</u>	<u>1,281,045</u>	<u>2,661,636</u>
<u>\$ 538,522</u>	<u>\$ 329,658</u>	<u>\$ 483,820</u>	<u>\$ 1,355,860</u>	<u>\$ 3,595,843</u>

CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Year Ended June 30, 2014

	SPECIAL REVENUE FUNDS		
	Supplemental Law Enforcement	Gas Tax	Wharf
REVENUES			
Taxes	\$ -	\$ 322,955	\$ -
Licenses and permits	-	-	-
Intergovernmental	176,005	-	-
Charges for services	-	-	-
Use of money and property	243	38	97,855
Other revenue	-	-	-
Total Revenues	<u>176,248</u>	<u>322,993</u>	<u>97,855</u>
EXPENDITURES			
Current:			
General government	-	-	-
Public safety	158,127	-	-
Community development	-	-	-
Culture and recreation	-	-	51,276
Transportation	-	308,773	-
Capital outlay	-	-	-
Debt service:			
Principal	-	5,337	-
Interest and fiscal charges	-	-	-
Debt issuance costs	-	-	-
Total Expenditures	<u>158,127</u>	<u>314,110</u>	<u>51,276</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>18,121</u>	<u>8,883</u>	<u>46,579</u>
OTHER FINANCING SOURCES (USES)			
Issuance of debt	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	18,121	8,883	46,579
Fund Balances (Deficit), Beginning of Year	<u>100,622</u>	<u>11,986</u>	<u>26,216</u>
Fund Balances (Deficit), End of Year	<u>\$ 118,743</u>	<u>\$ 20,869</u>	<u>\$ 72,795</u>

SPECIAL REVENUE FUNDS

Parking Reserve	Technology Fees	PEG Cable TV Access	Capitola Village and Wharf BIA	CDBG
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	18,195	-	-
-	-	-	-	50,596
-	12,704	-	54,720	-
-	-	119	65	-
-	-	-	-	-
-	12,704	18,314	54,785	50,596
-	-	26,353	-	-
-	-	-	-	-
-	-	-	50,353	18,594
-	-	-	-	-
-	-	-	-	-
68,636	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
68,636	-	26,353	50,353	18,594
(68,636)	12,704	(8,039)	4,432	32,002
-	-	-	-	-
100,000	-	-	-	-
(84,800)	-	-	-	-
15,200	-	-	-	-
(53,436)	12,704	(8,039)	4,432	32,002
75,098	35,737	51,151	2,244	10,457
\$ 21,662	\$ 48,441	\$ 43,112	\$ 6,676	\$ 42,459

CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Year Ended June 30, 2014

	SPECIAL REVENUE FUNDS		
	CDBG Program Income	HOME Grant	Affordable Housing
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental	-	-	-
Charges for services	-	-	11,577
Use of money and property	14,071	-	-
Other revenue	-	-	-
Total Revenues	14,071	-	11,577
EXPENDITURES			
Current:			
General government	-	-	-
Public safety	-	-	-
Community development	2,630	-	25,050
Culture and recreation	-	-	-
Transportation	-	-	-
Capital outlay	-	-	-
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Debt issuance costs	-	-	-
Total Expenditures	2,630	-	25,050
Excess (Deficiency) of Revenues Over (Under) Expenditures	11,441	-	(13,473)
OTHER FINANCING SOURCES (USES)			
Issuance of debt	-	-	-
Transfers in	-	4,770	-
Transfers out	-	-	(50,000)
Total Other Financing Sources (Uses)	-	4,770	(50,000)
Net Change in Fund Balances	11,441	4,770	(63,473)
Fund Balances (Deficit), Beginning of Year	(13,910)	(4,770)	184,049
Fund Balances (Deficit), End of Year	\$ (2,469)	\$ -	\$ 120,576

DEBT SERVICE FUNDS			CAPITAL PROJECTS FUND	Total Non-Major Governmental Funds
Beach & Village Lot II Debt Financing	Pacific Cove Debt Financing	2007 POB Debt Service	Capital Projects	
\$ -	\$ -	\$ -	\$ -	\$ 322,955
-	-	-	94,223	112,418
-	-	-	-	226,601
-	-	-	-	79,001
-	744	-	-	113,135
-	-	-	43,325	43,325
-	744	-	137,548	897,435
69,251	87,605	1,500	278	184,987
-	-	-	-	158,127
-	-	-	-	96,627
-	-	-	-	51,276
-	-	-	140,453	449,226
1,305,333	-	-	602,917	1,976,886
-	95,647	515,000	-	615,984
-	52,169	158,213	-	210,382
11,667	-	-	-	11,667
1,386,251	235,421	674,713	743,648	3,755,162
(1,386,251)	(234,677)	(674,713)	(606,100)	(2,857,727)
1,372,500	-	-	-	1,372,500
88,000	149,482	677,699	840,900	1,860,851
-	-	-	-	(134,800)
1,460,500	149,482	677,699	840,900	3,098,551
74,249	(85,195)	2,986	234,800	240,824
-	414,853	480,834	1,046,245	2,420,812
\$ 74,249	\$ 329,658	\$ 483,820	\$ 1,281,045	\$ 2,661,636

CITY OF CAPITOLA
Supplemental Law Enforcement Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Intergovernmental	\$ 175,172	\$ 176,333	\$ 176,005	\$ (328)
Use of money and property	100	100	243	143
Total revenues	175,272	176,433	176,248	(185)
Expenditures:				
Public safety	80,372	175,256	158,127	17,129
Total expenditures	80,372	175,256	158,127	17,129
Net change in fund balance	94,900	1,177	18,121	16,944
Fund balance, beginning	100,622	100,622	100,622	-
Fund balance, ending	\$ 195,522	\$ 101,799	\$ 118,743	\$ 16,944

CITY OF CAPITOLA
Gas Tax Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Taxes	\$ 302,294	\$ 293,101	\$ 322,955	\$ 29,854
Use of money and property	-	30	38	8
Total revenues	302,294	293,131	322,993	29,862
Expenditures:				
Transportation	280,100	257,600	308,773	(51,173)
Debt service:				
Principal	35,000	5,350	5,337	13
Total expenditures	315,100	262,950	314,110	(51,160)
Net change in fund balance	(12,806)	30,181	8,883	(21,298)
Fund balance, beginning	11,986	11,986	11,986	-
Fund balance, ending	\$ (820)	\$ 42,167	\$ 20,869	\$ (21,298)

CITY OF CAPITOLA
Wharf Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Use of money and property	\$ 84,100	\$ 84,100	\$ 97,855	\$ 13,755
Total revenues	84,100	84,100	97,855	13,755
Expenditures:				
Culture and recreation	83,200	66,424	51,276	15,148
Total expenditures	83,200	66,424	51,276	15,148
Net change in fund balance	900	17,676	46,579	28,903
Fund balance, beginning	26,216	26,216	26,216	-
Fund balance, ending	\$ 27,116	\$ 43,892	\$ 72,795	\$ 28,903

CITY OF CAPITOLA
Parking Reserve Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Capital outlay	11,498	69,000	68,636	364
Total expenditures	11,498	69,000	68,636	364
Excess (deficiency) of revenues over (under) expenditures	15,200	(69,000)	(68,636)	364
Other financing sources (uses):				
Transfers in	100,000	100,000	100,000	-
Transfers out	(84,800)	(84,800)	(84,800)	-
Total other financing sources (uses)	15,200	15,200	15,200	-
Net change in fund balance	30,400	(53,800)	(53,436)	364
Fund balance, beginning	75,098	75,098	75,098	-
Fund balance, ending	<u>\$ 105,498</u>	<u>\$ 21,298</u>	<u>\$ 21,662</u>	<u>\$ 364</u>

**CITY OF CAPITOLA
Technology Fees Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Revenues:				
Charges for services	<u>\$ 7,300</u>	<u>\$ 8,600</u>	<u>\$ 12,704</u>	<u>\$ 4,104</u>
Total revenues	<u>7,300</u>	<u>8,600</u>	<u>12,704</u>	<u>4,104</u>
Expenditures:				
Community development	<u>5,000</u>	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Total expenditures	<u>5,000</u>	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Net change in fund balance	2,300	3,600	12,704	9,104
Fund balance, beginning	<u>35,737</u>	<u>35,737</u>	<u>35,737</u>	<u>-</u>
Fund balance, ending	<u>\$ 38,037</u>	<u>\$ 39,337</u>	<u>\$ 48,441</u>	<u>\$ 9,104</u>

CITY OF CAPITOLA
PEG Cable TV Access Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Licenses and permits	\$ 19,000	\$ 19,000	\$ 18,195	\$ (805)
Use of money and property	100	100	119	19
Total revenues	19,100	19,100	18,314	(786)
Expenditures:				
General government	39,000	39,000	26,353	12,647
Total expenditures	39,000	39,000	26,353	12,647
Net change in fund balance	(19,900)	(19,900)	(8,039)	11,861
Fund balance, beginning	51,151	51,151	51,151	-
Fund balance, ending	<u>\$ 31,251</u>	<u>\$ 31,251</u>	<u>\$ 43,112</u>	<u>\$ 11,861</u>

CITY OF CAPITOLA
Capitola Village and Wharf BIA Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Revenues:				
Charges for services	\$ 66,500	\$ 65,000	\$ 54,720	\$ (10,280)
Use of money and property	-	20	65	45
Total revenues	<u>66,500</u>	<u>65,020</u>	<u>54,785</u>	<u>(10,235)</u>
Expenditures:				
Community development	<u>69,000</u>	<u>66,000</u>	<u>50,353</u>	<u>15,647</u>
Total expenditures	<u>69,000</u>	<u>66,000</u>	<u>50,353</u>	<u>15,647</u>
Net change in fund balance	(2,500)	(980)	4,432	5,412
Fund balance, beginning	<u>2,244</u>	<u>2,244</u>	<u>2,244</u>	<u>-</u>
Fund balance, ending	<u>\$ (256)</u>	<u>\$ 1,264</u>	<u>\$ 6,676</u>	<u>\$ 5,412</u>

**CITY OF CAPITOLA
CDBG Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2014**

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Intergovernmental	\$ 55,620	\$ 26,949	\$ 50,596	\$ 23,647
Total revenues	55,620	26,949	50,596	23,647
Expenditures:				
Community development	20,000	12,949	18,594	(5,645)
Total expenditures	20,000	12,949	18,594	(5,645)
Net change in fund balance	35,620	14,000	32,002	18,002
Fund balance, beginning	10,457	10,457	10,457	-
Fund balance, ending	\$ 46,077	\$ 24,457	\$ 42,459	\$ 18,002

**CITY OF CAPITOLA
CDBG Program Income Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Revenues:				
Use of money and property	<u>\$ -</u>	<u>\$ 14,071</u>	<u>\$ 14,071</u>	<u>\$ -</u>
Total revenues	<u>-</u>	<u>14,071</u>	<u>14,071</u>	<u>-</u>
Expenditures:				
Community development	<u>5,000</u>	<u>2,400</u>	<u>2,630</u>	<u>(230)</u>
Total expenditures	<u>5,000</u>	<u>2,400</u>	<u>2,630</u>	<u>(230)</u>
Net change in fund balance	<u>(5,000)</u>	<u>11,671</u>	<u>11,441</u>	<u>(230)</u>
Fund balance (deficit), beginning	<u>(13,910)</u>	<u>(13,910)</u>	<u>(13,910)</u>	<u>-</u>
Fund balance (deficit), ending	<u><u>\$ (18,910)</u></u>	<u><u>\$ (2,239)</u></u>	<u><u>\$ (2,469)</u></u>	<u><u>\$ (230)</u></u>

**CITY OF CAPITOLA
HOME Grant Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenditures:				
Community development	<u>3,200</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>3,200</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,200)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources:				
Transfers in	<u>-</u>	<u>4,770</u>	<u>4,770</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>4,770</u>	<u>4,770</u>	<u>-</u>
Net change in fund balance	<u>(3,200)</u>	<u>4,770</u>	<u>4,770</u>	<u>-</u>
Fund balance (deficit), beginning	<u>(4,770)</u>	<u>(4,770)</u>	<u>(4,770)</u>	<u>-</u>
Fund balance, ending	<u><u>\$ (7,970)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

CITY OF CAPITOLA
Affordable Housing Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Charges for services	\$ 40,000	\$ 20,000	\$ 11,577	\$ (8,423)
Total revenues	40,000	20,000	11,577	(8,423)
Expenditures:				
Community development	19,000	25,050	25,050	-
Total expenditures	19,000	25,050	25,050	-
Excess (deficiency) of revenues over (under) expenditures	21,000	(5,050)	(13,473)	(8,423)
Other financing sources (uses):				
Transfers out	(50,000)	(50,000)	(50,000)	-
Total other financing sources (uses)	(50,000)	(50,000)	(50,000)	-
Net change in fund balance	(29,000)	(55,050)	(63,473)	(8,423)
Fund balance, beginning	184,049	184,049	184,049	-
Fund balance, ending	\$ 155,049	\$ 128,999	\$ 120,576	\$ (8,423)

CITY OF CAPITOLA
Beach & Village Lot II Financing
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:	\$ -	\$ -	\$ -	\$ -
Expenditures:				
General government	-	-	69,251	(69,251)
Capital outlay	-	1,225,615	1,305,333	(79,718)
Debt service:				
Debt issuance costs	88,000	88,000	11,667	76,333
Total expenditures	88,000	1,313,615	1,386,251	(72,636)
Excess (deficiency) of revenues over (under) expenditures	(88,000)	(1,313,615)	(1,386,251)	(72,636)
Other financing sources:				
Issuance of debt	-	1,225,615	1,372,500	146,885
Transfers in	88,000	88,000	88,000	-
Total other financing sources	88,000	1,313,615	1,460,500	146,885
Net change in fund balance	-	-	74,249	74,249
Fund balance, beginning	-	-	-	-
Fund balance, ending	\$ -	\$ -	\$ 74,249	\$ 74,249

CITY OF CAPITOLA
Pacific Cove Debt Financing Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Use of money and property	\$ -	\$ -	\$ 744	\$ 744
Total revenues	-	-	744	744
Expenditures:				
General government	298,770	95,065	87,605	7,460
Debt service:				
Principal	87,238	87,238	95,647	(8,409)
Interest and fiscal charges	62,244	62,244	52,169	10,075
Total expenditures	448,252	244,547	235,421	9,126
Excess (deficiency) of revenues over (under) expenditures	(448,252)	(244,547)	(234,677)	9,870
Other financing sources:				
Transfers in	149,482	149,482	149,482	-
Total other financing sources	149,482	149,482	149,482	-
Net change in fund balance	(298,770)	(95,065)	(85,195)	9,870
Fund balance, beginning	414,853	414,853	414,853	-
Fund balance, ending	\$ 116,083	\$ 319,788	\$ 329,658	\$ 9,870

CITY OF CAPITOLA
2007 POB Debt Service Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:	\$ -	\$ -	\$ -	\$ -
Expenditures:				
General government	1,500	1,500	1,500	-
Debt service:				
Principal	515,000	515,000	515,000	-
Interest and fiscal charges	158,300	158,220	158,213	7
Total expenditures	674,800	674,720	674,713	7
Excess (deficiency) of revenues over (under) expenditures	(674,800)	(674,720)	(674,713)	7
Other financing sources:				
Transfers in	673,800	676,100	677,699	1,599
Total other financing sources	673,800	676,100	677,699	1,599
Net change in fund balance	(1,000)	1,380	2,986	1,606
Fund balance, beginning	480,834	480,834	480,834	-
Fund balance, ending	\$ 479,834	\$ 482,214	\$ 483,820	\$ 1,606

CITY OF CAPITOLA
Capital Projects Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Licenses and permit	\$ 28,000	\$ 26,000	\$ 94,223	\$ 68,223
Intergovernmental	300,000	300,000	-	(300,000)
Other revenue	-	-	43,325	43,325
Total revenues	328,000	326,000	137,548	(188,452)
Expenditures:				
General government	13,000	19,700	278	19,422
Culture and recreation	26,000	159,200	140,453	18,747
Capital outlay	1,355,000	930,597	602,917	327,680
Total expenditures	1,394,000	1,109,497	743,648	365,849
Excess (deficiency) of revenues over (under) expenditures	(1,066,000)	(783,497)	(606,100)	177,397
Other financing sources (uses):				
Transfers in	890,900	840,900	840,900	-
Total other financing sources (uses)	890,900	840,900	840,900	-
Net change in fund balance	(175,100)	57,403	234,800	177,397
Fund balance, beginning	1,046,245	1,046,245	1,046,245	-
Fund balance, ending	\$ 871,145	\$ 1,103,648	\$ 1,281,045	\$ 177,397

CITY OF CAPITOLA
Statement of Changes in Fiduciary Assets and Liabilities
Fiduciary Funds – Agency Funds
Year Ended June 30, 2014

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
<u>BROOKVALE ASSESSMENT DISTRICT</u>				
Assets				
Cash and investments	\$ 15,944	\$ 39	\$ -	\$ 15,983
Total assets	<u>\$ 15,944</u>	<u>\$ 39</u>	<u>\$ -</u>	<u>\$ 15,983</u>
Liabilities				
Deposits	\$ 15,944	\$ 39	\$ -	\$ 15,983
Total liabilities	<u>\$ 15,944</u>	<u>\$ 39</u>	<u>\$ -</u>	<u>\$ 15,983</u>
<u>AUTO CENTER ASSESSMENT DISTRICT</u>				
Assets				
Cash and investments	\$ 20,293	\$ 49	\$ -	\$ 20,342
Total assets	<u>\$ 20,293</u>	<u>\$ 49</u>	<u>\$ -</u>	<u>\$ 20,342</u>
Liabilities				
Deposits	\$ 20,293	\$ 49	\$ -	\$ 20,342
Total liabilities	<u>\$ 20,293</u>	<u>\$ 49</u>	<u>\$ -</u>	<u>\$ 20,342</u>
<u>TOTALS - ALL AGENCY FUNDS</u>				
Assets				
Cash and investments	\$ 36,237	\$ 88	\$ -	\$ 36,325
Total assets	<u>\$ 36,237</u>	<u>\$ 88</u>	<u>\$ -</u>	<u>\$ 36,325</u>
Liabilities				
Deposits	\$ 36,237	\$ 88	\$ -	\$ 36,325
Total liabilities	<u>\$ 36,237</u>	<u>\$ 88</u>	<u>\$ -</u>	<u>\$ 36,325</u>

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This part of The City of Capitola's Comprehensive Annual Financial Report presents detailed information as context for understanding the information in the financial statements, note disclosures, and required supplementary information and provides additional information useful in assessing the City's economic condition.

Financial Trends

The financial trends shown on the following charts are designed to help the reader understand the City's performance trends and relative well-being over time.

- 2014- 1 Net Position by Component
- 2014- 2 Changes in Net Position
- 2014- 3 Fund Balances of Government Funds
- 2014- 4 Changes in Fund Balances of Governmental Funds
- 2014- 5 General Revenues By Source

Revenue Capacity

The sources and relative value of revenues shown on the following charts are designed to assist the reader in assessing the City's most significant sources of revenue and the performance of these sources over time.

- 2014- 6 Net Taxable Assessed Value History
- 2014- 7 Assessed Value of Taxable Property
- 2014- 8 Direct & Overlapping Property Tax Rates
- 2014- 9 Top Ten Property Taxpayers
- 2014- 10 Property Tax Levies & Collections
- 2014- 11 Top 25 Sales Tax Taxpayers

Debt Capacity

Debt is a useful tool for financing capital acquisition, construction, and meeting long term financing needs. The following charts present information to help the reader assess the City's current debt levels and capacity for future debt.

- 2014- 12 Ratios of Outstanding Debt by Type
- 2014- 13 Ratios of General Bonded Debt Outstanding
- 2014- 14 Direct and Overlapping Debt
- 2014- 15 Legal Debt Margin Information
- 2014- 16 Pledged-Revenue Coverage

Demographic and Economic Information

The demographic and economic information provided in the charts below is designed to help the reader understand the general socio-economic environment in which the City's financial activities take place.

- 2014- 17 Demographic and Economic Statistics
- 2014- 18 Principal Employers - Top Ten
- 2014- 19 Full-time and Part-time City Employees by Function

Operating Information

The following charts provide information to show the size and nature of the City's operations in order to assist the reader in understanding the services the City is able to provide and activities it is able to undertake within its available financial framework.

- 2014- 20 Operating Indicators by Function
- 2014- 21 Capital Asset Statistics by Function

CITY OF CAPITOLA, CALIFORNIA
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Primary government activities										
Net Investment in										
Capital Assets	\$15,006	\$14,572	\$15,650	\$15,636	\$15,659	\$15,598	\$15,054	\$11,918	\$11,521	\$12,751
Restricted for										
Public Safety	-	-	14	4	-	-	10	51	101	119
Transportation	-	42	602	464	73	63	184	2,445	1,513	416
Community Development	2,157	3,310	3,633	1,717	1,107	1,317	1,256	1,141	3,511	3,852
Culture and Recreation	-	-	-	-	-	-	185	88	77	116
Total Restricted	\$ 2,157	\$ 3,352	\$ 4,249	\$ 2,185	\$ 1,180	\$ 1,380	\$ 1,635	\$ 3,725	\$ 5,202	\$ 4,503
Unrestricted	1,944	4,732	5,135	3,191	3,435	4,575	3,249	4,134	4,893	5,957
Total Primary govt net position	<u>\$19,107</u>	<u>\$22,656</u>	<u>\$25,034</u>	<u>\$21,012</u>	<u>\$20,274</u>	<u>\$21,553</u>	<u>\$19,938</u>	<u>\$19,777</u>	<u>\$21,616</u>	<u>\$23,211</u>

NOTES: The City of Capitola has no business-type activities; governmental and primary government figures are the same. The City of Capitola implemented GASB 34 for the fiscal year ended June 30, 2003.

Source: City of Capitola Finance Department

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CITY OF CAPITOLA, CALIFORNIA
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

EXPENSES:	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Primary government activities				
General government	\$ 4,206	\$ 3,963	\$ 4,343	\$ 4,398
Public safety	4,542	5,350	5,733	5,298
Community development	4,177	1,227	1,550	2,193
Culture and recreation	1,476	1,511	1,596	1,658
Transportation	1,397	1,501	1,697	1,522
Interest and other charges	171	152	190	589
Total primary government expenses	<u>\$ 15,969</u>	<u>\$ 13,704</u>	<u>\$ 15,109</u>	<u>\$ 15,658</u>
PROGRAM REVENUES:				
Primary government activities				
Charges for services:				
General government	\$ 1,046	\$ 724	\$ 705	\$ 794
Public safety	609	556	688	736
Community development	510	1,478	1,469	1,153
Culture and recreation	769	685	749	726
Transportation	34	11	18	13
Operating grants and contributions	291	812	1,010	1,420
Capital grants and contributions	324	161	514	-
Total primary govt program revenues	<u>\$ 3,583</u>	<u>\$ 4,427</u>	<u>\$ 5,153</u>	<u>\$ 4,842</u>
NET PRIMARY GOVT REV/(EXP)	<u>\$ (12,386)</u>	<u>\$ (9,277)</u>	<u>\$ (9,956)</u>	<u>\$ (10,816)</u>
GENERAL REVENUES AND OTHER				
CHANGES IN NET POSITION:				
Primary government activities				
Taxes:				
Property Taxes	\$ 2,903	\$ 3,465	\$ 3,916	\$ 4,034
Transaction and Use Tax (.25%)	209	975	1,048	1,016
Sales and Use tax	5,235	4,132	4,174	3,939
Transient occupancy taxes	516	543	604	644
Franchise taxes	391	418	438	437
Business license tax	-	303	326	299
Other taxes	-	-	-	-
Intergovernmental	261	1,415	1,421	1,507
Investment income	510	226	287	379
Other general revenues	191	109	120	452
Transfers	-	-	-	-
Extraordinary Item	-	-	-	-
Total primary government activities	<u>\$ 10,216</u>	<u>\$ 11,586</u>	<u>\$ 12,334</u>	<u>\$ 12,707</u>
CHANGES IN NET POSITION:				
Total primary government activities	<u>\$ (2,170)</u>	<u>\$ 2,309</u>	<u>\$ 2,378</u>	<u>\$ 1,891</u>

NOTES: The City of Capitola implemented GASB 34 for the fiscal year ended June 30, 2003.
Source: City of Capitola Finance Department

Fiscal Year					
2009	2010	2011	2012	2013	2014
\$ 4,482	\$ 5,103	\$ 5,453	\$ 4,851	\$ 4,862	\$ 3,403
5,927	5,533	5,422	5,491	5,411	5,412
2,218	2,428	2,068	3,471	727	741
1,035	1,025	995	1,010	1,398	970
2,530	1,932	2,445	2,556	2,456	3,070
533	509	448	419	288	211
\$ 16,725	\$ 16,530	\$ 16,831	\$ 17,798	\$ 15,142	\$ 13,807
\$ 658	\$ 806	\$ 759	\$ 1,059	\$ 948	\$ 1,109
905	1,009	902	759	732	782
1,617	2,266	1,077	1,145	523	683
709	696	655	751	685	749
34	53	54	166	145	131
286	1,469	1,040	3,131	2,292	313
527	388	421	-	3	15
\$ 4,736	\$ 6,687	\$ 4,908	\$ 7,011	\$ 5,328	\$ 3,782
\$ (11,989)	\$ (9,843)	\$ (11,923)	\$ (10,787)	\$ (9,814)	\$ (10,025)
\$ 4,147	\$ 4,066	\$ 4,107	\$ 2,993	\$ 1,778	\$ 1,849
788	928	850	932	1,510	
2,858	3,289	3,002	3,322	4,531	2,036
605	592	602	913	1,074	1,263
459	462	477	483	479	497
278	282	267	281	292	287
-	-	-	-	-	-
1,417	979	1,323	947	241	327
394	238	185	190	131	107
305	287	289	309	497	238
-	-	-	-	-	-
-	-	(795)	380	1,118	-
\$ 11,251	\$ 11,123	\$ 10,307	\$ 10,750	\$ 11,651	\$ 6,604
\$ (738)	\$ 1,280	\$ (1,616)	\$ (37)	\$ 1,837	\$ (3,421)

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CITY OF CAPITOLA, CALIFORNIA
Fund Balances of Government Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
GENERAL FUND										
Reserved							Represented below per GASB 54			
Prepaid	\$ 1	\$ -	\$ -	\$ -	\$ 21	\$ 116				
Advances	1,968	1,968	1,968	1,968	1,968	1,968				
Total Reserved	\$ 1,969	\$ 1,968	\$ 1,968	\$ 1,968	\$ 1,989	\$ 2,084				
Unreserved										
Designated	\$ 2,060	\$ 3,175	\$ 3,467	\$ 3,185	\$ 2,659	\$ 2,928				
Unrestricted	886	1,340	1,342	1,350	1,350	1,350	Pre-GASB 54 balances stated above			
Total Unreserved	\$ 2,946	\$ 4,515	\$ 4,809	\$ 4,535	\$ 4,009	\$ 4,278				
Fund Balance GASB 54										
Nonspendable							\$ 1,973	\$ 1,970	\$ 2,024	\$ 620
Restricted							-	-	-	-
Committed							-	-	-	-
Assigned							-	-	570	584
Unassigned							2,786	2,608	2,846	3,686
Total General Fund	\$ 4,915	\$ 6,483	\$ 6,777	\$ 6,503	\$ 5,998	\$ 6,362	\$ 4,759	\$ 4,578	\$ 5,440	\$ 4,890
ALL OTHER GOVERNMENT FUNDS										
Reserved							Represented below per GASB 54			
Low income housing	\$ 1,655	\$ 1,790	\$ 1,808	\$ -	\$ -	\$ -				
Debt service	7	38	608	-	-	-				
Total Reserved	\$ 1,662	\$ 1,828	\$ 2,416	\$ -	\$ -	\$ -				
Unreserved, reported in:										
Unrestricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	Pre-GASB 54 balances stated above			
Special revenue funds	612	714	938	3,423	2,976	1,643				
Capital project funds	194	475	440	1,874	1,322	627				
Debt service funds	(302)	-	-	-	-	1,458				
Total Unreserved	\$ 504	\$ 1,189	\$ 1,378	\$ 5,297	\$ 4,298	\$ 3,728				
Fund Balance GASB 54										
Nonspendable							\$ 109	\$ 586	\$ -	\$ -
Restricted							1,705	1,858	1,497	1,043
Committed							-	-	-	-
Assigned							1,564	1,045	1,046	1,764
Unassigned							(19)	(148)	(19)	(2)
Total All Other Govt Funds	\$ 2,166	\$ 3,017	\$ 3,794	\$ 5,297	\$ 4,298	\$ 3,728	\$ 3,359	\$ 3,341	\$ 2,524	\$ 2,805
TOTAL	\$ 7,081	\$ 9,500	\$ 10,571	\$ 11,800	\$ 10,296	\$ 10,090	\$ 8,118	\$ 7,919	\$ 7,964	\$ 7,695

NOTES: The City of Capitola implemented GASB 34 for the fiscal year ended June 30, 2003.
Source: City of Capitola Finance Department

2014-3

CITY OF CAPITOLA
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year					
	2005	2006	2007	2008	2009	2010
REVENUES:						
Taxes	\$ 9,253	\$ 11,375	\$ 12,047	\$ 12,008	\$ 10,239	\$ 10,285
Licenses & permits	835	357	255	270	664	609
Intergovernmental	918	750	1,225	1,121	1,745	2,932
Fines and forfeitures	571	512	639	672	702	803
Charges for services	1,578	2,092	2,263	2,467	1,744	1,380
Use of money and property	510	778	971	1,046	812	595
Other	299	86	89	434	178	163
Total revenues	<u>\$ 13,964</u>	<u>\$ 15,950</u>	<u>\$ 17,489</u>	<u>\$ 18,018</u>	<u>\$ 16,084</u>	<u>\$ 16,767</u>
EXPENSES:						
Current:						
General government	\$ 3,437	\$ 3,266	\$ 3,583	\$ 3,672	\$ 3,591	\$ 4,232
Public safety	4,726	5,261	5,631	5,246	5,869	5,441
Community development	1,547	1,358	1,831	2,324	2,362	2,338
Culture and recreation	1,446	1,478	1,564	1,630	1,009	986
Transportation	1,436	1,493	1,690	1,476	2,575	2,017
Capital outlay	885	413	1,858	1,015	1,224	847
Subtotal	<u>\$ 13,477</u>	<u>\$ 13,269</u>	<u>\$ 16,157</u>	<u>\$ 15,363</u>	<u>\$ 16,630</u>	<u>\$ 15,861</u>
Debt service:						
Debt issuance costs	\$ -	\$ -	\$ -	\$ 125	\$ -	\$ -
Principal retirement	559	91	91	123	499	535
Interest and agent fees	174	171	170	471	529	507
Subtotal	<u>\$ 733</u>	<u>\$ 262</u>	<u>\$ 261</u>	<u>\$ 719</u>	<u>\$ 1,028</u>	<u>\$ 1,042</u>
Total expenditures	<u>\$ 14,210</u>	<u>\$ 13,531</u>	<u>\$ 16,418</u>	<u>\$ 16,082</u>	<u>\$ 17,658</u>	<u>\$ 16,903</u>
Excess/(deficiency) of revenues over/(under) expenditures	<u>\$ (246)</u>	<u>\$ 2,419</u>	<u>\$ 1,071</u>	<u>\$ 1,936</u>	<u>\$ (1,574)</u>	<u>\$ (136)</u>
OTHER FINANCING SOURCES/(USES):						
Sale of capital assets	\$ -	\$ -	\$ -	\$ 166	\$ -	\$ -
Transfers in	469	1,053	1,764	2,754	1,775	1,337
Transfers out	(469)	(1,053)	(1,764)	(2,754)	(1,775)	(1,337)
Issuance of bonds	-	-	-	5,040	-	-
Payment to bond escrow agent	-	-	-	-	-	-
Total other financing sources/(uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,206</u>	<u>\$ -</u>	<u>\$ -</u>
Special Items						
Flood Disaster loss/recovery	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Prefunding of PERS liability	-	-	-	(5,913)	-	-
Gain/Loss on RDA dissolution	-	-	-	-	-	-
Net change in fund balances	<u>\$ (246)</u>	<u>\$ 2,419</u>	<u>\$ 1,071</u>	<u>\$ 1,229</u>	<u>\$ (1,574)</u>	<u>\$ (136)</u>
Beginning fund balance, as restated	\$ 7,327	\$ 7,081	\$ 9,500	\$ 10,571	\$ 11,800	\$ 10,226
Changes in fund balance	(246)	2,419	1,071	1,229	(1,574)	(136)
Ending fund balance	<u>\$ 7,081</u>	<u>\$ 9,500</u>	<u>\$ 10,571</u>	<u>\$ 11,800</u>	<u>\$ 10,226</u>	<u>\$ 10,090</u>
Debt Service as a percentage of non-capital expenditures						
Total Expenditures	\$ 14,210	\$ 13,531	\$ 16,418	\$ 16,082	\$ 17,658	\$ 16,903
Capitalized Portion of Capital Outlay	885	502	2,049	958	1,220	888
Total Non-Capitalized Expenditures	<u>\$ 13,325</u>	<u>\$ 13,029</u>	<u>\$ 14,369</u>	<u>\$ 15,124</u>	<u>\$ 16,438</u>	<u>\$ 16,015</u>
Debt service: Principal & Interest	733	262	261	594	1,028	1,042
Debt service as a percentage of noncapital expenditures	5.50%	2.01%	1.82%	3.93%	6.25%	6.51%

NOTES: The City of Capitola implemented GASB 34 for the fiscal year ended June 30, 2003.

Debt service as a percentage of noncapital expenditures reflects total governmental fund expenditures less the capital outlay shown separately in the Changes in Fund Balances schedule and any expenditures for capitalized assets contained within the functional expenditure categories. The sum of these items is reported in this calculation, as well as appearing as a reconciling item in the reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Activities.

Source: City of Capitola Finance Department

Fiscal Year			
2011	2012	2013	2014
\$ 10,335	\$ 9,878	\$ 9,607	\$ 11,112
474	630	520	703
2,426	2,755	837	637
702	724	688	731
1,278	1,907	1,862	2,053
492	403	235	219
173	90	238	128
<u>\$ 15,880</u>	<u>\$ 16,387</u>	<u>\$ 13,987</u>	<u>\$ 15,583</u>
\$ 4,483	\$ 4,034	\$ 3,865	\$ 2,749
5,468	5,436	5,369	5,838
1,986	3,458	712	722
1,009	1,041	1,118	966
2,294	2,204	2,157	2,782
665	757	551	3,328
<u>\$ 15,905</u>	<u>\$ 16,930</u>	<u>\$ 13,772</u>	<u>\$ 16,385</u>
\$ -	\$ 43	\$ 38	12
704	673	1,031	616
447	394	320	210
<u>\$ 1,151</u>	<u>\$ 1,110</u>	<u>\$ 1,389</u>	<u>\$ 838</u>
<u>\$ 17,056</u>	<u>\$ 18,040</u>	<u>\$ 15,161</u>	<u>\$ 17,223</u>
<u>\$ (1,176)</u>	<u>\$ (1,653)</u>	<u>\$ (1,174)</u>	<u>\$ (1,640)</u>
\$ -	\$ 2,390	\$ 99	\$ -
1,945	2,272	2,151	1,861
(1,945)	(2,272)	(2,151)	(1,861)
-	-	-	1,372
-	-	-	-
<u>\$ -</u>	<u>\$ 2,390</u>	<u>\$ 99</u>	<u>\$ 1,372</u>
\$ (795)	\$ (623)	\$ 1,118	\$ -
-	-	-	-
-	(190)	-	-
<u>\$ (1,971)</u>	<u>\$ (76)</u>	<u>\$ 43</u>	<u>\$ (268)</u>
\$ 10,090	\$ 7,995	\$ 7,920	\$ 7,963
(1,971)	(75)	43	(268)
<u>\$ 8,119</u>	<u>\$ 7,920</u>	<u>\$ 7,963</u>	<u>\$ 7,695</u>
\$ 17,056	\$ 18,040	\$ 15,161	\$ 17,223
430	824	306	3,809
<u>\$ 16,626</u>	<u>\$ 17,216</u>	<u>\$ 14,855</u>	<u>\$ 13,414</u>
1,151	1,067	1,351	826
6.92%	6.20%	9.09%	6.16%

CITY OF CAPITOLA, CALIFORNIA
General Revenues By Source
Last Ten Fiscal Years
(amounts expressed in thousands)

General Revenue By Source								
Fiscal Year	Sales Tax Revenue (1)	Property Taxes (2)	Transient Occupancy Tax	Franchise Taxes	Business Licenses	Investment Income	Miscellaneous, Intergovernmental, and Other Revenues	Total General Revenues
2005	\$5,234,955	\$ 3,111,857	\$ 515,578	\$ 390,908	\$ 319,000	\$ 509,839	\$ 133,918	\$10,216,055
2006	6,460,002	3,464,933	543,438	417,451	302,890	225,995	171,041	11,585,750
2007	6,579,908	3,915,955	603,997	438,412	325,946	287,069	183,019	12,334,306
2008	6,417,075	4,033,686	643,541	437,065	299,394	379,439	497,094	12,707,294
2009	4,859,096	4,147,459	605,365	459,042	277,959	394,135	507,957	11,251,013
2010	4,993,844	4,065,897	591,925	461,937	281,739	237,926	489,162	11,122,430
2011	4,890,518	4,107,291	601,726	477,084	266,948	185,346	573,436	11,102,349
2012	5,200,303	2,993,125	912,851	482,782	281,336	190,390	309,110	10,369,897
2013	6,040,542	1,778,037	1,074,507	478,627	291,642	131,166	398,320	10,192,841
2014	7,179,727	1,849,375	1,263,175	496,759	286,638	107,218	237,020	11,419,912

NOTES:

(1) Capitola had a 0.25% local Transaction and Use Tax in effect beginning April 2005. In April 2013 an additional overlapping 0.25% local Transaction & Use Tax was implemented. In January, 2018, the extension of the original 0.25% will expire and the local Transaction & Use Tax will revert to 0.25%.

(2) Beginning in fiscal year 2006, the State of California included "Property Taxes In Lieu of Vehicle License Fees" as part of the Property Tax distributions. Dissolution of the Redevelopment Agencies in California in fiscal 2012 reduced property taxes by the tax increment formerly received by the Agencies.

Source: City of Capitola Finance Department

2014-5

CITY OF CAPITOLA, CALIFORNIA
Net Taxable Assessed Value History
Last Ten Fiscal Years
(amounts expressed in thousands)

City of Capitola

Fiscal Year	Secured	Unsecured	SBE Nonunitary	Total Assessed Value	% Change
2005	1,280,108	63,427	1,508	1,345,043	n/a
2006	1,388,112	62,489	1,456	1,452,057	7.96%
2007	1,511,826	68,819	1,330	1,581,975	8.95%
2008	1,624,095	71,157	748	1,696,000	7.21%
2009	1,681,379	73,387	748	1,755,514	3.51%
2010	1,689,396	67,883	889	1,758,168	0.15%
2011	1,701,476	70,118	579	1,772,173	0.80%
2012	1,717,637	66,695	579	1,784,911	0.72%
2013	1,726,023	71,136	83	1,797,242	0.69%
2014	1,784,629	75,387	84	1,860,100	3.50%

NOTES: California Consitution Article 13A establishes a county assessor "full cash value" property valuation formulated on varying base years and not at current fair market value. As a result, there is not a reasonable basis available for estimating actual value of taxable property for the City of Capitola for comparative purposes.

Source: HdL Companies, Santa Cruz County Assessor 2013/14 Combined Tax Rolls

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CITY OF CAPITOLA, CALIFORNIA
Assessed Value of Taxable Property
Last Ten Fiscal Years
(amounts expressed in thousands)

Category	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Residential	\$ 891,359	\$ 982,739	\$ 1,089,341	\$ 1,164,558	\$ 1,212,668	\$ 1,209,657	\$ 1,224,372	\$ 1,241,453	\$ 1,233,173	\$ 1,289,844
Commercial	306,386	315,660	327,341	341,720	350,240	363,033	367,656	369,399	387,425	384,916
Industrial	11,314	11,541	13,881	14,558	14,849	15,146	15,520	14,239	13,869	14,079
Institutional	11,676	11,954	14,582	14,905	13,345	14,748	16,950	14,788	15,078	14,662
Miscellaneous	5	5	5	5	5	114	5	6	6	6
Recreational	5,085	5,069	5,171	6,895	9,946	10,145	10,121	10,197	10,401	10,609
Vacant	20,050	22,906	19,184	34,619	30,120	24,165	13,773	13,303	13,370	13,823
SBE Nonunitary	1,508	1,456	1,330	748	748	889	579	579	83	84
Cross Reference	34,233	38,238	42,321	46,835	50,206	52,388	53,079	54,252	52,701	56,690
Unsecured	63,427	62,489	68,819	71,157	73,387	67,883	70,118	66,695	71,136	75,387
TOTALS	\$ 1,345,043	\$ 1,452,057	\$ 1,581,975	\$ 1,696,000	\$ 1,755,514	\$ 1,758,168	\$ 1,772,173	\$ 1,784,911	\$ 1,797,242	\$ 1,860,100
Exempt	(1,508)	(1,456)	(1,330)	(748)	(748)	(889)	(579)	(579)	(83)	(84)
Total Direct Property Tax Rate	0.19007	0.18517	0.18133	0.17950	0.18062	0.18468	0.18456	0.17987	0.18035	0.05510

NOTES: Exempt values are not included in Total.

In 1978 the voters of the State of California passed Proposition 13 which limited taxes to a total maximum rate of 1%, based upon the the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum of 2%). With few exceptions, property is only reassessed as a result of new construction activity or at the time it is sold to a new owner. At that point, the property is reassessed based upon the added value of the construction or at the purchase price (market value) or economic value of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Source: HdL Companies, Santa Cruz County Assessor 2004/05 - 2013/14 Combined Tax Rolls

2014-7

CITY OF CAPITOLA, CALIFORNIA
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(Rate per \$100 of taxable value)

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
City Direct Property Tax Rates										
Basic Levy ⁽¹⁾	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
Redevelopment Rate ⁽²⁾	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	(2)	n/a
Total Direct Property Tax Rate ⁽³⁾	0.19007	0.18517	0.18133	0.17950	0.18062	0.18468	0.18456	0.17987	0.18035	0.05510
Overlapping Property Tax Rates ⁽⁴⁾										
Santa Cruz High School	0.03300	0.03900	0.01367	0.01924	0.02274	0.02798	0.02336	0.02602	0.02615	0.02333
Soquel Elementary School	0.02900	0.02000	0.02114	0.02772	0.02320	0.02364	0.02435	0.02406	0.02435	0.02238
Live Oak Elementary School	0.04200	0.04300	0.05187	0.04776	0.04842	0.04939	0.05246	0.05295	0.05514	0.05383
Cabrillo College	0.03800	0.03700	0.02670	0.03000	0.03324	0.03598	0.03609	0.03896	0.04048	0.04047
Total Overlapping Property Tax Rate ⁽³⁾	0.14200	0.13900	0.11338	0.12472	0.12760	0.13699	0.13626	0.14199	0.14612	0.14001
City Share of 1% levy per Proposition 13 ⁽⁵⁾	0.07471	0.07471	0.07471	0.07471	0.07471	0.07471	0.07471	0.07471	0.07471	0.07471
Total Direct Rate ⁽³⁾	0.19007	0.18517	0.18133	0.17950	0.18062	0.18468	0.18456	0.17987	0.18035	0.05510
Total Direct & Overlapping Rate	1.14200	1.13900	1.11338	1.12472	1.12760	1.13699	1.13626	1.14199	1.14612	1.14001

NOTES:

(1) In 1978, California voters passed Proposition 13 which set the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of any voter approved bonds.

(2) Redevelopment Rate is based on the largest RDA tax rate area and only includes rate(s) from indebtedness adopted prior to 1989 per California State statute. RDA direct and overlapping rates are applied only to the incremental property values. The approval of ABX1 26 eliminated Redevelopment from the State of California for the fiscal year 2012-13 and years thereafter.

(3) Because basic and debt rates vary by tax rate area individual rates cannot be summed. The Total Direct Rate is the weighted average of all individual direct rates applied by the government preparing the statistical section information.

(4) Overlapping rates are those of local and county governments that apply to property owners within the City. Not all overlapping rates apply to all city property owners.

(5) City's Share of 1% Levy is based on the City's share of the general fund tax rate area with the largest net taxable value within the city. ERAF general fund tax shifts may not be included in tax ration figures.

SOURCE: HdL Companies, Santa Cruz County Assessor's Office

2014-8

CITY OF CAPITOLA, CALIFORNIA
Top Ten Property Taxpayers
Current Year and Nine Years Ago

Taxpayer	2014			2005		
	2014 Net Assessed Valuation	Rank	Percent of Total City Net Assessed Valuation	2005 Net Assessed Valuation	Rank	Percent of Total City Net Assessed Valuation
Macerich Partnership LP	\$ 62,889,921	1	3.38%	\$ 60,648,881	1	3.62%
Macerich Capitola Adjacent LP	22,368,600	2	1.20%			
Aspromonte Hotels LLC	17,472,100	3	0.94%			
George Ow Jr Trustees et al	13,896,163	4	0.75%	10,565,368	4	0.63%
Target Corporation	12,034,680	5	0.65%			
Brown Ranch Properties	11,236,403	6	0.60%	9,619,325	5	0.57%
Blai LP	10,477,000	7	0.56%			
Melanie Kett Wirtanen Trustee	8,277,680	8	0.45%			
850 Rosedale LLC	8,069,600	9	0.43%			
1100 41st Avenue LLC	7,578,743	10	0.41%			
Baskin Properties LLC				13,978,503	2	0.83%
Paul and Koula Pries				11,441,869	3	0.68%
Macys West Inc				8,218,647	6	0.49%
Values Pacific				6,970,041	7	0.42%
Crossroads Associates				6,348,149	8	0.38%
Sears Roebuck and Company				5,354,861	9	0.32%
Cristina Properties LLC				5,134,849	10	0.31%
	<u>\$ 174,300,890</u>		<u>9.37%</u>	<u>\$ 138,280,493</u>		<u>8.26%</u>
Memo: Gross Assessed Value	\$ 1,860,100,004		100.00%	\$ 1,674,150,000		100.00%

Source: HdL Companies, Santa Cruz County Assessor 2013/14 Combined Tax Rolls and the SBE Non Unitary Tax Roll

CITY OF CAPITOLA, CALIFORNIA
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Property Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2005	\$ 2,268,012	\$ 2,268,012	100%	-	\$ 2,268,012	100%
2006	2,412,712	2,412,712	100%	-	2,412,712	100%
2007	2,605,158	2,605,158	100%	-	2,605,158	100%
2008	2,715,388	2,715,388	100%	-	2,715,388	100%
2009	2,851,724	2,851,724	100%	-	2,851,724	100%
2010	2,783,546	2,783,546	100%	-	2,783,546	100%
2011	2,813,554	2,813,554	100%	-	2,813,554	100%
2012	1,900,533	1,900,533	100%	-	1,900,533	100%
2013	899,975	899,975	100%	-	899,975	100%
2014	927,676	927,676	100%	-	927,676	100%

NOTES: Figures presented include City property taxes and Redevelopment Agency tax increment, **as well as amounts collected by the City and Redevelopment Agency that are pass throughs for other agencies, and real and personal property.** The figures do not include Property Taxes In Lieu of Vehicle License Fees. In fiscal year 1993-94, Santa Cruz County adopted the Teeter Plan under which the City of Capitola receives its entire tax levy, regardless of delinquencies as long as it qualifies for the Teeter Plan.

Reduction in property taxes levied from 2011 through 2014 reflects the 2/1/2012 State of California dissolution of Redevelopment Agencies and the associated elimination of tax increment received by the City of Capitola.

Source: Santa Cruz County Auditor-Controller, City of Capitola Finance Department.

2014-10

CITY OF CAPITOLA, CALIFORNIA
 Top 25 Sales Tax Taxpayers, as of June 30, 2014
 Listed alphabetically

TOP 25 SALES TAX TAXPAYERS

AT&T Mobility	41st Avenue
Bed Bath & Beyond	Clares Street
Beverages & More	41st Avenue
Big 5 Sporting Goods	41st Avenue
Chevron Service Station (AJ's Fuel Market of Capitola) - Bay Ave.	Bay Avenue
Chevron Service Station (Chevron USA) - 41st Ave.	41st Avenue
CVS - combined 41st and Bay Ave.	41st and Bay Avenues
Gayle's Bakery and Rosticceria*	Bay Avenue
Kohls	41st Avenue
Macy's Department Store	41st Avenue
Nob Hill General Stores	Bay Avenue
O'Neill Surf Shop	41st Avenue
Orchard Supply Hardware	41st Avenue
Ross Stores	41st Avenue
Santa Cruz Mazda	Auto Plaza Drive
Sears Roebuck & Company	Capitola Road
Shadowbrook Restaurant	Wharf Road
Shell Service Stations	41st Avenue
Target	41st Avenue
Toyota of Santa Cruz	Auto Plaza Drive
Trader Joe's	Clares Street
Union 76 Service Station (Capitola 76) - 41st Ave.	41st Avenue
Verizon Wireless	41st Avenue
Whole Foods	41st Avenue
Zelda's Restaurant*	Esplanade

NOTES:

Information presented is as of June, 2014. It is alphabetical and is not indicative of relative nor total sales volume.

* Indicates return to Top 25 after at least one year out of the top twenty-five.

Source: California State Board of Equalization

2014-11

CITY OF CAPITOLA, CALIFORNIA
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(amounts expressed in dollars unless otherwise noted)

Fiscal Year Ended June 30	Government/Total Primary Government Activities				Total Outstanding Debt as a % of Total Personal Income	Debt per Capita
	General Obligation Bonds	Lease Revenue Bonds	Other debt	Tot. Gov't./ Primary Gov't. Activities		
2005	\$ -	\$ -	\$ 4,168,406	\$ 4,168,406	1.46%	\$ 477
2006	-	-	2,886,922	2,886,922	1.02%	359
2007	-	-	2,845,520	2,845,520	0.94%	362
2008	5,040,000	-	2,940,896	7,980,896	2.14%	877
2009	4,670,000	-	2,892,819	7,562,819	1.19%	495
2010	4,265,000	-	2,848,029	7,113,029	2.00%	795
2011	3,830,000	-	2,667,940	6,497,940	2.23%	723
2012	3,375,000	-	2,428,249	5,803,249	2.02%	670
2013	2,890,000	-	1,882,273	4,772,273	1.73%	579
2014	2,375,000	-	3,153,788	5,528,788	1.83%	645

NOTES: The City of Capitola has no business-type activities; governmental and total primary government figures are the same. Details regarding the City's outstanding debt can be found in the notes to the financial statements.

In July, 2007, the City of Capitola issued a \$5,040,000 Pension Obligation Bond (POB) which was used to pay off the City's CalPERS unfunded pension liability as of that point in time.

Other debt includes as applicable tax anticipation note, county library long term debt, notes payable, and capital leases as of year end.

Source: City of Capitola Financial Statements

2014-12

CITY OF CAPITOLA, CALIFORNIA
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(amounts expressed in dollars unless otherwise noted)

Fiscal Year Ended June 30	Government/Total Primary Government Activities				Total Outstanding Debt to Personal Income	Debt per Capita
	General Obligation Bonds	Lease Revenue Bonds	Other debt	Tot. Gov't./ Primary Gov't. Activities		
2005	\$ -	\$ -	\$ 4,168,406	\$ 4,168,406	1.46%	\$ 477
2006	-	-	2,886,922	2,886,922	1.02%	359
2007	-	-	2,845,520	2,845,520	0.94%	362
2008	5,040,000	-	2,940,896	7,980,896	2.14%	877
2009	4,670,000	-	2,892,819	7,562,819	1.19%	495
2010	4,265,000	-	2,848,029	7,113,029	2.00%	795
2011	3,830,000	-	2,667,940	6,497,940	2.23%	723
2012	3,375,000	-	2,428,249	5,803,249	2.02%	670
2013	2,890,000	-	1,882,273	4,772,273	1.73%	579
2014	2,375,000	-	3,153,788	5,528,788	1.83%	645

NOTES: The City of Capitola has no business-type activities; governmental and total primary government figures are the same. Details regarding the City's outstanding debt can be found in the notes to the financial statements.

In July, 2007, the City of Capitola issued a \$5,040,000 Pension Obligation Bond (POB) which was used to pay off the City's CalPERS unfunded pension liability as of that point in time.

Other debt includes as applicable tax anticipation note, county library long term debt, capital leases, net Other Post Employment Benefits (OPEB) obligation, compensated absences as of year end, notes payable, and RDA deferred pass throughs.

Source: City of Capitola Financial Statements

2014-13

CITY OF CAPITOLA, CALIFORNIA
Direct & Overlapping Debt
Fiscal Year ended June 30, 2014

2013-14 Assessed Valuation		\$ 1,874,806,297	
OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable ⁽¹⁾	Total Debt 6/30/2014	City's Share of Debt 6/30/2014
Cabrillo Joint Community College District	5.457%	\$ 142,085,825	\$ 7,753,623
Santa Cruz City High School District	11.811%	37,844,683	4,469,836
Live Oak School District	6.967%	15,827,586	1,102,708
Soquel Union School District	38.905%	10,910,000	4,244,536
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		<u>\$ 206,668,094</u>	<u>\$ 17,570,703</u>
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Santa Cruz County Certificates of Participation	5.503%	\$ 73,234,084	\$ 4,030,072
Santa Cruz County Office of Education Certificates of Participation	5.503%	10,440,000	574,513
Cabrillo Joint Community College District Certificates of Participation	5.457%	1,215,000	66,303
Live Oak School District Certificates of Participation	6.967%	15,127,892	1,053,960
Soquel Union School District	38.905%	1,655,000	643,878
Santa Cruz City Schools Certificates of Participation	11.811%	5,751,000	679,251
City of Capitola General Fund Obligations	100.000%	282,854	282,854
City of Capitola Lease Financing	100.000%	1,768,739	1,768,739
City of Capitola Pension Obligation Bond	100.000%	2,375,000	2,375,000
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		<u>\$ 111,849,569</u>	<u>\$ 11,474,570</u>
TOTAL DIRECT DEBT		\$ 4,426,593	\$ 4,426,593
TOTAL OVERLAPPING		<u>\$ 314,091,070</u>	<u>\$ 24,618,680</u>
COMBINED TOTAL DEBT		<u>\$ 318,517,663</u>	<u>\$ 29,045,273 ⁽²⁾</u>

(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to 2012-13 Assessed Valuation	
Total Overlapping Tax and Assessment Debt	0.94%
Ratios to Adjusted Assessed Valuation	
Combined Direct Debt (\$4,426,593)	0.24%
Combined Total Debt	1.55%
STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/13	\$0

Source: MuniServices, LLC, City of Capitola Finance Department

2014-14

CITY OF CAPITOLA
Legal Debt Margin Information
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Assessed Valuation	\$ 1,345,043	\$ 1,452,057	\$ 1,581,975	\$ 1,696,000	\$ 1,755,514	\$ 1,758,168	\$ 1,772,173	\$ 1,784,911	\$ 1,797,242	\$ 1,860,100
RDA Base Valuation	202,415	202,415	214,599	226,445	234,375	241,401	243,413	238,631	242,272	246,771
Adj. assessed valuation	\$ 1,142,628	\$ 1,249,642	\$ 1,367,376	\$ 1,469,555	\$ 1,521,139	\$ 1,516,767	\$ 1,528,760	\$ 1,546,280	\$ 1,554,970	\$ 1,613,329
Debt limit percentage	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Debt limit	171,394	187,446	205,106	220,433	228,171	227,515	229,314	231,942	233,246	241,999
Total net applicable debt										
Gen. obligation bonds	-	-	-	5,040	4,670	4,265	3,830	3,375	2,890	\$ 2,375
Legal debt margin	<u>\$ 171,394</u>	<u>\$ 187,446</u>	<u>\$ 205,106</u>	<u>\$ 215,393</u>	<u>\$ 223,501</u>	<u>\$ 223,250</u>	<u>\$ 225,484</u>	<u>\$ 228,567</u>	<u>\$ 230,356</u>	<u>\$ 239,624</u>
Ratio of Total Net Applicable Debt to Debt Limit	0.00%	0.00%	0.00%	2.34%	2.09%	1.91%	1.70%	1.48%	1.25%	0.99%

NOTES: The bonded indebtedness of the City may not in the aggregate exceed the sum of fifteen (15%) of the total assessed valuation of property within the City, exclusive of any indebtedness that has been or may hereafter be incurred for the purposes of acquiring, constructing, extending, or maintaining municipally owned assets for which purposes a further indebtedness may be incurred by the issuance of bonds, subject only to the provisions of the City of Capitola bylaws and the State Constitution.

Source: Santa Cruz County Auditor-Controller, Santa Cruz County Assessor, City of Capitola Finance Department

2014-15

CITY OF CAPITOLA
Pledged-Revenue Coverage
Last Ten Fiscal Years
(amounts expressed in thousands)

Fiscal Year Ended June 30,	Other Revenue Bonds				Tax Allocation Bonds			
	Available Revenue	Debt Service		Coverage	Tax Increment	Debt Service		Coverage
		Principal	Interest			Principal	Interest	
2005	\$ -	\$ -	\$ -	n/a	\$ -	\$ -	\$ -	n/a
2006	-	-	-	n/a	-	-	-	n/a
2007	-	-	-	n/a	-	-	-	n/a
2008	-	-	-	n/a	-	-	-	n/a
2009	-	-	-	n/a	-	-	-	n/a
2010	-	-	-	n/a	-	-	-	n/a
2011	-	-	-	n/a	-	-	-	n/a
2012	-	-	-	n/a	-	-	-	n/a
2013	-	-	-	n/a	-	-	-	n/a
2014	-	-	-	n/a	-	-	-	n/a

NOTES: The City of Capitola has no tax allocation bonds or other revenue bonds.

SOURCE: City of Capitola Finance Department

2014-16

CITY OF CAPITOLA
Demographic and Economic Statistics
Last Ten Fiscal Years

Calendar Year	Population	Total Personal Income (In Thousands)	Per Capita Personal Income	Median Age	Unemployment Rate
2005	10,011	\$ 327,558	\$ 32,720	38.0	3.4%
2006	9,913	347,750	35,080	37.0	3.5%
2007	9,901	382,055	38,588	37.0	3.1%
2008	9,922	405,993	40,918	37.0	3.2%
2009	9,992	414,240	41,457	38.0	4.1%
2010	10,078	400,794	39,769	41.3	6.4%
2011	10,198	329,905	32,350	38.3	7.3%
2012	9,981	330,271	33,090	42.9	6.9%
2013	9,988	334,029	33,443	41.1	5.5%
2014	10,136	\$ 357,112	\$ 35,232	40.9	5.0%

NOTES: Calendar years are presented, 2014 was not complete at June 30, 2014, so 2004-2013 are shown.

Sources: HdL Companies, California State Department of Finance, California Employment Development Department, ESRI, U. S. Census Bureau, American Community Survey

2014-17

CITY OF CAPITOLA
Principal Employers - Top Ten
Current year and 2006 (1)

Employer	2014			2006 (1)		
	Ranking	Number of Employees	% of Total Employment	Ranking	Number of Employees	% of Total Employment
Target*	1	175	2.61%			
Subaru, Toyota, Kia of Santa Cruz	2	175	2.61%			
Gayles Bakery & Rosticceria	3	170	2.54%			
Macys	4	160	2.39%	1	250	3.73%
Shadowbrook Restaurant/aka Culinary Enterprises	5	135	2.01%	6	135	2.01%
Whole Foods Market	6	134	2.00%			
Trader Joe's	7	103	1.54%	9	100	1.49%
Pacific Coast Manor*	8	99	1.48%			
Zelda's On the Beach*	9	96	1.43%			
New Leaf Community Markets	10	95	1.42%			
Mervyn's LLC ⁽²⁾				2	230	3.43%
Santa Cruz County Office of Education ⁽³⁾				3	220	3.28%
Gottschalks Inc. ⁽⁴⁾				4	188	2.81%
Sears ⁽⁵⁾				5	150	2.24%
Orchard Supply Hardware ⁽⁵⁾				7	125	1.87%
Spa Fitness Centers, Inc. ⁽⁶⁾				8	125	1.87%
Longs Drug Stores ⁽⁷⁾				10	100	1.49%
		1342	20.03%		1623	24.22%
Total City Labor Force		6700	100.00%		6701	100.00%

* Includes FTE and PTE

(1) 2006 is the closest year to the prescribed comparison with available data. 2006 information based on direct communication with the City's businesses.

(2) Mervyn's LLC closed the Capitola store at the end of calendar 2008 and was replaced by Kohl's (#8) in October 2009.

(3) The County Office of Education moved to a new facility outside of the City in August, 2011.

(4) Gottschalks Inc. closed the Capitola store at the end of fiscal year 2009 and was remodeled and opened as Target (#1) in July, 2012.

(5) Sears and Orchard Supply Hardware remain in business in Capitola but are not currently one of the top ten employers in the City.

(6) Spa Fitness Centers, Inc. changed ownership and now does business as In-Shape Capitola. They are not currently one of the top ten employers in the City.

(7) Longs Drug Stores had two locations in the City of Capitola that were acquired by and now do business as CVS Pharmacy.

SOURCE: MuniService, LLC, City of Capitola Finance Department

2014-18

CITY OF CAPITOLA
Full-time and Part-time City Employees by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General government										
City Manager	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.75	7.65	7.65
Finance	5.25	5.25	5.25	5.38	4.38	4.38	4.38	4.38	4.38	4.50
City Attorney	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	<u>13.75</u>	<u>13.75</u>	<u>13.75</u>	<u>13.88</u>	<u>12.88</u>	<u>12.88</u>	<u>12.88</u>	<u>13.13</u>	<u>13.03</u>	<u>13.15</u>
Police										
Chief, Captain, Sgts.	7.00	7.00	7.00	7.00	6.00	6.00	6.00	6.00	6.00	6.00
Officers	13.00	14.00	15.00	15.00	15.00	15.00	15.50	15.00	15.00	15.00
CSOs	3.00	3.00	3.00	3.00	3.00	2.00	2.00	2.00	3.00	3.00
Parking Enforcement	3.00	3.00	3.00	3.00	3.00	3.00	2.00	3.00	2.00	3.00
Administrative	5.50	5.75	6.50	6.50	6.50	4.75	4.75	3.75	4.25	4.65
	<u>31.50</u>	<u>32.75</u>	<u>34.50</u>	<u>34.50</u>	<u>33.50</u>	<u>30.75</u>	<u>30.25</u>	<u>29.75</u>	<u>30.25</u>	<u>31.65</u>
Public Works										
Streets	8.33	8.33	8.00	8.33	8.33	7.33	7.33	7.33	7.33	8.00
Parks	5.00	5.00	5.00	5.00	5.00	4.00	4.00	3.00	4.00	4.00
Fleet Maintenance	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	<u>14.33</u>	<u>14.33</u>	<u>14.00</u>	<u>14.33</u>	<u>14.33</u>	<u>12.33</u>	<u>12.33</u>	<u>11.33</u>	<u>12.33</u>	<u>13.00</u>
Recreation										
Supervisor	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Other - full year	2.00	2.00	2.00	2.00	1.50	1.50	1.50	1.50	2.00	2.00
	<u>3.00</u>	<u>3.00</u>	<u>3.00</u>	<u>3.00</u>	<u>2.50</u>	<u>2.50</u>	<u>2.50</u>	<u>2.50</u>	<u>3.00</u>	<u>3.00</u>
Community Development	4.67	4.67	4.00	4.67	4.67	3.67	3.67	1.67	2.00	2.50
Building	2.00	2.00	2.00	2.00	2.00	1.00	1.50	2.00	2.00	2.00
Total City Employees	<u>69.25</u>	<u>70.50</u>	<u>71.25</u>	<u>72.38</u>	<u>69.88</u>	<u>63.13</u>	<u>63.13</u>	<u>60.38</u>	<u>62.61</u>	<u>65.30</u>

NOTES: Full time equivalents (FTE); does not include temporary or seasonal employees

SOURCE: City of Capitola Finance Department

2014-19

(1) Restated Fiscal Year 2013 to include administrative staff for the Streets Division to be consistent with prior years.

CITY OF CAPITOLA
Operating Indicators by Function
Last Ten Fiscal Years (except as noted)

INDICATOR	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<u>Police department</u>										
Adult arrests	877	879	1,069	1,000	908	850	731	766	693	856
Calls for service (in thousands)	18	21	22	21	20	20	19	20	16	20
<u>Public works</u>										
Miles paved	26	26	26	26	26	26	26	26	26	26
<u>New construction</u>										
Commercial units	-	2	3	1	1	1	-	-	-	-
Valuation (in millions)	-	\$ 4	\$ 5	\$ 1	\$ 1	\$ 13	-	-	-	-
Residential units ⁽¹⁾	10	17	18	69	122	8	3	7	9	9
Valuation (in millions)	\$ 4	\$ 6	\$ 6	\$ 11	\$ 20	\$ 2	\$ 1	\$ 3	\$ 3	\$ 3
<u>Recreation Revenue</u>										
(in thousands)										
Classes	\$ 321	\$ 335	\$ 356	\$ 378	\$ 336	\$ 319	\$ 325	\$ 329	\$ 298	\$338
Sports fees	61	72	82	70	71	59	61	60	53	41
Junior Guard	171	169	184	175	194	214	220	241	240	268
Camp Capitola	71	67	76	80	80	79	102	121	94	103
Aquatics	27	27	23	19	-	-	-	-	-	-
Net Class Revenue	\$ 651	\$ 670	\$ 721	\$ 722	\$ 681	\$ 671	\$ 708	\$ 751	\$ 685	\$ 750
Jade St. Rental	16	16	8	7	4	5	5	6	7	5
Net Recreation Rev	\$ 667	\$ 686	\$ 729	\$ 729	\$ 685	\$ 676	\$ 713	\$ 757	\$ 692	\$ 755

(1) Residential units and associated valuations are total additional, new or substantially new (by code definition) units.
Source: City of Capitola Building Department, Finance Department, Police Department, Public Works Department

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CITY OF CAPITOLA
 Capital Asset Statistics by Function
 Last Ten Fiscal Years

Indicator	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Public works										
Streets (miles)	26	26	26	26	26	26	26	26	26	26
Streetlights	71	71	71	71	71	71	71	71	71	71
Traffic signals	8	8	8	8	8	8	8	8	8	8
Parks and recreation										
Parks	7	7	7	7	7	7	7	7	7	7
Community centers	1	1	1	1	1	1	1	1	1	1
General										
Commercial buildings	2	2	2	2	2	2	2	2	2	2

Source: City of Capitola Public Works Department

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