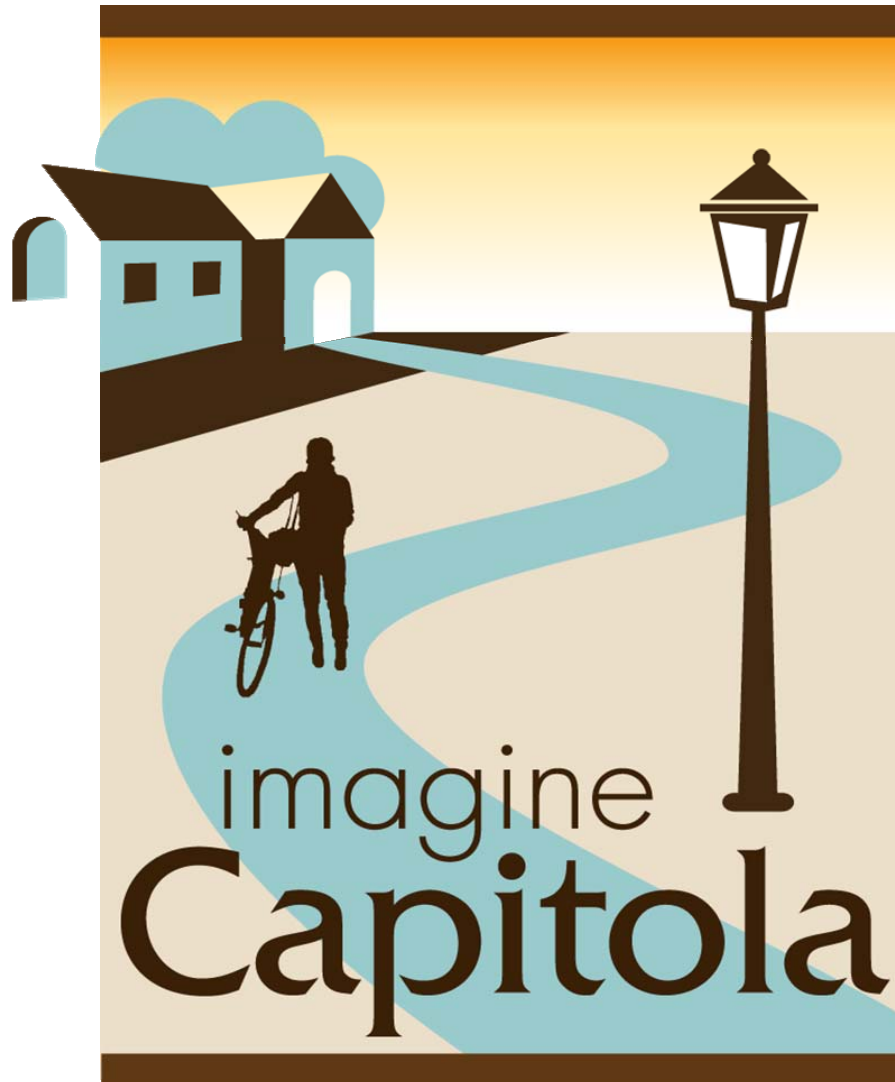


# Comprehensive Annual Financial Report



Capitola General Plan Update process

City of Capitola, California

For The Fiscal Year Ended June 30, 2011

# **CITY OF CAPITOLA, CALIFORNIA**

COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Prepared by the Capitola Finance Department

**City of Capitola**  
**Comprehensive Annual Financial Report**  
**Year Ended June 30, 2011**

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Year Ended June 30, 2011**

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# **INTRODUCTORY SECTION**

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420 CAPITOLA AVENUE  
CAPITOLA, CALIFORNIA 95010  
TELEPHONE (831) 475-7300  
FAX (831) 479-8879

December 19, 2011

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

SUBJECT: Comprehensive Annual Financial Report – June 30, 2011

The Comprehensive Annual Financial Report (CAFR) for the City of Capitola for the fiscal year ended June 30, 2011 is hereby submitted.

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, Teaman, Ramirez & Smith, Inc., has audited the City's financial statements and issued an unqualified opinion that financial statements for fiscal year ended June 30, 2011 are fairly presented in conformity with generally accepted accounting principles. This opinion, along with the basic financial statements of the City, are hereby submitted and included in the financial section of this report in fulfillment of the above requirement.

The independent audit of the financial statements was also part of the federally mandated Single Audit designed to meet the needs of federal granting agencies. 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. These reports are available from the City of Capitola in the separately issued Single Audit Report. Single Audit Report on Federal Award Programs for Year Ended June 30, 2010 is currently available and the Single Audit Report on Federal Award Programs for Year Ended June 30, 2011 will be available after March 31, 2012, the official due date for the Report.

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 is accurate in all material respects and that it is 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, I 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.

The City of Capitola Comprehensive Annual Financial Report is organized as follows:

- I. Introductory section – Letter of Transmittal, Directory of Officials, Organization Chart, and Awards for Financial Reporting
- II. Financial Section – Independent Auditors' Report, Management Discussion & Analysis, Government-wide Financial Statements, Fund Financial Statements, Notes to Financial Statements, Required Supplementary Information, and Supplementary Information
- III. Statistical Section – Historical trends for Financial Trends, Revenue Capacity, Debt Capacity, Demographic and Economic Information, and Operating Information

### **City of Capitola profile**

Capitola, a general law city incorporated January 11, 1949, is an intimate suburban, recreational and tourist beach village of approximately two square miles, located on the northern edge of the Monterey Bay, 35 miles north of Monterey and 75 miles south of San Francisco. The City is home to numerous family-oriented annual events, including the Begonia Festival, celebrating its 58<sup>th</sup> year in 2010 and the Wharf to Wharf Race, celebrating its 38<sup>th</sup> year. The City also sponsors several annual series of events, such as Twilight Concerts at the Beach, Art Shows at the Beach, Movies at the Beach, along with the Capitola Water Festival. 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.

### **Profile of the Government**

The Comprehensive Annual Financial Report includes all financial activities of the City and the Redevelopment Agency of the City of Capitola, two separate legal entities. City Council members also serve as the governing board members of the Redevelopment Agency and the City Manager serves as its Executive Director. The Capitola Financing Authority, a joint powers authority created by and between the City and the RDA, was formed in 1996 to facilitate a 1996 refunding bond issue and the subsequent 1998 Reassessment Revenue Bonds.

The City's accounting 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 annual budget serves as the foundation for the City of Capitola's financial planning and control. In accordance with the City's Municipal Code, the budget is to be adopted by resolution on or before June 30<sup>th</sup> 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.

An affirmative vote of three members of the City Council at any regular or special meeting may create, eliminate, revise, or otherwise amend amounts set aside as reserves in a fund which in the opinion of the council are no longer necessary, amounts appropriated as contingencies in a fund, transfers between budget units, or other budgetary designations.



## **Factors Affecting Financial Condition**

### Local Economy

A significant impact on the local economy as well as City financial performance in March 2011 was a heavy rainstorm and subsequent flooding. A major storm front initiated conditions that caused failure of a major storm drain above Capitola Village and the City Hall/Police Department complex, sending water into numerous structures and facilities. Village businesses, surrounding residences, and the Capitola Police Department had major physical damage. The effort to clean up and re-open businesses took several weeks. The financial impact for the City includes relocating the Police Department in portable units for several months, gutting and rebuilding the Police Department facility and refurbishing offices, locker rooms and records areas, reduced access to the village area and associated visitor revenue impacting sales tax revenue, transient occupancy tax, and parking meter and parking citation revenue (waived for reconstruction period so cleanup and construction crews could gain access). Businesses suffered as well from being closed or from lack of access. As is common in Santa Cruz County, community support was significant, with many volunteers appearing on the streets, offering physical assistance, trucks, storage, and anything else as it was needed.

Although Capitola's location and atmosphere as a Central Coast beach town has made it a day trip and vacation destination city, it is also one of two major retail centers in the County. The Capitola Mall, combined with Brown's Ranch and 41<sup>st</sup> Avenue businesses are the retail hub of the central county. With major retailers such as Macy's, Sears, Kohl's, CVS, Orchard Supply, Ross, and Bed Bath and Beyond, Capitola is a "net regional retail provider" bringing in five to six times the City household retail demand within Capitola. Total sales tax revenue for 2010-11 of \$4.9 million is 44.0% of Capitola's total general fund revenue. Actual retail store performance was up slightly for the current year at 1.5% after an 18% and 5% drop in the prior two years. The City anticipates that the July, 2012 opening of a 100,000 square foot Target in Capitola Mall will be a big boost to local sales tax revenue.

Capitola's second major source of revenue is property tax, which remains relatively stable. 2010-11 property tax revenue of \$4.1 million is a 1.0% increase over 2009-10.

Transient occupancy tax (TOT) of \$601,700 is 5.4% of revenue, up 1.6% year over year. This, despite the above mentioned impact of the March floods. Although not included in this year's revenues, Capitola anticipates a significant source of TOT in fiscal 2011-12 from the late July, 2011 opening of an 84 room Fairfield Inn & Suites by Marriott on 41<sup>st</sup> Avenue.

The economic challenges of the past few years continued in fiscal 2010-11. Many smaller and mid-sized businesses and restaurants in Capitola have been negatively affected throughout this period. Consumer confidence and spending continue to be guarded, resulting in relatively flat revenue across all segments of sales tax revenue producers. The City continues to seek redevelopment opportunities that will help to update and upgrade the City's major retail corridor and mall area. In this regard, the City and Capitola RDA have signed a public infrastructure deal with The Macerich Partnership, Capitola Mall management company and majority owner. This agreement includes a pledge of \$1 million in RDA funds associated with Macerich's frontage improvements on 41<sup>st</sup> Avenue and updating architectural features. RDA funds would include sidewalk widening, landscaping, improved bicycle and public access, and assisting with the reconstruction of the existing public transit center located at the Mall.

The City took major steps in the General Plan update process this year, which includes an effort to identify locations and opportunities to encourage redevelopment within the City. Potential changes which may be considered in the General Plan update to help spur economic development include,

revised zoning standards, and identification of priority public infrastructure improvements and appropriate locations for additional hotel development projects.

#### Long-term Financial Planning

The City recognized an extraordinary item in the 2010-11 financial statements resulting from the March, 2011 flooding in the City that caused damage to a storm drain and the Capitola Police Department. The Flood Disaster Loss in the amount of \$795,304 is for repairs from flood damage. This is reported as an extraordinary item in the Statement of Revenues, Expenditures, and Changes in Fund Balances in the General Fund and the Statement of Activities. Long term, replenishing reserves to Financial Policy levels in a flat to depressed economy will have challenges. Capitola currently has a goal of reaching the established reserve levels by year-end fiscal 2015-16. In a first step toward achieving that goal, the City allocated a minimum of \$ 337,500 to the reserve accounts in the adopted FY 2011-12 budget.

In 2007, the City established a maximum City contribution cap on Public Employees Retirement System (PERS) with all employee bargaining units. The cap sets the maximum percentage of an employee's salary the City will contribute toward retirement costs at 28.291% for Safety employees and 16.488% for Miscellaneous Group employees. This has protected the City significantly in recent years from the escalating retirement costs for public employees.

The City's 1/4 % sales tax will expire December 31, 2017. Prior to the expiration of that tax, additional revenue sources will have to be identified, or services cut to offset the revenue loss.

The City's adopted Economic Development Plan calls for the establishment of additional visitor serving overnight accommodations to capture additional revenue from the large influx of seasonal visitors to the community. A number of sites for additional hotels have been considered, and will be further analyzed in the General Plan update.

#### *New grants*

The City of Capitola had three new grants awarded during 2010-11.

The City was awarded a \$100,000 California Department of Conservation Strategic Growth Council (SGC) Sustainable Communities Planning Grant. The purpose of this grant is to fund the Sustainability portion of the General Plan Update. In addition, the City participated in an application for a SGC planning grant by the Association of Monterey Bay Area Governments (AMBAG) to fund a regional Sustainable Communities Plan. The City will receive \$8,414 to fund its participation in that process.

The City was also awarded a 2008 Disaster Recovery Initiative (DRI) grant from the California Community Development Block Grant program for \$250,000 for development of the City's Local Hazard Mitigation Plan (LHMP) and Safety Element of the General Plan Update. The grant plan also includes a review of relocating emergency responders at the current City Hall site, a sea level rise analysis, and coordination of the LHMP with the General Plan Update, the Local Coastal Plan, and the Climate Action Plan.

#### *Continuing grants*

A federal planning grant for \$40,000 was awarded in early 2010 by the Economic Development Administration (EDA) to study the feasibility of developing a parking structure on City property to facilitate coastal access and redevelopment in the Capitola Village. The final report included the identification of several design options for a parking structure, graphical depictions of a parking structure on the site, and cost estimates for the design options. It developed two site plan alternatives

for a parking structure at the current site of the Pacific Cove parking lot, depending upon the amount of financing available for the project. The report was accepted by the City Council in April 2011.

Work has just been completed on two prior \$35,000 City CDBG study grants, the Green Economy/Environmental Economic Analysis and 41<sup>st</sup> Avenue/Capitola Mall Re-Visioning Plan. The studies were incorporated into the City's General Plan update process, and allowed the City to focus efforts on specific planning for the redevelopment of the 41<sup>st</sup> Avenue corridor and mechanisms to boost the City's "green" employment sector. The Final Report for the Green Economy grant, "The Capitola Green Economy: Job Creation and a Sustainable Future," identified twenty-one strategies to be considered for incorporation into the city's General Plan Update and the Climate Action Plan as applicable. The Report estimates that if all twenty-one strategies were implemented, Capitola could attract from 150 to 600 additional jobs through 2035. The Final Report was accepted by the City Council in November 2011.

The "41<sup>st</sup> Avenue/Capitola Mall Re-Visioning Plan" was developed as part of the General Plan Update process during 2011, and was accepted by the City Council on December 8, 2011. The Plan establishes a long-term vision for the corridor, including new development on existing surface parking at the Mall to create a more inviting destination for residents and visitors, new sidewalk-oriented commercial uses along other parts of the corridor, high-quality commercial, residential and hotel uses, and enhanced pedestrian and bicycle connections throughout the area.

#### *Completed grants*

The City and RDA participated in the Bay Avenue Senior Housing Project, a 109 unit senior low income housing rehabilitation project in Capitola being developed by a non-profit agency. As part of the \$28 million project, the City provided \$4.5 million in project funding through a \$1.4 million residual receipts loan from the Redevelopment Agency, a \$235,000 RDA grant and \$2.9 million grant funding which the City received from the California Department of Housing and Community Development (HCD) through the Federal HOME program. The completed project now offers fifty-five years of guaranteed affordability for fifty extremely low income seniors, thirty very low income seniors, and twenty-eight low income seniors. Thirty-nine of the units have been set aside for senior households with special needs and five units have been set aside with additional services in order to serve seniors with mental illness who are at risk of homelessness.

#### *Recent Changes in Legislation Affecting California Redevelopment Agencies*

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend (effective July 1, 2011) nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each local government would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the city, special district or county "may use any available funds not otherwise obligated for other uses" to make this payment. The City of Capitola intends to use available monies of its redevelopment agency for this purpose. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

Assembly Bill X1 26 directs the State Controller of the State of California 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 is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that they violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012." A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule ("EOPS") by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule ("ROPS") by September 30, 2011.

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft a Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in AB1X 26.

On August 25, 2011 Capitola Redevelopment Agency Resolution 2011-10 adopted the Enforceable Obligation Payment Schedule and on August 26 it was submitted to the California Department of Finance and the California State Controller's Office as required.

On September 22, 2011, City of Capitola Ordinance No. 962 was adopted indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. Notification of the Continuation Ordinance was submitted to the California State Department of Finance, the California State Controller's Office, and the Santa Cruz County Auditor-Controller as required. The initial payment by the City is estimated to be \$798,547 with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated \$189,398 will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of ABX1 26. Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the

fiscal year ending June 30, 2012 and for a period shortly thereafter. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of litigation surrounding the actions of the state. In the event that Assembly Bills X1 26 and/or 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to redevelopment agencies ability to continue in view of the California State Legislature's declared intent to eliminate redevelopment agencies and to reduce their funding.

In the event that Assembly Bill X1 26 is upheld, the receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency would become uncollectible with a loss recognized to the City. Additionally, the City would be impacted by the elimination of reimbursements previously paid to the City by the redevelopment agency for shared administrative services.

**Awards and Acknowledgements**

The Certificate for Outstanding Financial Reporting was awarded to the City of Capitola for the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010 by the California Society of Municipal Finance Officers (CSMFO). The City has received this award every year since fiscal 1999-2000 and we believe that the current CAFR meets the Certificate for Outstanding Financial Reporting requirements and have submitted it to CSMFO for this year's award.

I wish to express my thanks and appreciation to the Mayor, members of the City Council, and the City and RDA Treasurers for their leadership, interest, and continued support in planning and conducting the financial operations of the City of Capitola in a responsible and prudent manner in the best interests of the citizens of Capitola.

Respectfully submitted,



Jamie Goldstein  
City Manager

**CITY OF CAPITOLA**  
**List of Principal Officials**  
June 30, 2011

**ELECTED OFFICIALS**

Mayor	Dennis Norton
Vice Mayor	Michael Termini
Council Member	Stephanie Harlan
Council Member	Kirby Nicol
Council Member	Sam Storey
City Treasurer	Jacques Bertrand

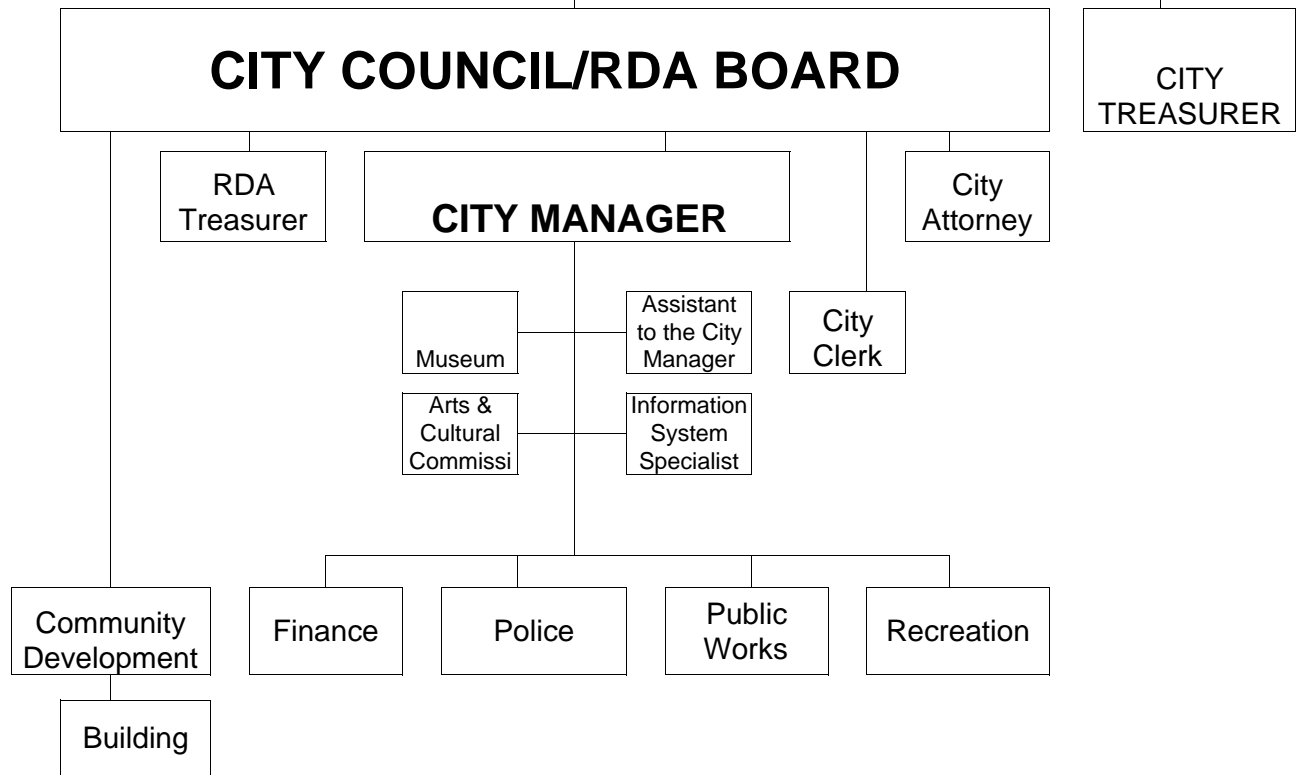
**APPOINTED OFFICIALS**

City Manager	Jamie Goldstein
City Attorney	Atchison, Barisone, Condotti & Kovacevich
RDA Treasurer	Debbie Johnson

**DEPARTMENT HEADS/ADMINISTRATORS**

Chief of Police	Mike Card
City Clerk	Pamela Greeninger
Community Development Director	Derek Johnson
Finance Director	Vacant
Public Works Director	Steven Jesberg

# CITIZENS OF CAPITOLA



# California Society of Municipal Finance Officers

*Certificate of Award*

***Outstanding Financial Reporting  
for the Fiscal Year Ending June 30, 2010***

*Presented to the*

***City of Capitola***

This certificate is issued in recognition of meeting professional standards and criteria in reporting which reflect a high level of quality in the annual financial statements and in the underlying accounting systems from which reports were prepared.

*February 24, 2011*



*Ronnie Campbell*

Ronnie Campbell  
CSMFO President

*Chu Thai*

Chu Thai, Chair  
Professional Standards and  
Recognition Committee

***Dedicated Excellence in Municipal Financial Reporting***



## **FINANCIAL SECTION**

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Independent Auditors' Report

The Honorable City Council  
City of Capitola, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Capitola, California, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Capitola's management. Our responsibility is to express opinions on these basic 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 of Capitola, California, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note III to the financial statements, the City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2011 on our consideration of the City of Capitola'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* and required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Capitola's financial statements as a whole. The introductory section, supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The statements and schedules listed in the "Supplementary Information" section in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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.

*Teaman Ramirez & Smith, Llc.*

December 19, 2011

## Management's Discussion and Analysis

The management of the City of Capitola offers the following narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2011. The information presented here should be considered in conjunction with the additional information provided in the Letter of Transmittal included in the Introductory Section of this document and the basic financial statements that follow this Management Discussion and Analysis.

### Fiscal Year 2010-11 Financial Highlights

- The City's total net assets at fiscal year-end were \$19.9 million.
- Total City revenues, including program and general revenues, were \$16.0 million, offset by total expenses of \$16.8 million.
- Governmental Program Revenues were \$4.9 million and Governmental Program Expenses were \$16.8 million.
- General Fund Revenues were \$11.6 million, offset by General Fund Expenditures of \$11.8 million.

Details and comparisons to prior fiscal year are provided in the Government-Wide Financial Analysis and Financial Analysis of Fund Financial Statements sections of this Management's Discussion and Analysis.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which are presented in three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The Financial Section also includes other supplemental information: Management's Discussion and Analysis (this section), the Required Supplementary Information that further supports the information in the financial statements, and the Supplementary Information of additional supporting schedules and combining statements.

**Government-wide Financial Statements** are designed to provide a broad overview of the finances of the City as a whole, in a manner similar to private sector business. The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and/or decreases in net assets may serve to indicate whether the financial position of the City is improving or declining. The Statement of Activities shows how the City's net assets changed during the most recent fiscal year. It includes all revenues and expenses based on when they are earned or incurred regardless of the timing of cash receipt or disbursement. The City's financial position, presented in the Statement of Net Assets, and all of the City's financial activities, presented in the Statement of Activities are required to be grouped into government activities and business-type activities. As of June 30, 2010, the City of Capitola has only governmental activity. They include the activities of the Redevelopment Agency of the City, for which the City is financially accountable.

**Fund Financial Statements** provide more detailed information about the City's most significant funds, rather than the City as a whole. A fund is a grouping of related accounts used to maintain control over resources that are segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with certain financial requirements. The major funds for the City are presented in the basic financial statement section of this report, along with non-major funds presented in summary. The City has two fiduciary funds, all others are governmental.

*Governmental funds* are used to account for the same functions as governmental activities in the government-wide financial statements. However, governmental fund financial statements focus on near-term inflows and outflows of spendable resources and the balance of spendable resources available at fiscal year-end. This information may be of use in evaluating a government's near term financing 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, a better understanding of the long-term impact of the City's near-term financial decisions can be gained.

The City maintains four major governmental funds: General Fund, Federal Home Loan Reuse, RDA Low and Moderate Income Housing, and RDA Debt Service. The financial information for each major fund is shown individually and the remaining funds are shown in aggregate in the basic financial statements. The City's governmental activities include the activities of the Redevelopment Agency of the City because the City is financially accountable for the Agency. The City maintains seven internal service funds that provide goods and services solely for City governmental activities and are eliminated at fiscal year-end with any related fund balance reported.

In the Required Supplementary and Supplementary sections, individual Schedules of Revenues, Expenditures, and Changes to Fund Balance – Budget and Actual are presented for each major and non-major fund. Also included are Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Non-Major Governmental Funds and Combining Balance Sheet - Non-Major Governmental Funds.

*Fiduciary funds* are used to account for resources held for the benefit of parties other than the City. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Fiduciary funds are not reflected in the government-wide financial statements because these resources cannot be used by the City. Combining Statements of Fiduciary Assets and Liabilities – Agency Funds and Statement of Changes in Fiduciary Net Assets – Agency Funds are shown in the Supplementary Information.

**Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. They can be found immediately following the financial statements.

**Other information** presents certain supplemental information, including Schedules of Revenue, Expenditures, and Changes in Fund Balance for major funds, Combining Statements for Non-major Governmental Funds, and Schedules of Revenue, Expenditures, and Changes in Fund Balance for non-major funds and the fiduciary fund, in addition to the basic financial statements and accompanying notes.

### **Government-Wide Financial Analysis**

This analysis focuses on the net assets, and changes in net assets, at the city-wide level as presented in the Statement of Net Assets and Statement of Activities. As noted previously, increases and/or decreases in net assets over time may serve to indicate changes in the financial position of the City.

Total net assets decreased \$1.6 million or 7.5% from 2009-10 to 2010-11. Over 75% of net assets are composed of the \$15.1 million in net capital assets, the land, buildings, equipment, and infrastructure used to provide services to Capitola's citizens. Due to the nature of these assets, these funds are not available for future spending. The decrease is due primarily to annual depreciation offset by Capitola's Lagoon Ocean Water Quality project and a sidewalk project on Bay Avenue. \$1.6 million or 8.2% of the City's net assets are restricted funds with external limitations on their use. The remaining \$3.2 million or 16.3% is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors. A condensed comparative is shown below.

Governmental Net Assets (in thousands)		
Governmental Activities	2011	2010
Cash & Investments	\$ 8,799	\$ 9,904
Capital Assets	16,089	16,667
Other Assets	5,785	5,986
Total Assets	\$ 30,673	\$ 32,557
Long-term Debt	\$ 6,569	\$ 7,373
Other Liabilities	4,166	3,630
Total Liabilities	\$ 10,735	\$ 11,003
Net Assets		
Net Capital Assets	\$ 15,054	\$ 15,598
Restricted	1,635	1,381
Unrestricted	3,249	4,575
Total Net Assets	\$ 19,938	\$ 21,554

All revenue for the City of Capitola is governmental revenue. Revenue decreased \$1.8 million year over year, primarily due to reductions of \$460,000 for HOME program with the completion of the federal HOME grant for the Bay Avenue Senior Housing Project, a \$400,000 decline in operating grants, and \$270,000 decline in permits, plan check, maintenance, and building fees. Major revenue sources for the City General Fund are sales and use tax (30.5% of total revenue), property tax (25.7%), and charges for services (21.5%). City tax revenue was essentially flat for the year. Total expenditures remained flat versus 2009-10 as the City controlled spending to remain in line with the reduced revenue.

Changes in Governmental Net Assets (in thousands)		
Revenues:	2011	2010
Program Revenues: (a)		
Charges for services	\$ 3,446	\$ 4,831
Operating Grants & Contributions	1,040	1,469
Capital Grants & Contributions	421	388
Total Program Revenues	4,907	6,688
General Revenues:		
Property Taxes	4,107	4,066
Sales and Use Taxes	4,891	4,994
Other Taxes	1,347	1,336
Investment Income	185	238
Other	573	488
Total General Revenues	11,103	11,122
Total Revenues	\$ 16,010	\$ 17,810
Expenses:		
General Government	\$ 5,453	\$ 5,103
Public Safety	5,422	5,533
Community Development	2,068	2,428
Cultural and Leisure	995	1,025
Transportation	2,445	1,932
Interest on Long-term Debt	448	509
Total Expenses	\$ 16,831	\$ 16,530
Change in Net Assets before extraordinary items	\$ (821)	\$ 1,280
Extraordinary Item: Flood loss disaster	(795)	-
Change in Net Assets	\$ (1,616)	\$ 1,280
Net Assets at Beginning of Year	\$ 21,554	\$ 20,274
Net Assets at End of Year	\$ 19,938	\$ 21,554
<u>(a) Program Revenue by activity</u>		
General Government	\$ 785	\$ 822
Public Safety	\$ 1,200	\$ 1,274
Community Development	\$ 1,793	\$ 3,453
Cultural and Leisure	\$ 655	\$ 697
Transportation	\$ 475	\$ 441
Total	\$ 4,908	\$ 6,687

## **Financial Analysis of Fund Financial Statements**

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

As of June 30, 2011, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balances in government funds are reported in classifications that comprise a hierarchy based on primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The City considers restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the City considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

*Nonspendable Fund Balance* is composed of funds that cannot be spent either because they are in nonspendable form or are required to be maintained intact.

*Restricted Fund Balance* is composed of funds that are constrained to specific purposes by state or federal law, or externally imposed conditions by grantors or creditors.

*Committed Fund Balance* includes amounts constrained for a specific purpose by City Council action. It requires an equivalent action by City Council to remove the constraint.

*Assigned Fund Balance* includes any remaining amounts for all government funds other than General Fund that are not classified as nonspendable, restricted, or committed. For the General Fund, amounts constrained for the intent to be used for a specific purpose by the delegated official to assign fund balance. The City's fund balance policy delegates the authority to assign amounts to be used for specific purposes to the Finance Director.

*Unassigned Fund Balance* are either residual positive net resources of the General Fund in excess of what can properly be classified in one of the other four categories, or negative balances. For all funds other than the General Fund, amounts expended in excess of resources that are nonspendable, restricted, committed, or assigned.

### ***Major Governmental Funds***

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

*The General Fund* is the chief operating fund of the City. The total fund balance of the General Fund at fiscal year-end was \$4.8 million, a \$248,000 or 5.0% decrease from prior year. At June 30, 2011, the unassigned fund balance of the General Fund was \$2.8 million.

As a measure of General Fund liquidity, it can be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. At June 30, 2011, unassigned fund balance represented 23.6% of total General Fund expenditures, a 15.6% point drop from fiscal 2009-10 and total fund balance represented 40.3% of total General Fund expenditures, a 17.0% point decrease. A major component of the drop in liquidity is the result of costs related to a winter storm which initiated conditions that caused failure



of a major storm drain above Capitola Village and the City Hall/Police Department complex, sending water into numerous structures and facilities. The City recognized an extraordinary item of \$795,300 for repairs. Replenishing reserves to Financial Policy levels in a flat to depressed economy will have challenges. Capitola has established a goal of reaching the established reserve levels by year-end fiscal 2015-16, and allocated \$337,500 to the reserve accounts in the adopted FY 2011-12 budget.

Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual - General Fund

	Budgeted Amounts		2011 Actual Results	Variance to Final Budget
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 7,812	\$ 7,759	\$ 7,625	\$ (134)
Licenses & Permits	\$ 509	\$ 512	\$ 455	\$ (57)
Fines & Forfeitures	\$ 859	\$ 819	\$ 702	\$ (117)
Intergovernmental	\$ 1,259	\$ 1,139	\$ 1,119	\$ (20)
Charges for Services	\$ 1,486	\$ 1,457	\$ 1,187	\$ (270)
Use of Money and Property	\$ 415	\$ 400	\$ 385	\$ (15)
Other Revenue	\$ 115	\$ 125	\$ 155	\$ 30
Total Revenues	<u>\$ 12,455</u>	<u>\$ 12,211</u>	<u>\$ 11,628</u>	<u>\$ (583)</u>
<b>EXPENDITURES</b>				
Current:				
General Government	\$ 2,791	\$ 3,146	\$ 2,874	\$ (272)
Public Safety	\$ 5,787	\$ 5,697	\$ 5,307	\$ (390)
Community Development	\$ 713	\$ 747	\$ 701	\$ (46)
Culture and Recreation	\$ 966	\$ 985	\$ 899	\$ (86)
Transportation	\$ 2,044	\$ 2,101	\$ 2,015	\$ (86)
Capital Outlay	\$ 100	\$ -	\$ 11	\$ 11
Total Expenditures	<u>\$ 12,401</u>	<u>\$ 12,676</u>	<u>\$ 11,807</u>	<u>\$ (869)</u>
Excess/(Deficit) of Rev. to Exp.	\$ 54	\$ (465)	\$ (179)	\$ 286
<b>OTHER FINANCING SOURCES &amp; USES</b>				
Transfers In	\$ -	\$ 4	\$ 115	\$ 111
Transfers Out	\$ (1,080)	\$ (864)	\$ (714)	\$ 150
Total Other Financing Sources & Uses	<u>\$ (1,080)</u>	<u>\$ (860)</u>	<u>\$ (599)</u>	<u>\$ 261</u>
<b>EXTRAORDINARY ITEM</b>				
Flood Disaster Loss	\$ -	\$ -	\$ (795)	\$ (795)
Net Change in Fund Balance	\$ (1,026)	\$ (1,325)	\$ (1,573)	\$ (248)
Fund Balance, Beginning	\$ 6,332	\$ 6,332	\$ 6,332	\$ -
Fund Balance, Ending	\$ 5,306	\$ 5,007	\$ 4,759	\$ (248)

*General Fund Budget* comparison is part of the Required Supplementary Information following the Notes to the Financial Statements. Over the course of the year, the City Council revises the City budget for amendments and appropriations to reflect carryovers of unspent contractual obligations and appropriations from the prior year and newly approved appropriations for City decisions that have been made since generation of the budget. General Fund revenue budget of \$12.5 million was decreased by \$244,000 during fiscal 2010-11. Total actual General Fund revenues were \$11.6 million, \$583,000 or 4.8% below the final budget. General Fund operating expenditures budget of \$12.4 million was increased by \$275,000 during 2010-11. Total actual General Fund operating expenditures were \$11.8 million, which is \$869,000 or 6.9% lower than (favorable to) the final amended budget. The overall favorable expenditure variance was the result of a concerted effort to maintain previously cut and controlled expenditures, combined with the unanticipated \$795,000 cost of water damage repair completed in 2010-11.

*The Federal HOME Loan Reuse Fund* is for depositing loan payments from recipients of the HOME program loans made within the City. All deposits into this HOME Program Reuse Fund must be used to fund additional affordable housing activities in the City, in accordance with the Federal HOME Program

Reuse Guidelines. Currently there are four groups of outstanding home loans recorded in this fund: a set of share loans to assist mobile home park residents purchase their park, First Time Homebuyer Program providing deferred second mortgages, housing rehabilitation loans to bring mobile homes and homes up to standard, and a combination of rehabilitation and acquisition loans to assist residents in the acquisition of their mobile home park. Fiscal 2010-11 activity was composed of \$12,300 in principal and interest revenue from the Wharf Road Manor Acquisition and Rehabilitation Loan.

*The RDA Low Income Housing Fund* is funded from 20% of gross tax increment set aside required under California Redevelopment Law. As required by law, it is segregated in a separate fund and all principal repayments and interest payments for loans and grants are returned to the fund. Current year source of revenue of \$490,300 is primarily tax increment housing set aside. Key expenditures were \$95,000 in emergency housing funding, \$49,000 First Time Homebuyer loan, \$19,000 in security deposit subsidies, \$11,000 in mobile home park rent subsidies, supported by \$210,000 in contract and housing administration expense. Total revenues of \$2,300 plus \$490,300 in transfers in were offset by total expenditures of \$415,000 and transfers out of \$112,300 resulting in a \$34,700 decrease in fund balance to \$885,800.

*The RDA Debt Service Fund* is funded from Redevelopment Agency tax increment. For 2010-11, expenditures and transfers out were \$656,100 greater than fund revenues of \$2.5 million. Pass throughs and related transfers out for 20% housing set aside requirements were \$1.1 million and \$490,300, respectively. Supplemental Educational Revenue Augmentation Fund (SERAF) payment of \$144,800 and principal and interest payments of \$428,900 were other statutory and existing contractual obligations paid. Other expenditures for existing commitments were \$618,000 for Construction in Progress and \$106,500 for project construction services for the Clares Traffic Calming project, \$63,000 for securing and site planning for Rispin property, \$50,000 for library planning, and \$ 117,200 in general operating expenditures, including tourism/economic development of \$51,800 and county property tax administration fee of \$32,200.

The RDA Debt Service fund includes a \$618,000 debt to the City for reimbursement of previously rendered but uncharged administrative services and \$1,350,000 debt to the City for a loan relating to purchase of 5.4 acres of the Rispin property in July, 2003. The \$618,000 loan is to be paid on demand but not later than 25 years from the date of the agreement which is December 13, 2026. The \$1,350,000 loan, initially due and payable in full on the maturity date of June 24, 2017, is now due June 24, 2022 based on amendment of the Redevelopment Plan for the Capitola Redevelopment Project to extend the time limit on receipt of tax increment revenues. Terms dictate the maturity date shall automatically be extended until the last date on which the Agency may receive tax increment under the Redevelopment Plan, as amended.

*Capital Asset and Debt Administration* key components are net capital assets for the City and total long term debt, along with debt due within one year.

*Capital Assets* for governmental activities remain essentially the same as last year, increasing \$416,000 or 1.2% to \$35.7 million at fiscal year-end 2010-11. Net capital assets of \$16.1 million at June 30, 2011 are slightly lower than prior year due to depreciation charges. Limited change in assets is due to economic conditions and the City's conservative fiscal management. Additional detail on capital assets can be found in Note III.D. *Notes to the Financial Statements*.

Capital Assets - Governmental Activities (in thousands)		
	2011	2010
Land	\$ 4,884	\$ 4,884
Construction in Progress	\$ 502	\$ 871
Buildings & Improvements	\$ 3,256	\$ 3,256
Machinery & Equipment	\$ 2,960	\$ 2,948
Infrastructure	\$ 24,145	\$ 23,372
Total Capital Assets	\$ 35,747	\$ 35,331
Accumulated Depreciation	\$ (19,659)	\$ (18,664)
Net Capital Assets	\$ 16,088	\$ 16,667

*Long-term Debt* is summarized below. At June 30, 2011, total long term debt was \$7.4 million. Additions to debt were a result of operational commitments such as compensated absences, other post employment benefits, and RDA pass throughs, totaling \$230,000. Major reductions in long term debt were due to pension obligation debt service payments, pass through payments, and compensated absences related to retirements.

Long Term Debt				
	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
2007 Pension Obligation Bond	\$ 4,265,000	\$ -	\$ 435,000	\$ 3,830,000
Capital Leases Payable	69,001	-	33,791	35,210
Notes Payable	1,010,182	-	6,712	1,003,470
Compensated Absences	752,277	68,355	169,625	651,007
Net OPEB Obligation	149,108	75,215	-	224,323
RDA Pass Throughs	1,768,846	89,340	228,926	1,629,260
Total	<u>\$ 8,014,414</u>	<u>\$ 232,910</u>	<u>\$ 874,054</u>	<u>\$ 7,373,270</u>

### **Economic Outlook**

The City of Capitola has established a tradition of fiscally conservative management, with an enterprising spirit that emphasis civic involvement and economic development.

The global economic downturn which began in 2007 appears to have leveled off, however consumer confidence continues to be relatively weak and economic activity low as compared to pre-2007 levels. The City of Capitola's job base, which is heavily retail, has declined from 6,200 in 2002 to 5,992 in 2011. The top 10 employers employed 1,970 or 31.8% of the City employment base in 2002. By 2011, the top ten employers employed 1,165, a drop of 40.9%. Currently, the top 10 employ 19.4% of the employment base for the City. These results reflect loss of two major auto dealerships and two major department stores during this time period combined with lower retail sales and staffing.

For fiscal year 2010-11, revenue was down 10% for the year and is anticipated to be relatively flat for 2011-12. Expenditures for the year were flat with the exception of the use of emergency reserves related to the pipe failure and related water damage of the Capitola Police Department and the Capitola Village. For 2011-12, expenditures are also anticipated to be held flat.

As identified in the transmittal letter, a heavy March 2011 rainstorm and subsequent pipe failure and water flows had a significant impact on the local economy. The financial impact for the City included the cost of relocating the Police Department in portable units for several months, gutting and rebuilding the Police Department facility and refurbishing offices, locker rooms and records areas. The City recognized an extraordinary item of \$795,300 in the 2010-11 financial statements as a result.

The City's fiscal management policy is to maintain contingency reserves at 10% of operating expenditures and emergency reserves at 5%. Fiscal year 2010-11 ended with the Contingency Reserve Fund at \$934,900 or 7.9% of General Fund operating expenditures and the Emergency Reserve Fund at \$134,700 or 1.1% of General Fund operating expenditures. Based on 2010-11 actual expenditures these reserves should be \$1.2 million and \$590,400, respectively , leaving a current gap in the City's reserve funds of slightly over \$700,000. Long term, replenishing reserves to Financial Policy levels in a flat to depressed economy will be challenging. Capitola currently has a goal of reaching the established reserve levels by year-end fiscal 2015-16. In a first step toward achieving that goal, the City allocated \$337,500 to the reserve accounts in the adopted FY 2011-12 budget.

Looking forward, the City has contained the growth in several expenditure classes through the establishment of a cap on the City's contribution to the Public Employees Retirement System (PERS), and establishing fixed contribution amounts for employee health care. These two cost containment mechanisms help to ensure the City's long term fiscal health.

The cap on the City's PERS contribution was established in 2007 through agreements with all employee bargaining units. The cap sets the maximum percentage of an employee's salary the City will contribute toward retirement costs at 28.291% for Safety employees and 16.488% for Miscellaneous Group employees. This has protected the City significantly in recent years from the escalating retirement costs for public employees. For 2010-11, Miscellaneous Group employees absorbed a PERS payroll deduction of 7.8% and the Safety Group had a 7.5% deduction.

While overall growth in City revenue has been limited in recent years, in 2011-12 the Fairfield Inn by Marriott opened, providing a boost to transient occupancy tax receipts. Additionally, a Target department store at the Capitola Mall is currently under construction and anticipated to open in early fiscal 2012-13.

A major economic impact for the City of Capitola will be the outcome of the existing redevelopment agency legislation and litigation. The potential elimination of the Capitola Redevelopment Agency would necessarily result in the City absorbing additional costs for programs and services that are currently part of the Redevelopment Agency's mission and that are important to the economic well being and future of the City. Due to the multiple potential outcomes and resulting regulations and requirements to proceed, it is difficult to fully assess the impact.

#### *Mobile Home Park Activities*

An important part of Capitola's affordable housing stock can be found in its nine mobile home parks serving over 720 households. Capitola has had a long-standing commitment to helping preserve these parks and assist the park residents. Over the years Capitola has encouraged and assisted in resident controlled park acquisitions as a way to gain long-term stability for the parks and to create a means for making needed infrastructure improvements. As of last year a total of two parks had been purchased cooperatively by the residents and three parks had been subdivided for individual resident ownership. In 2011 the City and Redevelopment Agency provided \$2 million in loan assistance for the acquisition and rehabilitation of the Castle Mobile Home Park by a non-profit housing provider. The City-owned Pacific Cove Mobile Home Park was also significantly damaged due to a winter storm and storm drain failure in 2011 and the City is now considering closing the park and relocating the residents.

The City's Mobile Home Park Rent Stabilization Ordinance was an important mechanism that had been in place for years as a way to help keep park rents affordable. On-going litigation from a number of mobile home park owners, however, made the defense of the Rent Stabilization Ordinance increasingly costly. In 2011 continuing park owner litigation forced the City to negotiate a compromise which eventually resulted in the repeal of the Rent Stabilization Ordinance in exchange for stabilized lease agreements for lower income park residents in the City's two remaining privately owned parks. In order to help reduce the impacts of the resulting rent increases the Redevelopment Agency initiated a Mobile Home Park Rental Assistance Program that provides assistance to lower income park residents

#### *General Plan Update*

Capitola is now entering the second year of a three-year General Plan Update process. Capitola's first General Plan was adopted in 1964 and was last updated in 1989. The General Plan update process will include the development of a new Plan, completion of an Environmental Impact Report, an update of the Capitola Municipal Code and an update of the Coastal Commission-required Local Coastal Plan. The costs of updating all of these planning documents will be paid for by the City's General Plan Maintenance Fund which is funded by fees on development projects. The City has entered into a professional services agreement with The Planning Group|DCE to coordinate the General Plan update.

The past year's work included the development of five White Papers that identify existing conditions in the community. In addition Re-Visioning area plans have been developed for key locations in the community including the 41<sup>st</sup> Avenue/Capitola Mall, the Bay Avenue area and the Capitola Village area. Public participation has been the overarching theme for all of the update planning activities. An 11 member General Plan Advisory Committee has been appointed that holds public meetings every month. A total of three day-long community workshops have also been held with significant community participation.

### **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.

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## **BASIC FINANCIAL STATEMENTS**

**City of Capitola**  
**Statement of Net Assets**  
**June 30, 2011**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and Investments	\$ 8,798,878
Accounts Receivable (Net of Allowance for Uncollectibles)	135,209
Due from Other Governments	1,214,488
Loans Receivable	4,245,834
Debt Issuance Costs	75,120
Prepays	114,219
Capital Assets:	
Non-depreciable:	
Land	4,883,789
Construction in Progress	501,916
Depreciable:	
Equipment	2,960,247
Buildings and Improvements	3,256,481
Infrastructure	24,145,365
Accumulated Depreciation	<u>(19,658,802)</u>
Total Assets	<u>30,672,744</u>
<b>LIABILITIES</b>	
Accounts Payable	1,109,306
Accrued Liabilities	406,594
Interest Payable	95,910
Deposits Payable	239,001
Unearned Revenue	1,511,020
Noncurrent Liabilities:	
Due Within One Year	804,208
Due in More Than One Year	<u>6,569,062</u>
Total Liabilities	<u>10,735,101</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	15,053,786
Restricted for:	
Public Safety	
Transportation	184,213
Public Safety	9,932
Community Development	1,256,071
Culture and Recreation	184,326
Unrestricted	<u>3,249,315</u>
Total Net Assets	<u><u>\$ 19,937,643</u></u>

The accompanying notes are an integral part of this statement.



**City of Capitola  
Statement of Activities  
Year Ended June 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental Activities:					
General Government	\$ 5,452,712	\$ 759,040	\$ 26,039	\$	\$ (4,667,633)
Public Safety	5,422,504	901,778	298,527		(4,222,199)
Community Development	2,067,847	1,077,236	715,563		(275,048)
Culture and Recreation	994,906	654,823			(340,083)
Transportation	2,444,924	53,533		421,219	(1,970,172)
Interest on Long-Term Debt	448,182				(448,182)
Total Governmental Activities	<u>\$ 16,831,075</u>	<u>\$ 3,446,410</u>	<u>\$ 1,040,129</u>	<u>\$ 421,219</u>	<u>(11,923,317)</u>
General Revenues:					
Taxes:					
					4,107,291
					477,084
					3,002,333
					849,967
					601,726
					266,948
					1,038,218
					283,955
					289,481
					185,346
					<u>11,102,349</u>
Extraordinary Item:					
					<u>(795,304)</u>
					(1,616,272)
					<u>21,553,915</u>
					<u>\$ 19,937,643</u>

The accompanying notes are an integral part of this statement.

**City of Capitola  
Balance Sheet  
Governmental Funds  
June 30, 2011**

	General	Federal Home Loan Reuse	RDA Low Income Housing	RDA Debt Service
<b>ASSETS</b>				
Cash and Investments	\$ 3,404,776	\$ 5,125	\$ 890,796	\$ 2,297,665
Accounts Receivable	59,874	4	2,448	14,598
Due from Other Governments	1,102,819			51,325
Due from Other Funds	53,157			
Advances to Other Funds	1,968,028			
Loans Receivable		1,912,341	2,167,879	
Prepays	5,519			108,700
	<u>5,519</u>	<u>1,912,341</u>	<u>2,167,879</u>	<u>108,700</u>
Total Assets	<u>\$ 6,594,173</u>	<u>\$ 1,917,470</u>	<u>\$ 3,061,123</u>	<u>\$ 2,472,288</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts Payable	\$ 832,952	\$	\$ 7,407	\$ 61,382
Accrued Liabilities	395,096			
Deferred Revenue	368,671	1,912,341	2,167,879	
Due to Other Funds				
Advances from Other Funds				1,968,028
Deposits Payable	238,001			
	<u>238,001</u>	<u>1,912,341</u>	<u>2,167,879</u>	<u>1,968,028</u>
Total Liabilities	<u>1,834,720</u>	<u>1,912,341</u>	<u>2,175,286</u>	<u>2,029,410</u>
Fund Balances:				
Nonspendable	1,973,547			108,700
Restricted		5,129	885,837	
Committed				
Assigned				334,178
Unassigned	2,785,906			
	<u>2,785,906</u>	<u>5,129</u>	<u>885,837</u>	<u>442,878</u>
Total Fund Balances	<u>4,759,453</u>	<u>5,129</u>	<u>885,837</u>	<u>442,878</u>
Total Liabilities and Fund Balances	<u>\$ 6,594,173</u>	<u>\$ 1,917,470</u>	<u>\$ 3,061,123</u>	<u>\$ 2,472,288</u>

The accompanying notes are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
\$ 2,200,516	\$ 8,798,878
58,285	135,209
60,344	1,214,488
	53,157
	1,968,028
165,614	4,245,834
	114,219
<u>\$ 2,484,759</u>	<u>\$ 16,529,813</u>
\$ 207,565	\$ 1,109,306
11,498	406,594
186,357	4,635,248
53,157	53,157
	1,968,028
1,000	239,001
<u>459,577</u>	<u>8,411,334</u>
	2,082,247
814,375	1,705,341
	-
1,230,314	1,564,492
(19,507)	2,766,399
<u>2,025,182</u>	<u>8,118,479</u>
<u>\$ 2,484,759</u>	<u>\$ 16,529,813</u>

The accompanying notes are an integral part of this statement.

**City of Capitola**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Assets**  
**June 30, 2011**

Fund balances of governmental funds \$ 8,118,479

In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.

Capital Assets at Historical Cost	35,747,798
Accumulated Deprecation	<u>(19,658,802)</u>

Net 16,088,996

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. This amount represents interest payable at year-end. (95,910)

In governmental funds, other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 3,124,228

Long term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Notes Payable	(1,003,470)
RDA Obligations	(1,629,260)
Compensated Absences Payable	(651,007)
Pension Obligation Bonds	(3,830,000)
Capital Leases Payable	(35,210)
Net OPEB Obligation	<u>(224,323)</u>

Total (7,373,270)

Issuance costs net of accumulated amortization were reported as expenditures in the governmental funds. 75,120

Net assets of governmental activities \$ 19,937,643

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**City of Capitola**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2011**

	General	Federal Home Loan Reuse	RDA Low Income Housing	RDA Debt Service
<b>REVENUES</b>				
Taxes	\$ 7,624,970	\$	\$	\$ 2,451,649
Licenses & Permits	454,935			
Fines & Forfeitures	702,045			
Intergovernmental	1,118,889			
Charges for Services	1,186,897			
Use of Money and Property	384,744	12,303	2,347	10,996
Other Revenue	155,133			
Total Revenues	<u>11,627,613</u>	<u>12,303</u>	<u>2,347</u>	<u>2,462,645</u>
<b>EXPENDITURES</b>				
Current:				
General Government	2,874,417			1,581,433
Public Safety	5,307,054			
Community Development	700,953	12,305	415,043	
Culture and Recreation	898,752			
Transportation	2,015,284			
Capital Outlay	10,696			
Debt Service:				
Principal				228,926
Interest & Fiscal Charges				200,020
Total Expenditures	<u>11,807,156</u>	<u>12,305</u>	<u>415,043</u>	<u>2,010,379</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(179,543)</u>	<u>(2)</u>	<u>(412,696)</u>	<u>452,266</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of Bonds				
Transfer In	116,367		490,330	
Transfer Out	(714,498)		(112,367)	(1,108,330)
Total Other Financing Sources (Uses)	<u>(598,131)</u>	<u>-</u>	<u>377,963</u>	<u>(1,108,330)</u>
<b>EXTRAORDINARY ITEM</b>				
Flood Disaster Loss	(795,304)			
Net Change in Fund Balances	(1,572,978)	(2)	(34,733)	(656,064)
Fund Balances, Beginning	<u>6,332,431</u>	<u>5,131</u>	<u>920,570</u>	<u>1,098,942</u>
Fund Balances, Ending	<u>\$ 4,759,453</u>	<u>\$ 5,129</u>	<u>\$ 885,837</u>	<u>\$ 442,878</u>

The accompanying notes are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
\$ 258,432	\$ 10,335,051
19,046	473,981
	702,045
1,307,065	2,425,954
90,921	1,277,818
81,901	492,291
17,441	172,574
<u>1,774,806</u>	<u>15,879,714</u>
26,693	4,482,543
161,305	5,468,359
858,156	1,986,457
109,977	1,008,729
279,215	2,294,499
653,894	664,590
475,503	704,429
246,535	446,555
<u>2,811,278</u>	<u>17,056,161</u>
<u>(1,036,472)</u>	<u>(1,176,447)</u>
	-
1,337,841	1,944,538
(9,343)	(1,944,538)
<u>1,328,498</u>	<u>-</u>
	(795,304)
292,026	(1,971,751)
<u>1,733,156</u>	<u>10,090,230</u>
<u>\$ 2,025,182</u>	<u>\$ 8,118,479</u>

The accompanying notes are an integral part of this statement.

**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, 2011**

Net change in fund balances-total governmental funds \$ (1,971,751)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital assets of \$430,449 was less than depreciation expense of \$1,001,684 in the period. (571,235)

The net effect of disposals of capital assets is to decrease net assets. (7,163)

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. 704,429

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. This is the change in accrued interest payable. 10,893

In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This represents the change in compensated absences during the year. 101,270

In governmental funds, notes receivable are offset by deferred revenue as they are not available to pay for current period expenditures. This represents the net change in deferred revenue and unearned revenue from the prior year. 294,360

Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as governmental fund expenditures. This represents the change in OPEB liability during the year. (75,215)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Amortization of Costs of Issuance (12,520)  
Other Long-term Debt Issuance (89,340)

Change in net assets of governmental activities \$ (1,616,272)



**City of Capitola**  
**Statement of Fiduciary Assets and Liabilities**  
**Agency Funds**  
**June 30, 2011**

**ASSETS**

Cash and Investments	\$ 35,952
Accounts Receivable	<u>43</u>
Total Assets	<u><u>35,995</u></u>

**LIABILITIES**

Due to Bondholders	<u>35,995</u>
Total Liabilities	<u><u>\$ 35,995</u></u>

The accompanying notes are an integral part of this statement.

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2011**

<u>NOTE</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
I	Summary of Significant Accounting Policies	22 - 27
II	Reconciliation of Government-Wide and Fund Financial Statements	27
III	Detailed Notes on All Funds	27 - 39
IV	Other Information	40 - 48

**City of Capitola**  
**Notes to Financial Statements**  
**Year Ended June 30, 2011**

**I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A) Description of Reporting Entity**

The accompanying financial statements present the financial activity of the City, which is the primary government presented, along with the financial activities of its component units, which are entities for which the City is financially accountable. Although they are separate legal entities, blended component units are in substance part of the City's operations and are reported as an integral part of the City's basic financial statements. The City's component units which are described below are all blended.

The City Council serves in separate session as the governing bodies of the Capitola Redevelopment Agency and the Capitola Financing Authority, although these agencies are legal entities apart from the City.

The Capitola Redevelopment Agency and Capitola Financing Authority are included as component units in the accompanying financial statements. The financial activities of the foregoing entities have been aggregated and merged (termed "blending") with those of the City in the accompanying financial statements, as each meets the criteria for inclusion as set forth in Governmental Accounting Standards Board Statement (GASB) No. 14, as amended by GASB Statement No. 39.

The Capitola Redevelopment Agency was established in 1980 by the City Council to eliminate blight within the defined project areas by encouraging and assisting planned development of low income housing and commercial projects. The Capitola Financing Authority is a joint powers authority whose board of directors comprises the City's elected council. Both the Redevelopment Agency and the Capitola Financing Authority exist for the purpose of facilitating the City's capital financing program. Separate financial statements are prepared by the Capitola Redevelopment Agency and are available at City Hall. The Capitola Financing Authority does not prepare separate financial statements.

**B) Government-Wide and Fund Financial Statements**

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 Assets 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.

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.

**City of Capitola**  
**Notes to Financial Statements**  
**Year Ended June 30, 2011**

**I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**B) Government-Wide and Fund Financial Statements - Continued**

**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.

**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 revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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.

Taxes, intergovernmental revenues, licenses, 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.

The Agency funds are reporting only assets and liabilities under the accrual basis of accounting and have no measurement focus.

The City reports the following major governmental funds:

General Fund

This 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

This fund accounts for housing loan principal and interest payments that will be available for a similar future federal program.

RDA Low Income Housing Fund

This fund accounts for 20% of the Redevelopment Agency tax increment revenues that are set aside by state law, and the use of those revenues.

**City of Capitola**  
**Notes to Financial Statements**  
**Year Ended June 30, 2011**

**I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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

RDA Debt Service Fund

This fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs in the RDA.

The City also reports the following fund type:

Fiduciary Funds

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

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Direct expenses have not been eliminated from the functional categories; indirect expenses and internal payments have been eliminated.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then use unrestricted resources as they are needed.

**D) Assets, Liabilities, and Net Assets or Equity**

**1) Cash and Investments**

Investments are reported in the accompanying balance sheet at fair market 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.

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2011**

**I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**D) Assets, Liabilities, and Net Assets or Equity - Continued**

**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). All other outstanding balances between funds are reported as “due to/from other funds.”

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.

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.

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.

**3) 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 valued 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, 2011**

**I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**D) Assets, Liabilities, and Net Assets or Equity - Continued**

**3) 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

**4) Deferred Revenue**

Revenues received, but not yet earned, are deferred until such time as those monies meet the revenue recognition criteria. In the case of intergovernmental revenues in the fund financial statements, e.g., grants, entitlements and shared revenue, the basis of accounting for such revenue is determined according to the procedures common to each fund type in which the grant, entitlement, or shared revenue is recorded. Grants, entitlements, and shared revenues received earlier than the time established by the revenue recognition criteria are reported as deferred revenues.

Revenues earned, but not yet received, may not be available in a timely manner to pay current expenditures or obligations. Such receivables, not meeting the availability criteria necessary for accrual under modified accrual basis accounting principles, are classified as deferred revenues for that period in the fund financial statements. In the government-wide financial statements, however, availability criteria are not considered. Instead, revenues are recognized at the point in time when revenue is earned through performance or similar recognition standards.

**5) Compensated Absences**

In compliance with Governmental Accounting Standards Board Statement No. 16, the City has established a liability for accrued sick leave and vacation in relevant funds. 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 sick leave and vacation are not used by the employee 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.

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2011**

**I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**E) 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.

**II) RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets**

The governmental fund balance sheet includes a reconciliation between *fund balances of total governmental funds* and *net assets of governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains “Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.” The details of this \$3,124,228 difference are as follows:

Loans Receivable	\$	2,900,163
Grants Receivable		222,650
Developer Fees		1,415
		3,124,228
	\$	3,124,228

**III) DETAILED NOTES ON ALL FUNDS**

**A) Cash and Investments**

The composition of cash and investments as of June 30, 2011, by fund type is as follows:

	Available For Operations	Restricted	Total
	Operations	Restricted	Total
General Fund	\$ 3,215,915	\$ -	\$ 3,215,915
Special Revenue Funds	1,657,171	-	1,657,171
Capital Projects Funds	1,372,898	-	1,372,898
Debt Service Funds	-	2,552,894	2,552,894
Fiduciary Funds	-	35,952	35,952
	\$ 6,245,984	\$ 2,588,846	\$ 8,834,830



**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2011**

**III) DETAILED NOTES ON ALL FUNDS - Continued**

**A) Cash and Investments - Continued**

**Classification**

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or Agency agreements:

Cash and Investments	\$ 8,798,878
Total City Cash and Investments	8,798,878
 Cash and Investments	 35,952
Total Cash and Investments in Fiduciary Fund (separate statement)	35,952
Total Cash and Investments	\$ 8,834,830

**Investments Authorized by the California Government Code and the Entity's Investment Policy**

The table below identifies the investment types that are authorized by the City's investment policy and the California Government Code. 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	1 year	None	None
Money Market Mutual Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None
Guaranteed Investment Contracts	15 months	None	None

**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:

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2011**

**III) DETAILED NOTES ON ALL FUNDS - Continued**

**A) Cash and Investments - Continued**

**Disclosures Relating to Interest Rate Risk - Continued**

Investment Type	Carrying Amount	Remaining Maturity (in Months)			
		12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
State Investment Pool – LAIF	\$ 4,773,802	\$ 4,773,802	\$ -	\$ -	\$ -

**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	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End		
				AAA	Aa	Not Rated
State Investment Pool - LAIF	\$ 4,773,802	N/A	\$ -	\$ -	\$ -	\$ 4,773,802

**Concentration of Credit 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.

**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 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.

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2011**

**III) DETAILED NOTES ON ALL FUNDS - Continued**

**A) Cash and Investments - Continued**

**Custodial Credit Risk - Continued**

None of the City's deposits with financial institutions in excess of the Federal Depository Insurance Corporation's limits were held in uncollateralized accounts.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) 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 investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investments in securities through the use of mutual funds or government investment pools (such as LAIF).

**Investment in State Investment Pool**

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based on the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (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 on an amortized cost basis.

**B) Interfund Receivables, Payables and Transfers**

Due to/from other funds at June 30, 2011 is as follows:

		DUE FROM	
		Non-Major Funds	Total
DUE	General Fund	\$ 53,157	\$ 53,157
TO	Total	\$ 53,157	\$ 53,157

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.

Advances to/from other funds at June 30, 2011 are as follows:

		ADVANCES TO	
		Debt Service Fund	Total
ADVANCES	General Fund	\$ 1,968,028	\$ 1,968,028
FROM	Total	\$ 1,968,028	\$ 1,968,028

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2011**

**III) DETAILED NOTES ON ALL FUNDS - Continued**

**B) Interfund Receivables, Payables and Transfers - Continued**

The Redevelopment Agency has incurred substantial costs for a proposed expansion of the redevelopment area and amendment of the redevelopment plan. The City has been providing staff and administrative services without compensation to the Agency since the fiscal year 1997/1998. The City and the Agency entered into an agreement to identify the staff and administrative costs due to the City since the fiscal year 1997/1998. The parties agreed that the Agency will pay the City for its past administrative services, plus interest calculated at the Local Agency Investment Fund (LAIF) rate published for the quarter ending March. 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 parties further agreed that the amount owed has been calculated at an overhead rate of fifteen percent of net tax increment, with simple interest. The principal amount of this reimbursement shall be paid as Agency funds become available, but in no event later than twenty-five years. As of June 30, 2011, the Agency owes the City \$618,028.

In July 2003, the City of Capitola sold the Rispin Mansion property to the Redevelopment Agency of Capitola in exchange for a \$1,350,000 note. The parties agreed to calculate interest on the advance at 5% per annum. 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 pension obligation bond sold by the City; c) the State of California LAIF rate; or d) 5%. The outstanding principal sum of this Note shall be due and payable in full on June 24, 2017 ("Maturity Date"), provided, however, that if the Redevelopment Plan for the Capitola Redevelopment Project is amended to extend the time limit on receipt of tax increment revenues, then the Maturity Date shall automatically be extended until the last date on which the Agency may receive tax increment under the Redevelopment Plan, as amended. Payment of interest is due on a quarterly basis. As of June 30, 2011, the Agency owes the City \$1,350,000. In April 2007, the RDA Board of Directors passed a resolution that credited the RDA cap with \$629,059 as a result of state legislation regarding previous Educational Relief Augmentation Fund (ERAF) payments made by the Capitola Redevelopment Agency.

Interfund transfers for the year ended June 30, 2011 are as follows:

		TRANSFERS IN			Total
		General Fund	RDA Low Income Fund	Other Governmental Funds	
TRANSFERS OUT	General Fund	\$ -	\$ -	\$ 841,597	\$ 841,597
	RDA Debt Service Fund	-	490,330	618,000	1,108,330
	RDA Low Income Fund	112,367	-	-	112,367
	Other Governmental Funds	4,000	-	5,343	9,343
Total		<u>\$ 116,367</u>	<u>\$ 490,330</u>	<u>\$ 1,464,940</u>	<u>\$ 2,071,637</u>

**City of Capitola**  
**Notes to Financial Statements**  
**Year Ended June 30, 2011**

**III) DETAILED NOTES ON ALL FUNDS - Continued**

**B) Interfund Receivables, Payables and Transfers - Continued**

Transfers to the RDA Low Income Housing Fund totaled \$490,330 and were made from the RDA Debt Service Fund. The California Health and Safety Code requires the Agency project area to deposit 20% of allocated incremental property tax revenues (or 20% of net bond proceeds plus 20% of incremental revenues in excess of debt service payments on the bonds) into a Low/Moderate Income Housing Project Fund. This money is restricted for the purpose of increasing and improving the community's supply of low and moderate income housing. The Agency accounts for these revenues in a special revenue fund.

Transfers to the Non-Major Funds of \$841,597 and \$618,000 were made from the General Fund and RDA Debt Service Fund, respectively. The transfers were for debt service on the 2007 POB Bonds and construction on capital facilities.

Transfer to the General Fund of \$112,367 from the RDA Low Income Housing Fund was to reimburse the City for administrative costs.

**C) Housing and Community Development Loan Program**

The City uses Federal Home Loan Reuse, Housing and CDBG Program Income funds to provide housing rehabilitation loans to eligible applicants. Such loans are made to low and moderate income persons to improve or rehabilitate residences. The City accounts for this program in the Special Revenue Funds. Rehabilitation loans receivable of \$4,080,220 at June 30, 2011 have been reflected in the accompanying financial statements as loans receivable with an offsetting deferred revenue in the fund financial statements.

**D) Capital Assets**

Capital assets activity for the year ended June 30, 2011 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental Activities:</b>				
Capital Assets, Not Depreciated:				
Land	\$ 4,883,789	\$	\$	\$ 4,883,789
Construction in Progress	871,212	408,190	(777,486)	501,916
Total Capital Assets Not Depreciated	<u>5,755,001</u>	<u>408,190</u>	<u>(777,486)</u>	<u>5,385,705</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	3,256,481			3,256,481
Equipment	2,948,211	26,605	(14,569)	2,960,247
Infrastructure	23,372,225	773,140		24,145,365
Total Capital Assets Being Depreciated	<u>29,576,917</u>	<u>799,745</u>	<u>(14,569)</u>	<u>30,362,093</u>
Less Accumulated Depreciation	(18,664,524)	(1,001,684)	7,406	(19,658,802)
Net Capital Assets Being Depreciated	<u>10,912,393</u>	<u>(201,939)</u>	<u>(7,163)</u>	<u>10,703,291</u>
Net Capital Assets	<u>\$ 16,667,394</u>	<u>\$ 206,251</u>	<u>\$ (784,649)</u>	<u>\$ 16,088,996</u>

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2011**

**III) DETAILED NOTES ON ALL FUNDS - Continued**

**D) Capital Assets - Continued**

**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	\$ 872,096
Public Safety	55,993
Cultural and Recreation	36,292
Transportation	<u>37,303</u>
Total Depreciation Expense – Governmental Activities	<u><u>\$ 1,001,684</u></u>

**E) Long-Term Debt**

**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
2012	\$ 455,000	\$ 216,510	\$ 671,510
2013	485,000	188,263	673,263
2014	515,000	158,213	673,213
2015	545,000	126,360	671,360
2016	575,000	92,704	667,704
2017	610,000	57,095	667,095
2018	<u>645,000</u>	<u>19,382</u>	<u>664,382</u>
Total	<u><u>\$ 3,830,000</u></u>	<u><u>\$ 858,527</u></u>	<u><u>\$ 4,688,527</u></u>

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2011**

**III) DETAILED NOTES ON ALL FUNDS - Continued**

**E) Long-Term Debt - Continued**

**Capital Leases Payable**

In the 2007-08 fiscal year, the City entered into a Lease Purchase Agreement to lease a Street Sweeper from First Municipal Leasing Corporation for \$165,450. The equipment's net book value included in capital assets in the statement of net assets at June 30, 2011 totaled \$125,926. Principal and interest payments with a rate of 4.20% are due annually on October 10 until maturity in 2011.

The lease payments for the Street Sweeper Capital Lease are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$ 35,210	\$ 1,479	\$ 36,689
Total	\$ 35,210	\$ 1,479	\$ 36,689

**Notes Payable**

On September 29, 2000, the Agency borrowed \$1,000,000 to provide temporary, short-term financing for various capital projects included in the five year plan. The loan allowed for the principal to be fully prepaid without premium by the Agency upon 30 day written notice to the lender at any time after September 29, 2001. On March 30, 2006, Chase NYC took over the WestAmerica note and established a new expiration date of September 29, 2014. Interest is 4.75% (\$47,500/year) payable semiannually on March 29 and September 29.

During the 2005-06 fiscal year, the City entered into an energy conservation assistance account loan agreement with the California Energy Resources Conservation and Development Commission (the "Commission"), which provided for a maximum loan of \$40,000, at an interest rate of 4.5 percent per annum. Principal, together with interest thereon, is due and payable in semiannual installments of \$3,548 beginning December 2006. The balance at June 30, 2011 was \$3,470.

The following is a summary of principal and interest to be paid on the notes payable in future years:

Fiscal Year Ending June 30,	Principal	Interest
2012	\$ 3,470	\$ 47,578
2013	-	47,500
2014	1,000,000	47,500
	\$ 1,003,470	\$ 142,578

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2011**

**III) DETAILED NOTES ON ALL FUNDS - Continued**

**E) Long-Term Debt - Continued**

**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 \$651,007 as of June 30, 2011.

**Redevelopment Agency Pass-Through Agreements**

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. A summary of these deferred liabilities is as follows:

County Library Fund and County Special District Funds

The Agency entered into an agreement in 1984 with the County of Santa Cruz which provided that the Agency would not be required to pass through to the County Library Fund or Special District Funds any tax increments during years one through twenty of the Capitola Redevelopment Project. Instead, the Agency is required to pay these funds over a ten-year period beginning in year twenty-one (fiscal year ended June 30, 2002). The deferred pass-through payments are \$45,910/year for the County Library Fund and \$20,116/year for the County Special District Funds, for ten years ending June 30, 2012. There is no provision for interest in the agreement.

Principal balance at June 30, 2011      \$ 66,026

County Library Building Fund

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, is \$1,400,000, which is increased 5% per annum (compounded annually) until the fiscal year in which the library construction is completed or the full amount of the Agency assistance has been paid to the County.



**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2011**

**III) DETAILED NOTES ON ALL FUNDS - Continued**

**E) Long-Term Debt - Continued**

**Redevelopment Agency Pass-Through Agreements - Continued**

Beginning February 1, 2005, and February 1<sup>st</sup> of each fiscal year thereafter through February 1, 2018, or until the total amount of the Agency assistance 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 may 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. The maximum obligation of the Agency through the fiscal year ending June 30, 2018 is \$2,640,000. The Agency has recorded the initial debt of \$1,400,000 as of the 2004-05 fiscal year, which is increased by 5% each year and reduced by the minimum scheduled payment each year. The principal balance at June 30, 2011 is \$1,563,234.

A schedule of the Agency assistance obligation (increased by 5% per year) and the minimum scheduled payments is as follows:

<u>Fiscal Year</u>	<u>Total Amount of Agency Assistance Obligation</u>	<u>Minimum Scheduled Payment Amount</u>
2004-05	\$ 1,400,000	\$ 25,000
2005-06	1,470,000	25,000
2006-07	1,543,000	25,000
2007-08	1,620,675	25,000
2008-09	1,701,709	25,000
2009-10	1,786,794	25,000
2010-11	1,876,134	162,900
2011-12	1,969,941	179,502
2012-13	2,068,438	211,720
2013-14	2,171,860	250,243
2014-15	2,280,452	287,116
2015-16	2,394,475	325,579
2016-17	2,514,199	366,577
2017-18	2,639,909	417,640

Debt service payments for debt existing at fiscal year end are generally made from the following sources:

**Pension Obligation Bonds** - General fund revenues.

**Notes Payable** - General fund revenues and RDA tax increment.

**Redevelopment Agency Pass-Throughs** - Tax increment revenues of the Redevelopment Agency.

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2011**

**III) DETAILED NOTES ON ALL FUNDS - Continued**

**E) Long-Term Debt - Continued**

**Changes in Long-Term Debt**

Following is a summary changes in long-term debt during the 2010-2011 fiscal year:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
2007 POB	\$ 4,265,000	\$ -	\$ 435,000	\$ 3,830,000	\$ 455,000
Capital Leases Payable	69,001	-	33,791	35,210	35,210
Notes Payable	1,010,182	-	6,712	1,003,470	3,470
Compensated Absences	752,277	68,355	169,625	651,007	65,000
Net OPEB Obligation	149,108	75,215	-	224,323	-
RDA Pass-Throughs	1,768,846	89,340	228,926	1,629,260	245,528
Totals	<u>\$ 8,014,414</u>	<u>\$ 232,910</u>	<u>\$ 874,054</u>	<u>\$ 7,373,270</u>	<u>\$ 804,208</u>

**F) Net Assets and Fund Balances**

GASB Statement No. 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

1) Net Assets

Net assets are the excess of all the City's assets over all its liabilities, regardless of fund. Net assets are divided into three captions under GASB Statement No. 34. These captions apply only to net assets, which is determined only at the government-wide level and for fiduciary funds and are described below:

*Invested in capital assets, net of related debt* describes the portion of net assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted* describes the portion of net assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulation, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income purposes.

*Unrestricted* describes the portion of net assets which is not restricted to use.

**City of Capitola**  
**Notes to Financial Statements**  
**Year Ended June 30, 2011**

**III) DETAILED NOTES ON ALL FUNDS – Continued**

**F) Net Assets and Fund Balances - Continued**

2) Fund Balances

The City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of June 30, 2011. Fund balances in governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The City considers restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the City considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable Fund Balance - Amounts that cannot be spent either because they are in nonspendable form or are required to be maintained intact.

Restricted Fund Balance - Amounts that are constrained to specific purposes by state or federal laws, or externally imposed conditions by grantors or creditors.

Committed Fund Balance - Amounts constrained for a specific purpose by City Council action. It would require the same action by City Council to remove the constraint.

Assigned Fund Balance - Amounts remaining for all governmental funds other than the General Fund that are not classified as nonspendable, restricted or committed. For the General Fund, amounts constrained for the intent to be used for a specific purpose by the delegated official to assign fund balance. The City's fund balance policy delegates the authority to assign amounts to be used for specific purposes to the Finance Director.

Unassigned Fund Balance - These are either residual positive net resources of the General Fund in excess of what can properly be classified in one of the other four categories, or negative balances. For all funds other than the General Fund, amounts expended in excess of resources that are nonspendable, restricted, committed, or assigned.

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2011**

**III) DETAILED NOTES ON ALL FUNDS – Continued**

**F) Net Assets and Fund Balances - Continued**

2) Fund Balances - Continued

The details of the fund balances as of June 30, 2011 are presented below:

<b>Fund Balances</b>	<u>General Fund</u>	<u>Federal Home Loan Reuse</u>	<u>RDA Low Income Housing</u>	<u>RDA Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Nonspendable:</b>						
Prepays	\$ 5,519	\$	\$	\$ 108,700	\$	\$ 114,219
Advances to Other Funds	1,968,028					1,968,028
<b>Restricted for:</b>						
Transportation					2,079	2,079
Public Safety					9,932	9,932
Community Development		5,129	885,837		365,105	1,256,071
Debt Service Reserve					252,932	252,932
Culture and Recreation					184,327	184,327
<b>Committed to:</b>						
-						
<b>Assigned to:</b>						
Debt Service				334,178		334,178
Other Capital Projects					1,230,314	1,230,314
<b>Unassigned:</b>	<u>2,785,906</u>				<u>(19,507)</u>	<u>2,766,399</u>
<b>Total Fund Balance</b>	<u><u>\$ 4,759,453</u></u>	<u><u>\$ 5,129</u></u>	<u><u>\$ 885,837</u></u>	<u><u>\$ 442,878</u></u>	<u><u>\$ 2,025,182</u></u>	<u><u>\$ 8,118,479</u></u>

**G) Deficit Fund Equity**

The following non-major funds had a deficit fund balance at June 30, 2011:

CDBG	\$ 4,067
CDBG Program Income	\$ 15,440

These deficits are expected to be reduced by future revenue or transfer from other funds.

**City of Capitola**  
**Notes to Financial Statements**  
**Year Ended June 30, 2011**

**IV) OTHER INFORMATION**

**A) 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 funds Board, and are charged to the City's general fund as expenditures when paid.

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.

**B) 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.

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2011**

**IV) OTHER INFORMATION - Continued**

**B) Joint Ventures - Continued**

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. The Agreement obligates the member agencies to pay use payments each year as rental for the use and occupancy of the related facilities.

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

<u>Fiscal Year Ending June 30,</u>	<u>Annual Use Payment</u>
2012	\$ 36,822
2013	37,348
2014	36,879
2015	35,574
2016	36,979
2017-2021	185,289
2022-2024	110,540

**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.

**C) City's Employees' Retirement Plan**

**Public Employee's Retirement System**

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. The contract offers a "2.5% at 55" plan for Miscellaneous Plan members and "3% at 50" plan for Safety Plan Members. 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. Copies of CalPERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, California 95814. The City of Capitola Miscellaneous Plan converted to 2.5% at 55, effective December 30, 2007.

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2011**

**IV) OTHER INFORMATION - Continued**

**C) City's Employees' Retirement Plan - Continued**

**Public Employee's Retirement System - Continued**

Funding Policy

Active plan members are required to contribute a percentage of their annual covered salary. The City of Capitola pays the member contributions for both the Miscellaneous Plan and the Safety Plan: 7% and 9% respectively. The actual rate for the Miscellaneous Plan is 8%, of which the City pays for 7%, and the employees pay for 1%. The City of Capitola is required to make an additional contribution at an actuarially determined rate. The required employer contribution rates for the fiscal year 2010-11 were 11.089% for the Miscellaneous Plan members and 19.094% for Safety Plan members. The contribution requirements for plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

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

Fiscal Year	Required Contributions	Percentage Contributed
06/30/09	\$ 286,734	100%
06/30/10	\$ 384,507	100%
06/30/11	\$ 430,383	100%

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

Fiscal Year	Required Contributions	Percentage Contributed
06/30/09	\$ 392,074	100%
06/30/10	\$ 383,836	100%
06/30/11	\$ 405,773	100%

**Public Agency Retirement System**

Overview

The Federal Omnibus Budget Reconciliation Act of 1990 (FOBRA 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.

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2011**

**IV) OTHER INFORMATION - Continued**

**C) City's Employees' Retirement Plan - Continued**

**Public Agency Retirement System - Continued**

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.

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 2010-11 contributions totaled \$29,314: \$4,282 by the City and \$25,032 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 2010-11 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 Assets and Changes in Net Assets

Balance 1/1/10	\$	74,005
Contributions		27,732
Earnings		1,156
Subtotal		102,893
Less: Expenses		(4,694)
Disbursements		(27,235)
Balance 12/31/10	\$	70,964

**D) 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



**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2011**

**IV) OTHER INFORMATION - Continued**

**D) Post Employment Benefits - Continued**

Plan Description - Continued

well as other requirements is established by State statute within the Public Employees' Retirement Law. CRHP selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits 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.

Funding Policy

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

The City is required to contribute the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 2.1% of the annual covered payroll. The City Council, through resolution, determined the City will make contributions on the "pay-as-you-go" method, making contributions to the plan at about the same time and in about the same amount as benefit payments and expenses become due.

Annual OPEB Cost

The City's annual OPEB cost, net OPEB obligation (asset) and the related information for 2011 were as follows:

Annual Required Contribution	\$ 99,497
Interest on Net Pension Obligation (Asset)	6,710
Adjustment to Annual Required Contribution	(6,517)
Annual OPEB Cost	<u>99,690</u>
Contributions Made	(24,475)
Pension Asset Amortization	-
Increase (Decrease) in Net Pension Obligation (Asset)	<u>75,215</u>
Net Pension Obligation (Asset) Beginning of Year	149,108
Net Pension Obligation (Asset) End of Year	<u><u>\$ 224,323</u></u>

For 2011, the City's annual OPEB cost (expense) of \$99,690 for CRHP was greater than the ARC by \$193. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the two preceding years were as follows:

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2011**

**IV) OTHER INFORMATION - Continued**

**D) Post Employment Benefits - Continued**

THREE-YEAR TREND INFORMATION FOR CRHP				
Fiscal Year	Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contributed	Net OPEB Obligation	
6/30/11	\$ 99,690	24.5%	\$ 224,323	
6/30/10	\$ 93,339	18.5%	\$ 149,108	
6/30/09	\$ 87,219	16.3%	\$ 72,996	

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2011, was as follows:

Actuarial Accrued Liability (AAL)	\$	1,006,369
Actuarial Value of Plan Assets	\$	0
Unfunded Actuarial Accrued Liability (UAAL)	\$	1,006,369
Funded Ratio (Actuarial Value of Plan Assets/AAL)		0%
Covered Payroll (Active Plan Members)	\$	4,686,029
UAAL as a Percentage of Covered Payroll		21.48%

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.

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.

**City of Capitola**  
**Notes to Financial Statements**  
**Year Ended June 30, 2011**

**IV) OTHER INFORMATION - Continued**

**D) Post Employment Benefits - Continued**

Actuarial Methods and Assumptions - Continued

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

Valuation Date	July 1, 2011
Actuarial Cost Method	Entry Age Normal Cost 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	4.50%
Projected Salary Increase	3.25%
Health Care Trend Rate	10.00%

**E) 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.

During the 2010-11 fiscal year, the Redevelopment Agency entered into an agreement with a developer committing \$1.0 million to help fund various improvements as part of the redevelopment of the Capitola Mall. As of June 30, 2011, no funds had been expended on this project.

**Other Contingencies**

The City has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

**Recent Changes in Legislation Affecting California Redevelopment Agencies**

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend (effective July 1, 2011) nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each local government would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the city, special district or county "may use any available funds not otherwise obligated for other uses" to make this payment. The City of Capitola intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

**City of Capitola**  
**Notes to Financial Statements**  
**Year Ended June 30, 2011**

**IV) OTHER INFORMATION - Continued**

**E) Commitments and Contingent Liabilities - Continued**

Assembly Bill X1 26 directs the State Controller of the State of California 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 is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26.

In the event that Assembly Bill X1 26 is upheld, the receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency would become uncollectible with a loss recognized to the City. Additionally, the City would be impacted by the elimination of reimbursements previously paid to the City by the redevelopment agency for shared administrative services.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that they violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that “the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012.” A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule (“EOPS”) by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule (“ROPS”) by September 30, 2011.

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in AB1X 26.

On September 22, 2011, City of Capitola Ordinance No. 962 was adopted indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the City is estimated to be \$798,547 with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated \$189,398 will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of ABX1 26.

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2011**

**IV) OTHER INFORMATION - Continued**

**E) Commitments and Contingent Liabilities - Continued**

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012 and for a period shortly thereafter. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of litigation surrounding the actions of the state. In the event that Assembly Bills X1 26 and/or 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to redevelopment agencies ability to continue in view of the California State Legislature's declared intent to eliminate redevelopment agencies and to reduce their funding.

**F) Extraordinary Item**

In March 2011, flooding in the City caused failure of a major storm drain; the village, businesses, and residents, as well as the Capitola Police Department in the City Hall complex, suffered major damage as a result. The Flood Disaster Loss in the amount of \$795,304 is for repairs from flood damage. This is reported as an extraordinary item in the Statement of Revenues, Expenditures, and Changes in Fund Balances in the General Fund and the Statement of Activities.

**G) Restatement of Fund Balances**

Fund balances in the funds below were restated as a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

The beginning fund balances of Governmental Funds were restated as follows:

	General Fund	Other Governmental Funds
Fund Balances, as Previously Reported	\$ 6,253,782	\$ 1,811,805
Restatements:		
Changes to fund balance resulting from the Implementation of GASB 54	78,649	(78,649)
Fund Balances, as restated	\$ 6,332,431	\$ 1,733,156

**H) Subsequent Event**

Subsequent to June 30, 2011, the Redevelopment Agency loaned \$1.0 million to a non-profit agency to acquire a mobile home park. The agreement with the non-profit agency provides for additional funding of \$100,000/year for a ten-year period to provide rental assistance and infrastructure rehabilitation.

**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Capitola**  
**Schedule of Funding Progress for CRHP**  
**Year Ended June 30, 2011**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B - A)	(A/B)	(C)	[(B-A)/C]
07/01/11	\$ -	\$ 1,006,309	\$ 1,006,369	0%	\$ 4,686,029	21.48%
07/01/08	\$ -	\$ 1,043,809	\$ 1,043,809	0%	\$ 3,125,748	33.34%

\*GASB 45 was implemented prospectively in fiscal year 2009. There were no previous actuarial valuations.

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual - General Fund**  
**Year Ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 7,811,991	\$ 7,759,291	\$ 7,624,970	\$ (134,321)
Licenses & Permits	509,000	511,500	454,935	(56,565)
Fines & Forfeitures	859,000	819,000	702,045	(116,955)
Intergovernmental	1,258,700	1,138,880	1,118,889	(19,991)
Charges for Services	1,486,200	1,457,200	1,186,897	(270,303)
Use of Money and Property	414,800	400,100	384,744	(15,356)
Other Revenue	115,500	124,600	155,133	30,533
Total Revenues	<u>12,455,191</u>	<u>12,210,571</u>	<u>11,627,613</u>	<u>(582,958)</u>
<b>EXPENDITURES</b>				
Current:				
General Government	2,791,411	3,145,861	2,874,417	271,444
Public Safety	5,786,599	5,696,394	5,307,054	389,340
Community Development	713,274	747,085	700,953	46,132
Culture and Recreation	965,763	985,048	898,752	86,296
Transportation	2,044,053	2,101,332	2,015,284	86,048
Capital Outlay	100,000		10,696	(10,696)
Total Expenditures	<u>12,401,100</u>	<u>12,675,720</u>	<u>11,807,156</u>	<u>868,564</u>
Excess (Deficiency) of Revenues over Expenditures	<u>54,091</u>	<u>(465,149)</u>	<u>(179,543)</u>	<u>285,606</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In		4,000	116,367	112,367
Transfers Out	(1,080,000)	(864,500)	(714,498)	150,002
Total Other Financing Sources (Uses)	<u>(1,080,000)</u>	<u>(860,500)</u>	<u>(598,131)</u>	<u>262,369</u>
<b>EXTRAORDINARY ITEM</b>				
Flood Disaster Loss	-	-	(795,304)	(795,304)
Net Change in Fund Balances	(1,025,909)	(1,325,649)	(1,572,978)	(247,329)
Fund Balances, Beginning	<u>6,332,431</u>	<u>6,332,431</u>	<u>6,332,431</u>	<u>-</u>
Fund Balances, Ending	<u>\$ 5,306,522</u>	<u>\$ 5,006,782</u>	<u>\$ 4,759,453</u>	<u>\$ (247,329)</u>



**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual - Federal Home Loan Reuse Fund**  
**Year Ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Use of Money and Property	\$ 12,300	\$ 12,300	\$ 12,303	\$ 3
Total Revenues	12,300	12,300	12,303	3
<b>EXPENDITURES</b>				
Current:				
Community Development			12,305	(12,305)
Total Expenditures	-	-	12,305	(12,305)
Excess (Deficiency) of Revenues over Expenditures	12,300	12,300	(2)	(12,302)
Fund Balances, Beginning	5,131	5,131	5,131	-
Fund Balances, Ending	\$ 17,431	\$ 17,431	\$ 5,129	\$ (12,302)

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - RDA Low Income Housing Fund**  
**Year Ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Use of Money and Property	\$	\$	\$ 2,347	\$ 2,347
Total Revenues	-	-	2,347	2,347
<b>EXPENDITURES</b>				
Current:				
Community and Development	458,700	465,852	415,043	50,809
Total Expenditures	458,700	465,852	415,043	50,809
Excess (Deficiency) of Revenues over Expenditures	(458,700)	(465,852)	(412,696)	53,156
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	463,400	463,400	490,330	26,930
Transfer Out		(730,000)	(112,367)	617,633
Total Other Financing Sources (Uses)	463,400	(266,600)	377,963	644,563
Net Change in Fund Balance	4,700	(732,452)	(34,733)	697,719
Fund Balance, Beginning	920,570	920,570	920,570	-
Fund Balance, Ending	\$ 925,270	\$ 188,118	\$ 885,837	\$ 697,719

**City of Capitola**  
**Notes to Required Supplementary Information**  
**Year Ended June 30, 2011**

**BUDGETS AND BUDGETARY ACCOUNTING**

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

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for governmental funds. The City’s budget ordinance requires that in April of each fiscal year, the City Manager must submit a preliminary budget that includes projected expenditures and the means of financing them, to the City Council for the fiscal year commencing the following July 1. As modified during public study sessions, the preliminary budget becomes the proposed budget. Following public hearings on the proposed budget, the final annual budget is adopted by the City Council in June of the following fiscal year. After adoption of the final budget, transfers of appropriations within a general fund department, or within each fund can be made by the City Manager. Budget modifications between funds, increases or decreases to a fund’s overall budget, transfers between general fund departments or transfers that affect capital projects must be approved by the City Council or Agency Board. Numerous properly authorized amendments are made during the fiscal year. Appropriations lapse at fiscal year end.

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

Excess of expenditures over appropriations in individual funds are as follows:

<u>Major Funds</u>	<u>Excess Expenditures</u>
Federal Home Loan Reuse Fund	\$ 12,305

The above excess expenditures were funded by available fund balances and revenues in excess of budgeted amounts.

**SUPPLEMENTARY INFORMATION**

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - RDA Debt Service Fund**  
**Year Ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 2,316,800	\$ 2,316,800	\$ 2,451,649	\$ 134,849
Use of Money and Property			10,996	10,996
Total Revenues	<u>2,316,800</u>	<u>2,316,800</u>	<u>2,462,645</u>	<u>145,845</u>
<b>EXPENDITURES</b>				
Current:				
General Government	1,721,200	1,640,504	1,581,433	59,071
Capital Outlay	25,000	25,000		25,000
Debt Service:				
Principal	228,900	228,900	228,926	(26)
Interest and Fiscal Charges	200,000	200,000	200,020	(20)
Total Expenditures	<u>2,175,100</u>	<u>2,094,404</u>	<u>2,010,379</u>	<u>84,025</u>
Excess (Deficiency) of Revenues over Expenditures	<u>141,700</u>	<u>222,396</u>	<u>452,266</u>	<u>229,870</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers Out	<u>(463,400)</u>	<u>(3,492,470)</u>	<u>(1,108,330)</u>	<u>2,384,140</u>
Total Other Financing Sources (Uses)	<u>(463,400)</u>	<u>(3,492,470)</u>	<u>(1,108,330)</u>	<u>2,384,140</u>
Net Change in Fund Balance	(321,700)	(3,270,074)	(656,064)	2,614,010
Fund Balance, Beginning	<u>1,098,942</u>	<u>1,098,942</u>	<u>1,098,942</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 777,242</u>	<u>\$ (2,171,132)</u>	<u>\$ 442,878</u>	<u>\$ 2,614,010</u>

## **City of Capitola Non-Major Governmental 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 account for the receipt and expenditure of Supplemental Law Enforcement revenues provided by the State of California.

Gas Tax 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.

Development Fees Fund - Account for receipts and expenditures of fees assessed on development to alleviate the impact of traffic problems due to that development.

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

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

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

Community Development Block Grants Fund - Accounts for housing loans receivable under federal housing programs.

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

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

Affordable Housing Fund - Accounts for the creation of new affordable housing and rehabilitation of existing affordable housing.

BEGIN Grant Fund - Accounts for receipts and expenditures of the Building Equity and Growth in Neighborhoods (BEGIN) grant.

### **DEBT SERVICE FUNDS**

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 FUNDS**

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

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**City of Capitola  
Combining Balance Sheet  
Non-Major Governmental Funds  
June 30, 2011**

	Special Revenue				
	Supplemental Law Enforcement	Gas Tax	Wharf	Development Fees	Technology Fees
<b>ASSETS</b>					
Cash and Investments	\$ 1,093	\$	\$ 53,585	\$	\$ 11,288
Accounts Receivable	17,963			3,441	
Due from Other Governments	10,936	35,440			
Loans Receivable					
<b>Total Assets</b>	<b>\$ 29,992</b>	<b>\$ 35,440</b>	<b>\$ 53,585</b>	<b>\$ 3,441</b>	<b>\$ 11,288</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts Payable	\$ 572	\$ 12,011	\$ 2,123	\$	\$
Accrued Liabilities	5,153		4,048		
Deferred Revenue				1,415	
Due to Other Funds	14,335	23,376			
Deposits Payable			1,000		
<b>Total Liabilities</b>	<b>20,060</b>	<b>35,387</b>	<b>7,171</b>	<b>1,415</b>	<b>-</b>
Fund Balances:					
Restricted	9,932	53	46,414	2,026	11,288
Assigned					
Unassigned					
<b>Total Fund Balances</b>	<b>9,932</b>	<b>53</b>	<b>46,414</b>	<b>2,026</b>	<b>11,288</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 29,992</b>	<b>\$ 35,440</b>	<b>\$ 53,585</b>	<b>\$ 3,441</b>	<b>\$ 11,288</b>



PEG Cable TV Access	Capitola Village and Wharf BIA	CDBG	CDBG Program Income	HOME Grant	Affordable Housing	BEGIN Grant
\$ 86,527 98 4,671	\$ 393 5,649	\$ 10,517 11,800 9,297	\$ 6 165,614	\$ 5,230	\$ 343,756 19,328	\$ 60,000
<u>\$ 91,296</u>	<u>\$ 6,042</u>	<u>\$ 31,614</u>	<u>\$ 165,620</u>	<u>\$ 5,230</u>	<u>\$ 363,084</u>	<u>\$ 60,000</u>
\$ 13,360	\$ 587	\$ 35,681	\$ 165,614 15,446	\$ -	\$ 624 19,328	\$ 23
<u>13,360</u>	<u>587</u>	<u>35,681</u>	<u>181,060</u>	<u>-</u>	<u>19,952</u>	<u>23</u>
77,936	5,455	(4,067)	(15,440)	5,230	343,132	59,977
<u>77,936</u>	<u>5,455</u>	<u>(4,067)</u>	<u>(15,440)</u>	<u>5,230</u>	<u>343,132</u>	<u>59,977</u>
<u>\$ 91,296</u>	<u>\$ 6,042</u>	<u>\$ 31,614</u>	<u>\$ 165,620</u>	<u>\$ 5,230</u>	<u>\$ 363,084</u>	<u>\$ 60,000</u>

Continued

**City of Capitola**  
**Combining Balance Sheet - Continued**  
**Non-Major Governmental Funds**  
**June 30, 2011**

	<u>2007 POB</u>	<u>Capital</u>	<u>Total</u>
	<u>Debt</u>	<u>Projects</u>	<u>Nonmajor</u>
	<u>Service</u>	<u>Projects</u>	<u>Governmental</u>
			<u>Funds</u>
<b>ASSETS</b>			
Cash and Investments	\$ 255,229	\$ 1,372,898	\$ 2,200,516
Accounts Receivable			58,285
Due from Other Governments			60,344
Loans Receivable			165,614
	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 255,229</u>	<u>\$ 1,372,898</u>	<u>\$ 2,484,759</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts Payable	\$	\$ 142,584	\$ 207,565
Accrued Liabilities	2,297		11,498
Deferred Revenue			186,357
Due to Other Funds			53,157
Deposits Payable			1,000
	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>2,297</u>	<u>142,584</u>	<u>459,577</u>
Fund Balances:			
Restricted	252,932		814,375
Assigned		1,230,314	1,230,314
Unassigned			(19,507)
	<hr/>	<hr/>	<hr/>
Total Fund Balances	<u>252,932</u>	<u>1,230,314</u>	<u>2,025,182</u>
Total Liabilities and Fund Balances	<u>\$ 255,229</u>	<u>\$ 1,372,898</u>	<u>\$ 2,484,759</u>

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**City of Capitola**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Non-Major Governmental Funds**  
**Year Ended June 30, 2011**

	Special Revenue				
	Supplemental Law Enforcement	Gas Tax	Wharf	Development Fees	Technology Fees
<b>REVENUES</b>					
Taxes	\$	\$ 258,432	\$	\$	\$
Licenses and Permits					
Intergovernmental	170,283				
Charges for Services					7,386
Use of Money and Property		41	81,301		
Other Revenue				3,441	
Total Revenues	<u>170,283</u>	<u>258,473</u>	<u>81,301</u>	<u>3,441</u>	<u>7,386</u>
<b>EXPENDITURES</b>					
Current:					
General Government					
Public Safety	161,305				
Community Development					
Culture and Recreation			72,998		
Transportation		279,215			
Capital Outlay					
Debt Service:					
Principal		40,503			
Interest & Fiscal Charges		3,283			
Total Expenditures	<u>161,305</u>	<u>323,001</u>	<u>72,998</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>8,978</u>	<u>(64,528)</u>	<u>8,303</u>	<u>3,441</u>	<u>7,386</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In					
Transfers Out					
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	8,978	(64,528)	8,303	3,441	7,386
Fund Balances, Beginning	<u>954</u>	<u>64,581</u>	<u>38,111</u>	<u>(1,415)</u>	<u>3,902</u>
Fund Balances, Ending	<u>\$ 9,932</u>	<u>\$ 53</u>	<u>\$ 46,414</u>	<u>\$ 2,026</u>	<u>\$ 11,288</u>

PEG Cable TV Access	Capitola Village and Wharf BIA	CDBG	CDBG Program Income	HOME Grant	Affordable Housing	BEGIN Grant
\$ 19,046	\$	\$	\$	\$	\$	\$
		9,297		706,266		
396	70,335 137		26		3,123	
					14,000	
19,442	70,472	9,297	26	706,266	17,123	-
24,373						23
	72,454	47,411	2,980	693,515	41,796	
24,373	72,454	47,411	2,980	693,515	41,796	23
(4,931)	(1,982)	(38,114)	(2,954)	12,751	(24,673)	(23)
			5,343 (5,343)			
-	-	-	-	-	-	-
(4,931)	(1,982)	(38,114)	(2,954)	12,751	(24,673)	(23)
82,867	7,437	34,047	(12,486)	(7,521)	367,805	60,000
\$ 77,936	\$ 5,455	\$ (4,067)	\$ (15,440)	\$ 5,230	\$ 343,132	\$ 59,977

Continued

**City of Capitola**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Continued**  
**Non-Major Governmental Funds**  
**Year Ended June 30, 2011**

	2007 POB Debt Service	Capital Projects	Total Nonmajor Governmental Funds
<b>REVENUES</b>			
Taxes	\$	\$	\$ 258,432
Licenses and Permits			19,046
Intergovernmental		421,219	1,307,065
Charges for Services		10,077	90,921
Use of Money and Property			81,901
Other Revenue			17,441
	<hr/>	<hr/>	<hr/>
Total Revenues	-	431,296	1,774,806
<b>EXPENDITURES</b>			
Current:			
General Government	1,500	797	26,693
Public Safety			161,305
Community Development			858,156
Culture and Recreation		36,979	109,977
Transportation			279,215
Capital Outlay		653,894	653,894
Debt Service:			
Principal	435,000		475,503
Interest & Fiscal Charges	243,252		246,535
	<hr/>	<hr/>	<hr/>
Total Expenditures	679,752	691,670	2,811,278
Excess (Deficiency) of Revenues Over Expenditures	(679,752)	(260,374)	(1,036,472)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	464,498	868,000	1,337,841
Transfers Out		(4,000)	(9,343)
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	464,498	864,000	1,328,498
Net Change in Fund Balances	(215,254)	603,626	292,026
Fund Balances, Beginning	468,186	626,688	1,733,156
Fund Balances, Ending	<u>\$ 252,932</u>	<u>\$ 1,230,314</u>	<u>\$ 2,025,182</u>

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - Supplemental Law Enforcement Fund**  
**Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 169,400	\$ 169,400	\$ 170,283	\$ 883
Use of Money and Property	100	100		(100)
Total Revenues	<u>169,500</u>	<u>169,500</u>	<u>170,283</u>	<u>783</u>
<b>EXPENDITURES</b>				
Current:				
Public Safety	<u>169,400</u>	<u>169,400</u>	<u>161,305</u>	<u>8,095</u>
Total Expenditures	<u>169,400</u>	<u>169,400</u>	<u>161,305</u>	<u>8,095</u>
Excess (Deficiency) of Revenues over Expenditures	100	100	8,978	8,878
Fund Balance, Beginning	<u>954</u>	<u>954</u>	<u>954</u>	<u>-</u>
Fund Balance, Ending	<u><u>\$ 1,054</u></u>	<u><u>\$ 1,054</u></u>	<u><u>\$ 9,932</u></u>	<u><u>\$ 8,878</u></u>

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - Gas Tax Fund**  
**Year Ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 278,800	\$ 278,800	\$ 258,432	\$ (20,368)
Use of Money and Property	400	400	41	(359)
Total Revenues	<u>279,200</u>	<u>279,200</u>	<u>258,473</u>	<u>(20,727)</u>
<b>EXPENDITURES</b>				
Current:				
Transportation	237,100	292,362	279,215	13,147
Capital Outlay	37,000	37,000		37,000
Debt Service:				
Principal			40,503	(40,503)
Interest & Fiscal Charges			3,283	(3,283)
Total Expenditures	<u>274,100</u>	<u>329,362</u>	<u>323,001</u>	<u>6,361</u>
Excess (Deficiency) of Revenues over Expenditures	5,100	(50,162)	(64,528)	(14,366)
Fund Balance, Beginning	<u>64,581</u>	<u>64,581</u>	<u>64,581</u>	<u>-</u>
Fund Balance, Ending	<u><u>\$ 69,681</u></u>	<u><u>\$ 14,419</u></u>	<u><u>\$ 53</u></u>	<u><u>\$ (14,366)</u></u>



**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - Wharf Fund**  
**Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Use of Money and Property	\$ 73,000	\$ 73,000	\$ 81,301	\$ 8,301
Other Revenue	1,000	1,000		(1,000)
Total Revenues	<u>74,000</u>	<u>74,000</u>	<u>81,301</u>	<u>7,301</u>
<b>EXPENDITURES</b>				
Current:				
Culture and Recreation	120,000	120,000	72,998	47,002
Capital Outlay	<u>73,000</u>	<u>73,000</u>		<u>73,000</u>
Total Expenditures	<u>193,000</u>	<u>193,000</u>	<u>72,998</u>	<u>120,002</u>
Excess (Deficiency) of Revenues over Expenditures	(119,000)	(119,000)	8,303	127,303
Fund Balance, Beginning	<u>38,111</u>	<u>38,111</u>	<u>38,111</u>	<u>-</u>
Fund Balance, Ending	<u><u>\$ (80,889)</u></u>	<u><u>\$ (80,889)</u></u>	<u><u>\$ 46,414</u></u>	<u><u>\$ 127,303</u></u>

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - Development Fees Fund**  
**Year Ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Other Revenue	\$ 10,000	\$ 10,000	\$ 3,441	\$ (6,559)
Total Revenues	10,000	10,000	3,441	(6,559)
<b>EXPENDITURES</b>				
Current:				
Community Development				-
Capital Outlay				-
Total Expenditures	-	-	-	-
Excess (Deficiency) of Revenues over Expenditures	10,000	10,000	3,441	(6,559)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers Out				-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	10,000	10,000	3,441	(6,559)
Fund Balance, Beginning	(1,415)	(1,415)	(1,415)	-
Fund Balance, Ending	\$ 8,585	\$ 8,585	\$ 2,026	\$ (6,559)

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - Technology Fees Fund**  
**Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Charges for Services	\$ 1,000	\$ 1,000	\$ 7,386	\$ 6,386
Total Revenues	<u>1,000</u>	<u>1,000</u>	<u>7,386</u>	<u>6,386</u>
<b>EXPENDITURES</b>				
Current:				
Transportation				-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	1,000	1,000	7,386	6,386
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In				-
Transfers Out				-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	1,000	1,000	7,386	6,386
Fund Balance, Beginning	<u>3,902</u>	<u>3,902</u>	<u>3,902</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 4,902</u>	<u>\$ 4,902</u>	<u>\$ 11,288</u>	<u>\$ 6,386</u>

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - PEG Cable TV Access Fund**  
**Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Licenses and Permits	\$ 19,500	\$ 19,500	\$ 19,046	\$ (454)
Use of Money and Property	600	600	396	(204)
Total Revenues	<u>20,100</u>	<u>20,100</u>	<u>19,442</u>	<u>(658)</u>
<b>EXPENDITURES</b>				
Current:				
General Government	<u>24,500</u>	<u>24,500</u>	<u>24,373</u>	<u>127</u>
Total Expenditures	<u>24,500</u>	<u>24,500</u>	<u>24,373</u>	<u>127</u>
Excess (Deficiency) of Revenues over Expenditures	(4,400)	(4,400)	(4,931)	(531)
Fund Balance, Beginning	<u>82,867</u>	<u>82,867</u>	<u>82,867</u>	<u>-</u>
Fund Balance, Ending	<u><u>\$ 78,467</u></u>	<u><u>\$ 78,467</u></u>	<u><u>\$ 77,936</u></u>	<u><u>\$ (531)</u></u>

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - Capitola Village and Wharf BIA Fund**  
**Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Charges for Services	\$ 72,600	\$ 72,600	\$ 70,335	\$ (2,265)
Use of Money and Property	200	200	137	(63)
Total Revenues	<u>72,800</u>	<u>72,800</u>	<u>70,472</u>	<u>(2,328)</u>
<b>EXPENDITURES</b>				
Current:				
Community Development	<u>78,200</u>	<u>78,200</u>	<u>72,454</u>	<u>5,746</u>
Total Expenditures	<u>78,200</u>	<u>78,200</u>	<u>72,454</u>	<u>5,746</u>
Excess (Deficiency) of Revenues over Expenditures	(5,400)	(5,400)	(1,982)	3,418
Fund Balance, Beginning	<u>7,437</u>	<u>7,437</u>	<u>7,437</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 2,037</u>	<u>\$ 2,037</u>	<u>\$ 5,455</u>	<u>\$ 3,418</u>

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - CDBG Fund**  
**Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 70,000	\$ 70,000	\$ 9,297	\$ (60,703)
Total Revenues	<u>70,000</u>	<u>70,000</u>	<u>9,297</u>	<u>(60,703)</u>
<b>EXPENDITURES</b>				
Current:				
Community Development	<u>75,000</u>	<u>51,912</u>	<u>47,411</u>	<u>4,501</u>
Total Expenditures	<u>75,000</u>	<u>51,912</u>	<u>47,411</u>	<u>4,501</u>
Excess (Deficiency) of Revenues over Expenditures	(5,000)	18,088	(38,114)	(56,202)
Fund Balance, Beginning	<u>34,047</u>	<u>34,047</u>	<u>34,047</u>	<u>-</u>
Fund Balance, Ending	<u><u>\$ 29,047</u></u>	<u><u>\$ 52,135</u></u>	<u><u>\$ (4,067)</u></u>	<u><u>\$ (56,202)</u></u>

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - CDBG Program Income Fund**  
**Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Use of Money and Property	\$	\$	26	\$ 26
Total Revenues	-	-	26	26
<b>EXPENDITURES</b>				
Current:				
Community Development		3,400	2,980	420
Total Expenditures	-	3,400	2,980	420
Excess (Deficiency) of Revenues over Expenditures	-	(3,400)	(2,954)	446
Fund Balance, Beginning	(12,486)	(12,486)	(12,486)	-
Fund Balance, Ending	<u>\$ (12,486)</u>	<u>\$ (15,886)</u>	<u>\$ (15,440)</u>	<u>\$ 446</u>

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - HOME Grant Fund**  
**Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 425,000	\$ 425,000	\$ 706,266	\$ 281,266
Total Revenues	<u>425,000</u>	<u>425,000</u>	<u>706,266</u>	<u>281,266</u>
<b>EXPENDITURES</b>				
Current:				
Community Development	<u>430,000</u>	<u>430,000</u>	<u>693,515</u>	<u>(263,515)</u>
Total Expenditures	<u>430,000</u>	<u>430,000</u>	<u>693,515</u>	<u>(263,515)</u>
Excess (Deficiency) of Revenues over Expenditures	(5,000)	(5,000)	12,751	17,751
Fund Balance, Beginning	<u>(7,521)</u>	<u>(7,521)</u>	<u>(7,521)</u>	<u>-</u>
Fund Balance, Ending	<u><u>\$ (12,521)</u></u>	<u><u>\$ (12,521)</u></u>	<u><u>\$ 5,230</u></u>	<u><u>\$ 17,751</u></u>



**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - Affordable Housing Fund**  
**Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Charges for Services	\$ 10,000	\$ 10,000	\$ 3,123	\$ (6,877)
Use of Money and Property			14,000	14,000
Total Revenues	<u>10,000</u>	<u>10,000</u>	<u>17,123</u>	<u>7,123</u>
<b>EXPENDITURES</b>				
Current:				
Community Development	<u>127,000</u>	<u>124,750</u>	<u>41,796</u>	<u>82,954</u>
Total Expenditures	<u>127,000</u>	<u>124,750</u>	<u>41,796</u>	<u>82,954</u>
Excess (Deficiency) of Revenues over Expenditures	(117,000)	(114,750)	(24,673)	90,077
Fund Balance, Beginning	<u>367,805</u>	<u>367,805</u>	<u>367,805</u>	<u>-</u>
Fund Balance, Ending	<u><u>\$ 250,805</u></u>	<u><u>\$ 253,055</u></u>	<u><u>343,132</u></u>	<u><u>\$ 90,077</u></u>

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - BEGIN Grant Fund**  
**Year Ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 180,000	\$ 180,000	\$	\$ (180,000)
Total Revenues	<u>180,000</u>	<u>180,000</u>	<u>-</u>	<u>(180,000)</u>
<b>EXPENDITURES</b>				
Current:				
General Government	240,000	240,000	23	239,977
Total Expenditures	<u>240,000</u>	<u>240,000</u>	<u>23</u>	<u>239,977</u>
Excess (Deficiency) of Revenues over Expenditures	(60,000)	(60,000)	(23)	59,977
Fund Balance, Beginning	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>	<u>-</u>
Fund Balance, Ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 59,977</u></u>	<u><u>\$ 59,977</u></u>

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - 2007 POB Debt Service Fund**  
**Year Ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Use of Money and Property	\$	\$	\$	\$ -
Total Revenues	-	-	-	-
<b>EXPENDITURES</b>				
Current:				
General Government	2,000	2,000	1,500	500
Debt Service:				
Principal	435,000	435,000	435,000	-
Interest and Fiscal Charges	243,300	243,300	243,252	48
Total Expenditures	680,300	680,300	679,752	548
Excess (Deficiency) of Revenues over Expenditures	(680,300)	(680,300)	(679,752)	548
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	680,000	464,500	464,498	(2)
Total Other Financing Sources (Uses)	680,000	464,500	464,498	(2)
Net Change in Fund Balance	(300)	(215,800)	(215,254)	546
Fund Balance, Beginning	468,186	468,186	468,186	-
Fund Balance, Ending	\$ 467,886	\$ 252,386	\$ 252,932	\$ 546

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - Capital Projects Fund**  
**Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$	\$ 448,315	\$ 421,219	\$ (27,096)
Charges for Services	45,000	45,000	10,077	(34,923)
Total Revenues	<u>45,000</u>	<u>493,315</u>	<u>431,296</u>	<u>(62,019)</u>
<b>EXPENDITURES</b>				
Current:				
General Government			797	(797)
Culture and Recreation	176,700	148,700	36,979	111,721
Capital Outlay	250,000	668,557	653,894	14,663
Total Expenditures	<u>426,700</u>	<u>817,257</u>	<u>691,670</u>	<u>125,587</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(381,700)</u>	<u>(323,942)</u>	<u>(260,374)</u>	<u>63,568</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	250,000	868,000	868,000	-
Transfers Out			(4,000)	(4,000)
Total Other Financing Sources (Uses)	<u>250,000</u>	<u>868,000</u>	<u>864,000</u>	<u>(4,000)</u>
Net Change in Fund Balances	(131,700)	544,058	603,626	59,568
Fund Balance, Beginning	<u>626,688</u>	<u>626,688</u>	<u>626,688</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 494,988</u>	<u>\$ 1,170,746</u>	<u>\$ 1,230,314</u>	<u>\$ 59,568</u>

**City of Capitola**  
**Combining Statement of Fiduciary Assets and Liabilities**  
**Agency Funds**  
**June 30, 2011**

	<u>Brookvale Assessment District</u>	<u>Auto Center Assessment District</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and Investments	\$ 15,819	\$ 20,133	\$ 35,952
Accounts Receivable	<u>19</u>	<u>24</u>	<u>43</u>
Total Assets	<u><u>\$ 15,838</u></u>	<u><u>\$ 20,157</u></u>	<u><u>\$ 35,995</u></u>
<b>LIABILITIES</b>			
Due to Bond Holders	<u>\$ 15,838</u>	<u>\$ 20,157</u>	<u>\$ 35,995</u>
Total Liabilities	<u><u>\$ 15,838</u></u>	<u><u>\$ 20,157</u></u>	<u><u>\$ 35,995</u></u>

**City of Capitola**  
**Statement of Changes in Fiduciary Net Assets**  
**Agency Funds**  
**Year Ended June 30, 2011**

	Beginning Balance	Additions	Deletions	Ending Balance
<b><u>BROOKVALE ASSESSMENT DISTRICT</u></b>				
<b>ASSETS</b>				
Cash and Investments	\$ 15,738	\$ 81	\$ -	\$ 15,819
Accounts Receivable		19		19
Total Assets	<u>\$ 15,738</u>	<u>\$ 100</u>	<u>\$ -</u>	<u>\$ 15,838</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to Bond Holders	15,738	100		15,838
Bond Reserve				-
Total Liabilities	<u>\$ 15,738</u>	<u>\$ 100</u>	<u>\$ -</u>	<u>\$ 15,838</u>
<b><u>AUTO CENTER ASSESSMENT DISTRICT</u></b>				
<b>ASSETS</b>				
Cash and Investments	\$ 20,031	\$ 102	\$ -	\$ 20,133
Accounts Receivable		24		24
Total Assets	<u>\$ 20,031</u>	<u>\$ 126</u>	<u>\$ -</u>	<u>\$ 20,157</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to Bond Holders	20,031	126		20,157
Bond Reserve				-
Total Liabilities	<u>\$ 20,031</u>	<u>\$ 126</u>	<u>\$ -</u>	<u>\$ 20,157</u>
<b><u>TOTALS - ALL AGENCY FUNDS</u></b>				
<b>ASSETS</b>				
Cash and Investments	\$ 35,769	\$ 183	\$ -	\$ 35,952
Accounts Receivable		43		43
Total Assets	<u>\$ 35,769</u>	<u>\$ 226</u>	<u>\$ -</u>	<u>\$ 35,995</u>
<b>LIABILITIES</b>				
Due to Bond Holders	\$ 35,769	\$ 226	\$ -	\$ 35,995
Total Liabilities	<u>\$ 35,769</u>	<u>\$ 226</u>	<u>\$ -</u>	<u>\$ 35,995</u>

## **STATISTICAL SECTION**

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

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Primary government activities	\$	\$	\$	\$	\$	\$	\$	\$	\$
Invested in Capital Assets,									
Net of related debt	14,533	15,551	15,006	14,572	15,650	15,636	15,659	15,598	15,054
Restricted for									
Debt service	1,380	437	-	-	-	-	-	-	-
Community Development	1,590	1,742	2,157	3,310	3,633	1,717	1,107	1,317	1,256
Transportation	-	-	-	42	602	464	73	63	184
Public Safety	-	-	-	-	14	4	-	-	10
Culture and Recreation	-	-	-	-	-	-	-	-	185
Total Restricted	2,970	2,179	2,157	3,352	4,249	2,185	1,180	1,380	1,635
Unrestricted	3,227	3,547	1,944	4,732	5,135	3,191	3,435	4,575	3,249
Total Primary govt net assets	20,730	21,277	19,107	22,656	25,034	21,012	20,274	21,553	19,938

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. Information prior to the implementation of GASB 34 is not available. Additional years will be added until ten fiscal years of information are available.

Source: City of Capitola Finance Department

2011-1

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

EXPENSES	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Primary government activities	\$	\$	\$	\$	\$	\$	\$	\$	\$
General government	4,567	4,654	4,206	3,963	4,343	4,398	4,482	5,103	5,453
Public safety	4,298	4,254	4,542	5,350	5,733	5,298	5,927	5,533	5,422
Community development	958	1,052	4,177	1,227	1,550	2,193	2,218	2,428	2,068
Cultural and Leisure	1,518	1,385	1,476	1,511	1,596	1,658	1,035	1,025	995
Transportation	1,495	1,432	1,397	1,501	1,697	1,522	2,530	1,932	2,445
Interest on long-term debt	184	171	171	152	190	589	533	509	448
Total primary government expenses	13,020	12,948	15,969	13,704	15,109	15,658	16,725	16,530	16,831
<b>PROGRAM REVENUES</b>									
Primary government activities									
Charges for services:									
General government	699	1,218	1,046	724	705	794	658	806	759
Public safety	569	617	609	556	688	736	905	1,009	902
Community development	353	429	510	1,478	1,469	1,153	1,617	2,266	1,077
Cultural and Leisure	700	705	769	685	749	726	709	696	655
Transportation	41	32	34	11	18	13	34	53	54
Operating grants and contributions	339	301	291	812	1,010	1,420	286	1,469	1,040
Capital grants and contributions	583	496	324	161	514	-	527	388	421
Total primary govt program revenues	3,284	3,798	3,583	4,427	5,153	4,842	4,736	6,687	4,908
NET PRIMARY GOVT REV/(EXP):	(9,736)	(9,150)	(12,386)	(9,277)	(9,956)	(10,816)	(11,989)	(9,843)	(11,923)
<b>GENERAL REVENUES AND OTHER CHANGES</b>									
<b>IN NET ASSETS:</b>									
Primary government activities									
Taxes:									
Sec and Unsec Property taxes	2,397	2,657	2,903	3,465	3,916	4,034	4,147	4,066	4,107
Transaction and Use tax	-	-	209	975	1,048	1,016	788	928	850
Sales and Use tax	5,300	5,395	5,235	4,132	4,174	3,939	2,858	3,289	3,002
Transient occupancy taxes	492	493	516	543	604	644	605	592	602
Franchise taxes	321	364	391	418	438	437	459	462	477
Business license tax	275	-	-	303	326	299	278	282	267
Other taxes	61	-	-	-	-	-	-	-	-
Intergovernmental	594	502	261	1,415	1,421	1,507	1,417	979	1,323
Investment income	365	281	510	226	287	379	394	238	185
Other general revenues	12	24	191	109	120	452	305	287	289
Transfers	-	-	-	-	-	-	-	-	-
Total primary government activities	9,817	9,716	10,216	11,586	12,334	12,707	11,251	11,123	11,102
<b>CHANGES IN NET ASSETS:</b>									
Total primary government activities	81	566	(2,170)	2,309	2,378	1,891	(738)	1,280	(821)
<b>NET ASSETS:</b>									
07/01 prior year	20,649	20,711	21,277	19,107	22,656	25,034	21,012	20,274	21,554
06/30/200x	20,730	21,277	19,107	22,656	25,034	21,012	20,274	21,554	20,733
Restated	-	-	-	1,240	-	(5,913)	-	-	-
Extraordinary Item	-	-	-	-	-	-	-	-	(795)

NOTES: The City of Capitola implemented GASB 34 for the fiscal year ended June 30, 2003. Information prior to the implementation of GASB 34 is not available. Additional years will be added until ten fiscal years of information are available.

Restated Assets figures are for the Library Fund in 2005-06 and Pension Obligation Bond in 2007-08. Extraordinary Item is March 2011 Flood Disaster Loss. Costs related to flood disaster will also be in 2011-12 financial results.

Source: City of Capitola Finance Department

2011-2

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

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>GENERAL FUND</b>									
Reserved									
Prepaid	-	-	1	-	-	-	21	116	Represented below per GASB 54
Advances	618	1,968	1,968	1,968	1,968	1,968	1,968	1,968	
Total Reserved	618	1,968	1,969	1,968	1,968	1,968	1,989	2,084	
Unreserved									
Designated	955	1,421	2,060	3,175	3,467	3,185	2,659	2,928	
Unrestricted	578	683	886	1,340	1,342	1,350	1,350	1,350	
Total Unreserved	1,533	2,104	2,946	4,515	4,809	4,535	4,009	4,278	
Fund Balance GASB 54									
Nonspendable	Pre-GASB 54 balances stated above								1,973
Restricted									-
Committed									-
Assigned									-
Unassigned									2,786
Total General Fund	2,151	4,072	4,915	6,483	6,777	6,503	5,998	6,362	4,759
<b>ALL OTHER GOVERNMENT FUNDS</b>									
Reserved									Represented below per GASB 54
Low income housing	1,590	1,742	1,655	1,790	1,808	-	-	-	
Debt service	1,380	458	7	38	608	-	-	-	
Total Reserved	2,970	2,200	1,662	1,828	2,416	-	-	-	
Unreserved, reported in:									
Unrestricted	1,820	-	-	-	-	-	-	-	
Special revenue funds	-	612	612	714	938	3,423	2,976	1,643	
Capital project funds	-	840	194	475	440	1,874	1,322	627	
Debt service funds	-	(397)	(302)	-	-	-	-	1,458	
Total Unreserved	1,820	1,055	504	1,189	1,378	5,297	4,298	3,728	
Fund Balance GASB 54									
Nonspendable	Pre-GASB 54 balances stated above								109
Restricted									1,705
Committed									-
Assigned									1,564
Unassigned									(19)
Total All Other Govt Funds	4,790	3,255	2,166	3,017	3,794	5,297	4,298	3,728	3,359
<b>TOTAL</b>	<b>6,941</b>	<b>7,327</b>	<b>7,081</b>	<b>9,500</b>	<b>10,571</b>	<b>11,800</b>	<b>10,296</b>	<b>10,090</b>	<b>8,118</b>

NOTE: The City of Capitola implemented GASB 34 for the fiscal year ended June 30, 2003. Information prior to the implementation of GASB 34 is not available. Additional years will be added until ten fiscal years of information are available.

Source: City of Capitola Finance Department

2011-3

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

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>REVENUES:</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$
Taxes	8,846	8,909	9,253	11,375	12,047	12,008	10,239	10,285	10,335
Licenses, permits, and fees	199	746	835	357	255	270	664	609	474
Intergovernmental	1,532	1,206	918	750	1,225	1,121	1,745	2,932	2,426
Charges for services	1,503	1,405	1,578	2,092	2,263	2,467	1,744	1,380	1,278
Fines and forfeitures	534	575	571	512	639	672	702	803	702
Use of money and property	366	440	510	778	971	1,046	812	595	492
Other	208	193	299	86	89	434	178	163	173
Total revenues	13,188	13,474	13,964	15,950	17,489	18,018	16,084	16,767	15,880
<b>EXPENSES:</b>									
Current:									
General government	3,712	3,699	3,437	3,266	3,583	3,672	3,591	4,232	4,483
Public safety	4,080	4,087	4,726	5,261	5,631	5,246	5,869	5,441	5,468
Community development	949	1,075	1,547	1,358	1,831	2,324	2,362	2,338	1,986
Cultural and leisure	1,477	1,346	1,446	1,478	1,564	1,630	1,009	986	1,009
Transportation	1,312	1,325	1,436	1,493	1,690	1,476	2,575	2,017	2,294
Capital outlay	631	1,640	885	413	1,858	1,015	1,224	847	665
Subtotal	12,161	13,172	13,477	13,269	16,157	15,363	16,630	15,861	15,905
Debt service:									
Principal retirement	1,020	959	559	91	91	123	499	535	704
Interest and agent fees	193	196	174	171	170	471	529	507	447
Cost of Issuance	-	-	-	-	-	125	-	-	-
Subtotal	1,213	1,155	733	262	261	719	1,028	1,042	1,151
Total expenditures	13,374	14,327	14,210	13,531	16,418	16,082	17,658	16,903	17,056
<b>Excess/(deficiency) of revenues over/(under) expenditures</b>	<b>(186)</b>	<b>(853)</b>	<b>(246)</b>	<b>2,419</b>	<b>1,071</b>	<b>1,936</b>	<b>(1,574)</b>	<b>(136)</b>	<b>(1,176)</b>
<b>OTHER FINANCING SOURCES/(USES)</b>									
Transfers in	1,980	1,624	469	1,053	1,764	2,754	1,775	1,337	1,945
Transfers out	(1,980)	(1,624)	(469)	(1,053)	(1,764)	(2,754)	(1,775)	(1,337)	(1,945)
Sale of capital assets	-	1,239	-	-	-	166	-	-	-
Issuance of bonds	-	-	-	-	-	5,040	-	-	-
Payment to bond escrow agent	-	-	-	-	-	-	-	-	-
Total other financing sources/(uses)	-	1,239	-	-	-	5,206	-	-	-
<b>Special Items</b>									
Prefunding of PERS liability	-	-	-	-	-	(5,913)	-	-	-
Flood Disaster loss	-	-	-	-	-	-	-	-	(795)
<b>Net change in fund balances</b>	<b>(186)</b>	<b>386</b>	<b>(246)</b>	<b>2,419</b>	<b>1,071</b>	<b>1,229</b>	<b>(1,574)</b>	<b>(136)</b>	<b>(1,971)</b>
Beginning Fund balance	7,127	6,941	7,327	7,081	9,500	10,571	11,800	10,226	10,090
Changes	(186)	386	(246)	2,419	1,071	1,229	(1,574)	(136)	(1,971)
Ending Fund balance	6,941	7,327	7,081	9,500	10,571	11,800	10,226	10,090	8,119
Debt service as a percentage of noncapital expenditures	9.97%	8.77%	5.44%	1.97%	1.62%	4.68%	6.18%	6.57%	7.24%

NOTE: The City of Capitola implemented GASB 34 for the fiscal year ended June 30, 2003. Information prior to the implementation of GASB 34 is not available. Additional years will be added until ten fiscal years of information are available.

Source: City of Capitola Finance Department

2011-4

CITY OF CAPITOLA, CALIFORNIA  
 Assessed Value and Estimated Actual Value of Taxable Property  
 Last Fourteen Fiscal Years  
 (amounts expressed in thousands)

Fiscal Year						City of Capitola Redevelopment Agency				
	Secured (\$000)	Unsecured (\$000)	Less Exemptions (\$000)	Plus Reimbursed Home-owners Exemption (\$000)	Taxable Assessed Value (\$000)	Secured (\$000)	Unsecured (\$000)	Less Exemptions (\$000)	Plus Reimbursed Home-owners Exemption (\$000)	Taxable Assessed Value (\$000)
1998	850,104	(2)	24,742	10,803	836,165					-
1999	850,024	56,732	17,882	10,946	899,820					-
2000	916,373	59,420	17,089	11,132	969,836					-
2001	979,304	59,888	17,142	11,110	1,033,160					-
2002	1,062,124	62,487	20,825	12,144	1,115,930					-
2003	1,136,170	63,858	32,853	12,279	1,179,454					-
2004	1,222,957	63,534	24,504	11,691	1,273,678					-
2005	1,409,131	62,603	32,012	10,878	1,450,600	207,571	32,157	3,850	448	236,326
2006	1,531,428	68,903	29,922	10,725	1,581,134	216,849	35,131	3,917	447	248,510
2007	1,643,540	71,369	30,385	10,728	1,695,252	228,497	35,405	3,994	448	260,356
2008	1,708,219	73,545	36,208	10,710	1,756,266	235,447	36,450	4,087	476	268,286
2009	1,706,927	68,288	28,067	10,500	1,757,648	245,860	33,375	4,412	482	275,305
2010	1,722,042	71,726	32,453	10,279	1,771,594	245,533	35,458	4,161	487	277,317
2011	1,741,005	69,324	36,040	10,049	1,784,338	243,089	33,390	4,434	489	272,534

Separate RDA figures are not available

NOTES: Secured and unsecured values were combined for 1998.  
 RDA figures were included in City figures for 1998-2004.

Source: Santa Cruz County Assessor's District Valuation by Fund

2011-5

CITY OF CAPITOLA  
 Direct and Overlapping Property Tax Rates  
 Last Six Fiscal Years  
 (Rate per \$100 of assessed value)

	Fiscal Year					
	2006	2007	2008	2009	2010	2011
<b>City Direct Rates</b>						
City basic rate	0.250000%	0.250000%	0.250000%	0.250000%	0.250000%	0.250000%
Redevelopment Agency	0.000000%	0.000000%	0.000000%	0.000000%	0.000000%	0.000000%
<b>Total City Direct Rate</b>	<b>0.250000%</b>	<b>0.250000%</b>	<b>0.250000%</b>	<b>0.250000%</b>	<b>0.250000%</b>	<b>0.250000%</b>
<b>Overlapping Rates</b>						
<u>General Fund</u>						
Santa Cruz County General Fund	1.000000%	1.000000%	1.000000%	1.000000%	1.000000%	1.000000%
<u>Board Governed Districts</u>						
<u>Autonomous Districts</u>						
<u>City</u>						
<u>School Districts</u>						
Soquel Elementary School GO DS 2002 Series A	0.011936%	0.011416%	0.011416%	0.011222%	0.011608%	0.011737%
Soquel Elementary School GO DS 2002 Series B	0.009208%	0.009186%	0.009186%	0.008852%	0.009028%	0.009452%
Soquel Elementary School GO DS 2002 Series C	n/a	0.007113%	0.007113%	0.003123%	0.003007%	0.003159%
Santa Cruz High School GO DS 1998 A&B/2005REF	0.005190%	0.016340%	0.016340%	0.017417%	0.016863%	0.020816%
Santa Cruz High School GO DS 1998 Series C	0.008477%	0.002895%	0.002895%	0.005321%	0.011120%	0.002548%
Cabrillo College GO DS 1998 Series A	0.000214%	0.001075%	0.001075%	n/a	n/a	n/a
Cabrillo College GO DS 1998 Series B	0.006081%	0.006259%	0.006259%	0.006463%	0.007056%	0.007017%
Cabrillo College GO DS 1998 Series C	0.001910%	0.002316%	0.002316%	0.002518%	0.003046%	0.001273%
Cabrillo College GO DS 1998 Series D	0.000731%	0.001332%	0.001332%	0.001529%	0.001754%	0.001462%
Cabrillo College GO DS 2004 Series A	0.012362%	0.008221%	0.008221%	0.009212%	0.009878%	0.010163%
Cabrillo College GO DS 2004 Series B	n/a	0.003965%	0.003965%	0.005218%	0.005523%	0.005421%
Cabrillo College GO DS 1998A REF 2004	0.005398%	0.006835%	0.006835%	0.008296%	0.008724%	0.010752%
<b>Total overlapping debt repaid with property taxes</b>	<b>0.061507%</b>	<b>0.076953%</b>	<b>0.076953%</b>	<b>0.079171%</b>	<b>0.087607%</b>	<b>0.083800%</b>
<b>Total Direct Rate</b>	<b>1.061507%</b>	<b>1.076953%</b>	<b>1.076953%</b>	<b>1.079171%</b>	<b>1.087607%</b>	<b>1.083800%</b>

NOTES: In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies within which the subject property resides. IN addition to the 1.00% fixed amount, property tax owners are charged taxes as a percent of assessed property values for the payment of local school district bonds.

Data for Capitola is not available prior to 2006. Additional years will be added until ten fiscal years of information is available.

2011 - 6

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

Taxpayer	2011		2002	
	2011 Gross Assessed Valuation	Percent of Total City Gross Assessed Valuation	2002 Gross Assessed Valuation	Percent of Total City Gross Assessed Valuation
	\$	%	\$	%
Macerich Partnership LP	\$ 84,054,914	4.64	\$ 77,921,899	6.93%
Ow George Jr Trustees Et al	\$ 11,990,353	0.66	\$ 9,968,981	0.89%
Target Corporation	\$ 10,200,000	0.56		
Bay Avenue Senior Housing LP	9,907,442	0.55		
Wirtanen Melanie Kett Trustee	\$ 8,109,000	0.45		
850 Rosedale LLC	\$ 7,660,200	0.42		
1100 41st Avenue LLC	7,430,140	0.41		
Brown Ranch Properties	\$ 6,519,224	0.36	\$ 5,499,547	0.49%
Crossroads Associates	6,270,682	0.35		
Loma Vista Estates Owners Assoc	5,790,570	0.32		
Baskin Properties LLC		0.00	\$ 13,189,454	1.17%
Bochner, Dan Zw/m Jt Et al		0.00	\$ 11,011,927	0.98%
Salvation Army Corporation, The		0.00	\$ 8,515,780	0.76%
Leavesly Ocean Inn-Vestors		0.00	\$ 5,763,459	0.51%
Sears Roebuck & Company		0.00	\$ 5,530,859	0.49%
	<u>157,932,525</u>	8.72	<u>\$ 137,401,906</u>	12.22%
Memo: Gross Assessed Value	1,810,329,000	100.00	\$ 1,124,611,000	100.00%

NOTES: Only eight taxpayers are identified for 2002 because Macerich Partnership was identified as three separate entities for the 2002 CAFR.

Source: Santa Cruz County Assessor's Office *Recapitulation of Assessment Rolls and Parcels with Gross Value over \$2,000,000; Rresidential over \$4,000,000* (2002,2011).

2011-7

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

Fiscal Year Ended June 30	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
		\$			\$	%
1998	1,659,088	1,659,088	100.00	-	1,659,088	100.00
1999	1,654,149	1,654,149	100.00	-	1,654,149	100.00
2000	1,614,781	1,614,781	100.00	-	1,614,781	100.00
2001	1,786,246	1,786,246	100.00	-	1,786,246	100.00
2002	2,618,311	2,618,311	100.00	-	2,618,311	100.00
2003	2,039,535	2,039,535	100.00	-	2,039,535	100.00
2004	2,200,889	2,200,889	100.00	-	2,200,889	100.00
2005	2,268,012	2,268,012	100.00	-	2,268,012	100.00
2006	2,412,712	2,412,712	100.00	-	2,412,712	100.00
2007	2,605,158	2,605,158	100.00	-	2,605,158	100.00
2008	2,715,388	2,715,388	100.00	-	2,715,388	100.00
2009	2,851,724	2,851,724	100.00	-	2,851,724	100.00
2010	2,783,546	2,783,546	100.00	-	2,783,546	100.00
2011	2,813,554	2,813,554	100.00	-	2,813,554	100.00

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. 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.

Source: Santa Cruz County Auditor-Controller Summary of Revenues and City of Capitola Finance Department.

2011-8



CITY OF CAPITOLA, CALIFORNIA  
Gann Appropriation Limit  
Last Fourteen Fiscal Years and Current Fiscal Year

Fiscal Year Ended June 30:	Inflation Factor	Population Factor	Ratio of Change	Appropriation Limit \$	% Change from Prior Year %	Appropriation Subject to Limit \$	% of Limit Appropriated %
1998	1.2138	1.0125	1.2290	6,917,267	22.90	5,992,644	86.63
1999	1.0467	1.0126	1.0599	7,331,531	5.99	5,119,375	69.83
2000	1.0415	1.0223	1.0647	7,806,068	6.47	5,281,165	67.65
2001	1.0453	1.0152	1.0612	8,283,710	6.12	5,785,772	69.85
2002	1.0782	1.0095	1.0884	8,925,610	7.75	6,668,189	74.71
2003	1.0396	1.0105	1.0505	10,206,170	14.35	7,089,747	69.47
2004	1.0236	1.0057	1.0294	10,506,892	2.95	7,182,700	68.36
2005	1.0328	1.0050	1.0380	10,905,776	3.80	7,580,600	69.51
2006	1.0526	1.0053	1.0582	11,540,261	5.82	9,100,600	78.86
2007	1.0396	1.0075	1.0474	12,121,418	5.04	9,329,300	76.97
2008	1.0442	1.0105	1.0552	12,790,085	5.52	9,439,100	73.80
2009	1.0496	1.0115	1.0616	13,578,208	6.16	9,268,400	68.26
2010	1.0772	1.0107	1.0887	14,782,595	8.87	8,463,700	57.25
2011	0.6888	1.0127	0.6976	10,312,043	(30.24)	8,115,800	78.70
2012	1.2191	1.0072	1.2279	12,662,030	22.79	8,377,700	66.16

SOURCE: State of California Department of Finance, Santa Cruz County Auditor-Controller,  
City of Capitola Finance Department,

**2011-9**

CITY OF CAPITOLA, CALIFORNIA  
 Top 25 Sales Tax Taxpayers  
 Alphabetical, as of June 30, 2011

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**TOP 25 SALES TAX TAXPAYERS**

AT&T Wireless	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
Gayles Bakery & 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
Peninsula Petroleum (Capitola Shell) - 41st Ave.	41st Avenue
Ross Stores	41st Avenue
Santa Cruz Mazda	Auto Plaza Drive
Save Mart Supermarkets	41st Avenue
Sears Roebuck & Company	Capitola Road
Shadowbrook Restaurant	Wharf Road
Toyota of Santa Cruz	Auto Plaza Drive
Trader Joe's	Clares Street
Union 76 Service Station (Capitola 76) - 41st Ave.	41st Avenue
Union 76 Service Station (Gawfco Enterprises) - 41st Ave.	41st Avenue
Verizon Wireless	41st Avenue
Whole Foods	41st Avenue

*NOTE: Information presented is as of June, 2010. It is alphabetical and is not indicative of relative nor total sales volume.*

Source: California State Board of Equalization

**2011-10**

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

Fiscal Year Ended	Government/Total Primary Government Activities (1)			\$ of Debt per		
	General Obligation Bonds (2)	Lease Revenue Bonds	Other debt (3)	Tot. Gov't./ Primary Gov't.	\$ of per capita personal	Debt per Capita (4)
	\$	\$	\$	\$	\$	\$
1998	-	4,975,000	-	4,975,000	163	450
1999	-	4,300,000	-	4,300,000	130	386
2000	-	3,595,000	1,000,000	4,595,000	117	458
2001	-	2,860,000	1,000,000	3,860,000	100	383
2002	-	2,090,000	1,711,005	3,801,005	100	377
2003	-	1,280,000	1,738,856	3,018,856	81	299
2004	-	440,000	1,703,322	2,143,322	54	214
2005	-	-	2,928,408	2,928,408	70	295
2006	-	-	2,886,924	2,886,924	63	292
2007	-	-	2,845,020	2,845,020	55	287
2008	5,040,000	-	2,807,848	7,847,848	153	786
2009	4,670,000	-	2,775,079	7,445,079	146	739
2010	4,265,000	-	2,768,854	7,033,854	138	690
2011	3,830,000	-	2,629,226	6,459,226	126	633

(1) 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.

(2) 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.

(3) Other debt currently includes a tax anticipation note, county library long term debt balance, and RDA deferred pass throughs.

Source: City of Capitola Financial Statements

2011-11

CITY OF CAPITOLA, CALIFORNIA  
 Ratios of General Bonded Debt Outstanding  
 Last Fourteen Fiscal Years

Fiscal Year Ended June 30:	Government/Total Primary Government Activities			\$ of Debt per \$ of per capita personal income (1)	Debt per Capita (1)
	General Obligation Bonds	Lease Revenue Bonds	Total Governmental / Primary Government Activities		
	\$	\$	\$		
1998	-	4,975,000	4,975,000	163	450
1999	-	4,300,000	4,300,000	130	386
2000	-	3,595,000	3,595,000	92	358
2001	-	2,860,000	2,860,000	74	283
2002	-	2,090,000	2,090,000	55	207
2003	-	1,280,000	1,280,000	34	127
2004	-	440,000	440,000	11	44
2005	-	-	-	-	-
2006	-	-	-	-	-
2007	-	-	-	-	-
2008	5,040,000	-	5,040,000	99	505
2009	4,670,000	-	4,670,000	91	464
2010	4,265,000	-	4,265,000	83	418
2011	3,830,000	-	3,830,000	75	380

*NOTES: The City of Capitola has no business-type activities; governmental and total primary government figures are the same.*

*In July, 2008, the City of Capitola issued a \$5,040,000 Pension Obligation Bond which was used to pay down the CalPERS pension liability.*

Source: City of Capitola Financial Statements

**2011-12**

CITY OF CAPITOLA, CALIFORNIA  
 Direct & Overlapping Debt  
 Fiscal Year end  
 June 30, 2011

2010-11 Assessed Valuation		\$ 1,772,173,118	
Redevelopment Incremental Valuation		\$ 243,413,293	
Adjusted Assessed Valuation		\$ 1,528,759,825	
<b>OVERLAPPING TAX AND ASSESSMENT DEBT:</b>			
	<b>% Applicable (1)</b>	<b>Total Debt 6/30/2011</b>	<b>City's Share of Debt 6/30/2011</b>
Cabrillo Joint Community College District	5.627%	\$163,346,406	\$9,191,502
Santa Cruz City High School District	14.897	45,520,035	6,781,120
Live Oak School District	9.567	18,076,705	1,729,398
Soquel Union School District	56.15	12,440,000	6,985,060
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$239,383,146	\$24,687,080
<b>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</b>			
Santa Cruz County Certificates of Participation	5.674%	\$64,594,111	\$3,665,070
Santa Cruz County Office of Education Certificates of Participation	5.674	11,165,000	633,502
Cabrillo Joint Community College District Certificates of Participation	5.627	1,980,000	111,415
Live Oak School District Certificates of Participation	9.567	15,127,892	1,447,285
Soquel Union School District	56.15	2,335,000	1,311,103
Santa Cruz City Schools Certificates of Participation	14.897	6,576,000	979,627
City of Capitola General Fund Obligations	100.000	343,252	343,252
City of Capitola Pension Obligation Bond	100.000	3,830,000	3,830,000
Monterey Bay Unified Air Pollution Control Authority Certificates of Participation	2.013	2,110,000	42,474
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$108,061,255	\$12,363,728
COMBINED TOTAL DEBT		\$ 347,444,401	\$ 37,050,808 (2)

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the city.

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2010-11 Assessed Valuation	
Total Overlapping Tax and Assessment Debt	1.44%
Ratios to Adjusted Assessed Valuation	
Combined Direct Debt (\$4,640,544)	0.27%
Combined Total Debt	2.42%
STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11	\$0

Source: MuniServices, LLC

2011-13

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Assessed Valuation	\$ 850,103	\$ 906,756	\$ 975,793	\$ 1,039,192	\$ 1,124,611	\$ 1,200,028	\$ 1,286,491	\$ 1,471,735	\$ 1,600,330	\$ 1,714,909	\$ 1,781,764	\$ 1,775,215	\$ 1,793,768	\$ 1,810,329
RDA Base Valuation	147,099	145,036	156,563	160,978	173,198	188,349	194,534	202,415	214,599	226,445	234,306	241,324	243,336	238,631
Adj. assessed valuation	703,004	761,720	819,230	878,214	951,413	1,011,679	1,091,957	1,269,320	1,385,731	1,488,464	1,547,458	1,533,891	1,550,432	1,571,698
Debt limit percentage	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Debt limit	105,451	114,258	122,885	131,732	142,712	151,752	163,794	190,398	207,860	223,270	232,119	230,084	232,565	235,755
Net applicable debt														
Gen. obligation bonds	4,975	4,300	3,595	2,860	2,090	1,280	440	-	-	-	5,040	4,670	4,265	3,830
Legal debt margin	100,476	109,958	119,290	128,872	140,622	150,472	163,354	190,398	207,860	223,270	227,079	225,414	228,300	231,925
RATIO	4.95%	3.91%	3.01%	2.22%	1.49%	0.85%	0.27%	0.00%	0.00%	0.00%	2.22%	2.07%	1.87%	1.65%

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.  
 2008 addition to General Obligation bonds represents the July, 2007 Pension Obligation Bond issued by the City of Capitola.

Source: Santa Cruz County Auditor-Controller's Office District Valuation by Fund, Santa Cruz County Assessor's Office Recapitulation of Assessment Roll, and City of Capitola Comprehensive Annual Financial Statements.

2011-14

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

Fiscal Year Ended June 30	Other Revenue Bonds				Tax Allocation Bonds			
	Available Revenue	Debt Service			Tax Increment	Debt Service		
		Principal	Interest	Coverage		Principal	Interest	Coverage
	\$	\$	\$	\$	\$	\$	\$	\$
1998	-	-	-	n/a	-	-	-	n/a
1999	-	-	-	n/a	-	-	-	n/a
2000	-	-	-	n/a	-	-	-	n/a
2001	-	-	-	n/a	-	-	-	n/a
2002	-	-	-	n/a	-	-	-	n/a
2003	-	-	-	n/a	-	-	-	n/a
2004	-	-	-	n/a	-	-	-	n/a
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

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

SOURCE: City of Capitola financial statements

**2011-15**

CITY OF CAPITOLA  
 Demographic and Economic Statistics  
 Last Fourteen Fiscal Years

Calendar Year	Population	Per Capita Personal Income \$	Median Age	Unemployment Rate %
1998	11,050	30,600	35.0	5.7
1999	11,136	33,000	35.0	5.4
2000	10,033	39,200	35.0	4.7
2001	10,091	38,600	35.0	4.2
2002	10,089	37,900	35.0	4.6
2003	10,084	37,500	38.0	3.8
2004	10,011	39,800	38.0	3.4
2005	9,914	41,917	37.0	3.1
2006	9,901	45,925	37.0	4.9
2007	9,921	51,669	37.0	5.3
2008	9,988	51,140	38.0	7.1
2009	10,073	51,140	38.0	11.6
2010	10,198	51,140	39.4	11.4
2011	9,974	36,330	38.3	5.7

SOURCE: 2010-11 MuniServices, LLC. Estimates for 2010 and 2011 published in this report might be noticeably different from the previous year estimates. The California Department of Finance demographics estimates now incorporate 2010 Census counts as the benchmark. U.S. Census Bureau, 2010 American Community Survey.

SOURCES: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2001-2010, with 2000 Benchmark (Sacramento, California, May, 2010.); U.S. Department of Commerce, Bureau of Economic Analysis (2008 most current available data); City-data.com; U.S. Department of Labor, Bureau of Labor Statistics Database; 1998-2004 Santa Cruz County Community Assessment Project (CAP); State of California LaborMarket Info.

**2010-16**



CITY OF CAPITOLA  
 Principal Employers - Top Ten  
 Current year and Nine years ago

Employer	2011			2002		
	Ranking	Number of Employees	% of Total Employment	Ranking	Number of Employees	% of Total Employment
Macy's	1	150	2.5%			
Subaru, Toyota, Kia of Santa Cruz	2	149	2.5%			
Gayle's Bakery & Rosticceria	3	140	2.3%	8	125	2.0%
Whole Foods Market	4	123	2.1%			
Shadowbrook Restaurant	5	120	2.0%			
Kohls	6	108	1.8%			
Orchard Supply Hardware	7	100	1.7%	9	110	1.8%
Sears	8	95	1.6%	6	170	2.7%
Pacific Coast Manor	9	90	1.5%			
Trader Joe's	10	90	1.5%			
Santa Cruz County Office of Education (1)				1	360	5.8%
Gottchalks (2)				2	257	4.1%
Soquel Elementary School District (1)				3	245	4.0%
Mervyn's (2)				4	233	3.8%
Spa Fitness				5	200	3.2%
City of Capitola		66		7	160	2.6%
Nob Hill		70		10	110	1.8%
Memo: Total Top Ten		1165	19.4%		1970	31.8%
Memo: Total Employment		5992	100.0%		6200	100.0%
Memo: Change in top ten number of employees 2011 vs. 2002			-40.9%			
Memo: Change in total number of employees 2011 vs. 2002			-3.4%			

SOURCE for 2011: MuniServices, LLC;  
 SOURCE for 2002: 2002 City of Capitola Comprehensive Annual Financial Report.

(1) No longer located in the City of Capitola.  
 (2) No longer in business.

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

Function	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government														
City Manager	4.25	5.25	5.75	6.25	7.25	7.25	7.50	7.50	7.50	7.50	7.50	7.50	7.50	6.95
Finance	5.00	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.38	4.38	4.38	4.38
City Attorney	1.00	1.00	1.50	1.50	0.30	0.30	0.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	10.25	11.50	12.50	13.00	12.80	12.80	12.75	13.75	13.75	13.75	13.88	12.88	12.88	12.33
Police														
Chief, Captain, Sgts.	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	6.00	6.00	6.00
Officers	14.00	14.00	14.00	14.00	13.00	12.00	13.00	13.00	14.00	15.00	15.00	15.00	15.00	15.50
CSOs	1.00	1.00	2.00	2.00	2.00	2.00	2.00	3.00	3.00	3.00	3.00	3.00	2.00	2.00
Code enforcement	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	2.00
Administrative	2.55	3.55	3.30	3.30	3.30	3.30	3.25	5.50	5.75	6.50	6.50	6.50	4.75	4.75
	27.55	28.55	29.30	29.30	28.30	27.30	28.25	31.50	32.75	34.50	34.50	33.50	30.75	30.25
Public Works														
Streets	8.33	8.33	8.33	8.33	8.33	8.33	8.33	8.33	8.33	8.00	8.33	8.33	7.33	7.33
Parks	4.00	4.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	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	1.00	1.00	1.00	1.00
	13.33	13.33	14.33	14.33	14.33	14.33	14.33	14.33	14.33	14.00	14.33	14.33	12.33	12.33
Recreation														
Supervisor	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Other - full year	2.50	2.50	3.25	3.50	3.50	3.50	2.00	2.00	2.00	2.00	2.00	1.50	1.50	2.00
	3.50	3.50	4.25	4.50	4.50	4.50	3.00	3.00	3.00	3.00	3.00	2.50	2.50	3.00
Community Development	2.67	2.67	4.67	4.67	3.67	3.67	3.67	4.67	4.67	4.00	4.67	4.67	3.67	3.67
Building	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.00	1.50
Total City Employees	59.30	61.55	67.05	67.80	65.60	64.60	64.00	69.25	70.50	71.25	72.38	69.88	63.13	63.08

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

SOURCE: City of Capitola finance department

2011-18

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

INDICATOR	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<u>Police department (calendar years)</u>														
Adult arrests				799	780	791	852	877	879	1,069	1,000	908	850	731
Calls for service (in thousands)				21	19	19	22	18	21	22	21	20	20	19
<u>Public works</u>														
Miles paved	26	26	26	26	26	26	26	26	26	26	26	26	26	26
<u>New construction</u>														
Commercial units	-	1	-	-	-	1	2	-	2	3	1	1	1	-
Valuation (in millions)	-	\$ 3	-	-	-	\$ 1	\$ 1	-	\$ 4	\$ 5	\$ 1	\$ 1	\$ 13	\$ -
Residential units (1)	13	20	11	23	16	9	7	10	17	18	69	122	8	3
Valuation (in millions) (1)	\$ 2	\$ 6	\$ 2	\$ 4	\$ 5	\$ 2	\$ 3	\$ 4	\$ 6	\$ 6	\$ 11	\$ 20	\$ 2	\$ 1
<u>Recreation Revenue</u> (in thousands)														
Classes	\$ 266	\$ 255	\$ 314	\$ 296	\$ 330	\$ 321	\$ 335	\$ 356	\$ 378	\$ 356	\$ 378	\$ 336	\$ 319	\$ 325
Sports fees	63	81	88	87	79	61	72	82	70	82	70	71	59	61
Junior Guard	130	122	147	152	142	171	169	184	175	184	175	194	214	220
Camp Capitola	69	89	84	62	54	71	67	76	80	76	80	80	79	102
Aquatics (2)	14	20	27	29	24	27	27	23	19	23	19	-	-	-
Net Class Rev	\$ 542	\$ 567	\$ 660	\$ 626	\$ 629	\$ 651	\$ 670	\$ 721	\$ 722	\$ 721	\$ 722	\$ 681	\$ 671	\$ 708
Jade St. Rental	\$ 19	\$ 12	\$ 10	n/a	\$ 7	\$ 16	\$ 16	\$ 8	\$ 7	\$ 8	\$ 7	\$ 4	\$ 5	\$ 5
Net Recreation Rev	\$ 561	\$ 579	\$ 670	\$ 626	\$ 636	\$ 667	\$ 686	\$ 729	\$ 729	\$ 729	\$ 729	\$ 685	\$ 676	\$ 713

(1) Residential units and associated valuations are total additional, new or substantially new (by code definition) units.

(2) Aquatics was discontinued as a City of Capitola Recreation Department offering in late 2007 due to lack of access to the local Community College pool.

Source: City of Capitola Police Department, Public Work Director, Building Official, and City financial records. **2011-19**

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

Indicator	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Police														
Stations	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Public works														
Streets (miles)	26	26	26	26	26	26	26	26	26	26	26	26	26	26
Streetlights	Data not available			71	71	71	71	71	71	71	71	71	71	71
Traffic signals	Data not available			8	8	8	8	8	8	8	8	8	8	8
Parks and recreation:														
Parks	7	7	7	7	7	7	7	7	7	7	7	7	7	7
Community centers	1	1	1	1	1	1	1	1	1	1	1	1	1	1
General														
Commercial buildings	2	2	2	2	2	2	2	2	2	2	2	2	2	2

Source: City of Capitola Public Works Director

**2011-20**