

Comprehensive Annual Financial Report



City of Capitola, California
For Fiscal Year Ended June 30, 2012



CITY OF CAPITOLA, CALIFORNIA

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Prepared by the Capitola Finance Department

**City Of Capitola
Comprehensive Annual Financial Report
Year Ended June 30, 2012**

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INTRODUCTORY SECTION

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January 16, 2013

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

SUBJECT: Comprehensive Annual. Financial Report - June 30, 2012

The Comprehensive Annual Financial Report (CAFR) for the City of Capitola for the fiscal year ended June 30, 2012 is hereby submitted.

REPORT PURPOSE AND ORGANIZATION

State law requires that the accounts and fiscal affairs of all municipal entities be examined annually by an independent certified public accountant. The City's independent auditor, Rogers, Anderson, Malody, and Scott has audited the City's financial statements and issued an unqualified opinion that financial statements for fiscal year ended June 30, 2012 are fairly presented in conformity with generally accepted accounting principles. This opinion, along with the basic financial statements of the City, are hereby submitted as the CAFR for the City of Capitola for the fiscal year ended June 30, 2012 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, 2011 is currently available and the Single Audit Report on Federal Award Programs for Year Ended June 30, 2012 will be available after March 31, 2013, 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
- II. Statistical Section – Historical trends for Financial Trends, Revenue Capacity, Debt Capacity, Demographic and Economic Information, and Operating Information

CITY OF CAPITOLA PROFILE

The City of Capitola is a small coastal community located in Santa Cruz County that occupies approximately two square miles and serves a population 9,981. Located on the northern edge of Monterey Bay, approximately 35 miles north of Monterey and 75 miles south of San Francisco, Capitola enjoys a rich history and offers residents diverse recreational opportunities. Capitola Village is located along a wide beach with expansive views of Monterey Bay and is home to numerous craft galleries, boutiques, and restaurants. The City is host to numerous events, including the Begonia Festival, Capitola Art and Wine Festival, and the annual Wharf to Wharf race.

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

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

Capitola is also fortunate to have outstanding educational opportunities. In addition, to having the New Brighton Middle School within its City limits, both Cabrillo Community College and the University of California Santa Cruz are within eight miles of the City. According to the U.S. Census Bureau's 2010 data, 92.4% of Capitola residents are high school graduates and 37% possess a Bachelor's Degree or higher level degree.

Form of Government

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

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

City Services

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

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

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

Budgetary Policy and Control

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

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

The Successor Agency's two-year budget is incorporated into the City's budget process; however it is subject to biannual approval by the Oversight Board and the Department of Finance.

FACTORS AFFECTING FINANCIAL CONDITION

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

Local Economy

The City of Capitola, like many local governments, has been challenged due to the economic downturn, recent State take-aways, and reduced reserves. The local economy was also affected by a March 2011 pipe failure which caused considerable damage to the Capitola Police Department, Village businesses, and surrounding residences. During the cleanup and reconstruction period, there was limited visitor access to Village businesses. This resulted in reduced sales and transient occupancy taxes; and decreased parking meter and parking citation revenues. In FY11/12, the increased performance of core revenues, when combined with salary and contract savings, resulted in a net General Fund operating surplus of \$812,557. While this reflects a better-than anticipated recovery, the City has taken a conservative approach in projecting a balanced FY 12/13 budget.

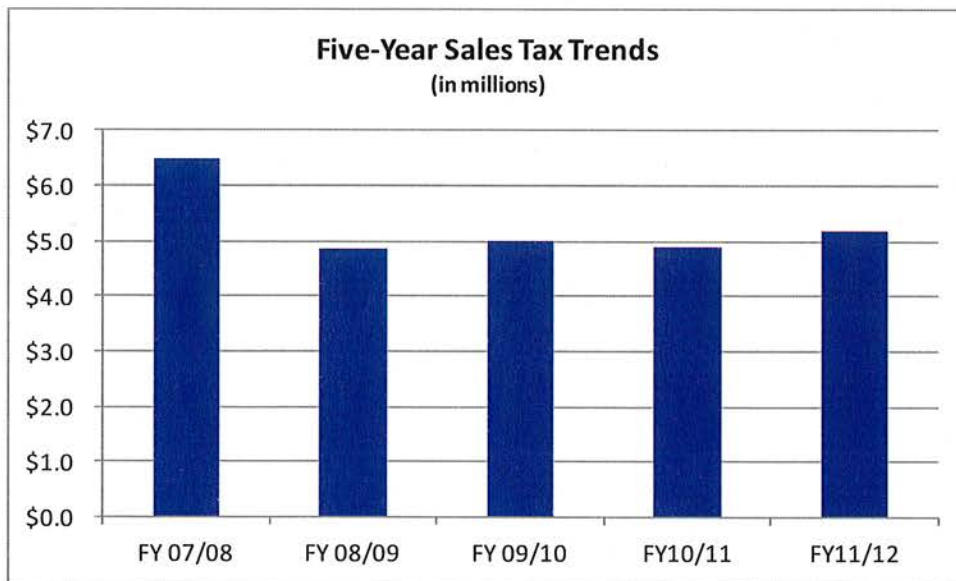
The local unemployment rate provides a good indication of the area's economic stability. In Santa Cruz County, the unemployment rate declined from a three-year high of 12.7% in 2010 to 9.9% in 2012. This reduction was consistent with an overall decline in the State's unemployment rate. In the City of Capitola, unemployment rates were moderately more

favorable with a three-year high of 7.2% in 2010, and a June 2012 rate of 5.5%. This is reflected in increased sales and hotel occupancy rates.

The three major sources of General Fund revenue include Sales Tax, Property Tax, and Transient Occupancy Tax (TOT). These three revenues account for over 58% of all General Fund operating revenues.

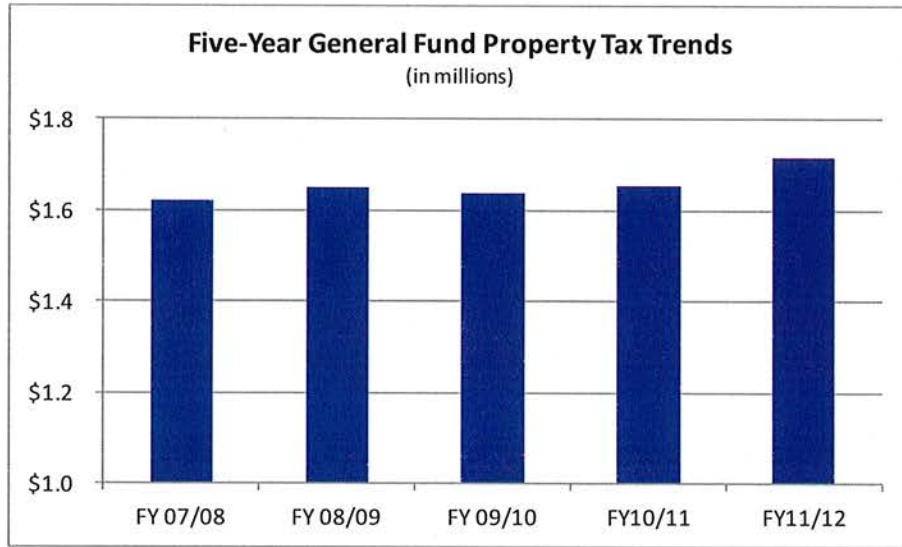
Sales tax is the City's largest source of revenue, accounting for over 40% of the General Fund Revenues. The City sales tax consists of 1% Bradley Burnes and 1/4% Capitola District Tax (Measure D). In FY 11/12, the combined sales tax receipts of \$5.2 million were 4% higher than budgetary estimates, and approximately 6% higher than the prior year. The City anticipates the July, 2012 opening of a 100,000 square foot major retailer in Capitola Mall will increase sales tax revenue by \$350,000.

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

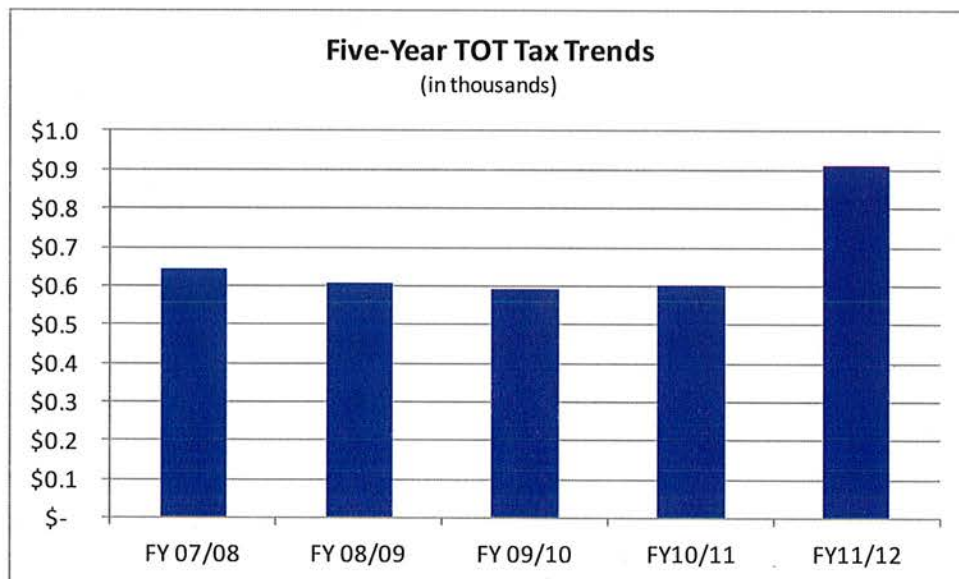


Capitola's second major source of revenue is property tax. In 2010-11, the General Fund and the RDA received property tax revenues of \$1.66 million and \$2.4 million, respectively. Due to the dissolution of the RDA, the Successor Agency is now only eligible to receive property tax or Redevelopment Property Tax Trust Fund (RPPTF) revenues sufficient to fund approved obligations. In FY11/12 the General Fund received \$1.72 million in property tax receipts. This was 4% above the budgeted amount and 1.2% over the prior year. This 1.2% increase primarily resulted from a one-time residual RPPTF distribution of \$52,500.

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



Transient occupancy tax (TOT) represents over 6.5% of General Fund revenues. In FY 11/12, this represented an increase of \$310,000, which is 4% over the budgeted amount. This increase was primarily due to the addition of a new 84-room major hotel. The City is continuing to project a conservative growth rate of 2% in the next fiscal year; along with reviewing appropriate locations for new hotel developments.



Long-term Financial Planning

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

Replenishing Reserves

In March of 2011, an underground storm drain failed sending water through the Pacific Cove Mobile Home Park, City Hall, and portions of the Capitola Village. As a result of the damages, the City paid over \$1.4 million in flood related costs over the last two fiscal years; with an additional \$200,000 of anticipated repair expenses in FY 12/13. This incident reduced the City emergency reserve accounts from \$1.87 million in FY 09/10 to \$561,000 in FY 11/12. To assist in achieving the FY 12/13 recommended funding level of \$1.8 million, \$400,000 that was initially set aside for equipment and technology purposes was transferred to the reserve accounts. The City is in the process of developing a five-year plan to replenish the reserves with Measure O sales tax revenues.

Controlling Payroll Costs

In 2007, all bargaining units agreed to cap the City's share of retirement costs. The maximum contribution to the Public Employee Retirement System (PERS) costs was set at 28.291% for Safety employees and 16.488% for Miscellaneous employees. These caps extended through FY11/12 and were renegotiated into new contracts with all bargaining units. Consistent with other local agencies, the City implemented additional retirement reforms by capping the City's share of retirement costs for new Public Safety and Miscellaneous employees at 23.291% and 11.488%, respectively. These caps combined with cost-savings measures outlined in the California Public Employees' Retirement Pension Reform Act of 2013 (PEPRA) will assist in controlling future payroll costs.

Planning for Local Sales Tax Revenues

The City currently has a 1/4% sales tax (Measure D) which is scheduled to sunset on December 31, 2017. This tax was responsible for over \$900,000 in General Fund revenues in FY11/12. An additional permanent 1/4% sales tax initiative (Measure O) was placed on the November 2012 ballot to assist with replenishing reserves, fund CIP projects, and support much needed public safety initiatives. The final November 2012 election results confirmed that Measure O passed with 50.75% of the votes.

Measure D is scheduled to expire in 2017. The loss of Measure D revenue could be offset by the retirement of 2007 Pension Obligation Bonds, with annual debt service payments of approximately \$670,000; and an estimated \$350,000 in new sales tax revenues from a major retail store that opened in July of 2012.

Closing Pacific Cove Mobile Home Park and Determining New Site Use

The City-owned Pacific Cove Mobile Home Park suffered considerable water damage as a result of the March 2011 storm drain failure. Engineers estimated that it would cost \$1.9 million to bring the park up to code and repair the damaged pipe. Due to the Park's location in a flood plain zone, the repairs would not be sufficient to insulate the Park from probable future flood damage. Due to the high costs and the potential future liability, City Council approved the park closure after evaluating a Relocation Impact Report (RIR). In addition to the estimated closure costs of \$2.39 million; the City will also realize a \$130,000 loss in annual space rental revenues.

To finance the closure, the City initiated a \$2.39 million lease/sublease agreement, with the City Hall and adjacent parking lot, as the subject property. It is anticipated the debt will be funded primarily by the General Fund, with qualifying assistance from the Parking Reserve and Housing Trust Funds. The General Fund is anticipated to contribute \$46,400 towards the FY12/13 annual debt service payment of \$181,200. The City plans to use resources generated from increased sales tax receipts to assist with the new payments and accommodate for the loss of space rental revenues.

In FY 12/13, the City will continue evaluating uses for the site, including a proposal for a short-term parking lot. This lot is anticipated to provide additional parking for Village businesses and Capitol Beach, while providing a supplementary source of revenue. The availability of parking spaces may also assist in fostering hotel development in the Village area.

Major Initiatives

Managing the Dissolution of the Redevelopment Agency (RDA)

On June 29, 2011, the Governor of the State of California signed Assembly Bill X1 26 which required the dissolution of all California Redevelopment Agencies. Based on this legislation, Communities could elect to assume Successor Agency responsibilities for the RDA and the RDA's Low/Moderate Income Housing Fund. On January 12, 2012, City Council adopted a resolution to serve as the Successor Agency to the RDA and the Housing Successor to the Low/Moderate Income Fund.

The Successor Agency's primary responsibility is to unwind the affairs of the former RDA, while the Housing Successor can continue to provide low to moderate income housing support. In accordance with the legislation, the Successor Agency is only eligible to receive Redevelopment Property Tax Trust Fund (RPTTF) revenues sufficient to fund payments listed on an approved Recognized Obligation Payment Schedule (ROPS). Payments listed on the Successor Agency's ROPS are subject to the initial certification by the County Auditor-Controller; and bi-annual approval from the Successor Agency, the Oversight Board to the Successor Agency, and the Department of Finance. The Housing Successor is anticipated to receive funding from the former Low Income Housing assets, along with potential support from the General Fund.

All obligations listed on the first ROPS were approved by the Successor Agency and Oversight Board; and certified by the County Auditor-Controller's Office. This included ten recognized obligations, with six month payments totaling \$874,652. While the Successor Agency was successful in receiving the local ROPS approval, the Department of Finance (DOF) denied RPPTF funding for two City/RDA loans. This denial would result in a reduction of \$152,520 in annual interest payments to the General Fund; as well as the potential loss of \$1.97 million in General Fund assets. This amount includes a \$618,028 Loan and Cooperative Agreement which was used to establish the RDA; and a \$1.35 million loan to acquire the Rispin Mansion, a designated historical property. Based on DOF's response, the City, Successor Agency, and the Oversight Board approved returning the Rispin Mansion to the City in exchange for termination of the loan. This action would provide Capitola residents and visitors with additional park space, as well as relieve the taxing agencies of the debt. While the Successor Agency and the Oversight Board felt this met the intent of ABX1 26, the DOF denied this transaction and requested the Oversight Board to reconsider their decision.

On August 29, 2012, the Oversight Board submitted a second resolution which unanimously reaffirmed the property transfer decision; however as of the date of this transmittal, no response has been received from the DOF. Because the statutory timelines to contest the property transfer have expired, the City believes the transfer is complete; however it is difficult to predict whether the DOF may still try to contest this action.

The City also requested seven months of interest payments on the City/RDA loans for the period from July 1, 2011 to January 31, 2012, which represents the seven month period prior to the effective date of the RDA dissolution. The prorated payments of \$88,970 were approved at the local level on the Third ROPS; however they were denied by the Department of Finance. The City met with the Department of Finance on November 15, 2012 to contest this action as part of the formal "Meet and Confer" process; however the DOF chose to reaffirm their decision on December 18, 2012.

Due to the denial of this obligation, the City's General Fund will be required to return to the Successor Agency the full annual interest payment of \$152,520. These returned funds will be used by the Successor Agency to pay approved ROPS III obligations. While this transfer represents an additional appropriation to the FY12/13 budget, there is sufficient fund balance available to meet this obligation.

On January 10, 2012, AB 1484 was amended to provide additional clarification on the RDA dissolution process. The legislation also defined a process where City/RDA loans could be reinstated, subsequent to a Due Diligence Review by a CPA firm, a Finding of Completion by the DOF, and approval of the Oversight Board. A separate Due Diligence Review is required for both the RDA and Low Income Housing Funds to determine if unobligated balances are available for distribution to the taxing entities. The Low Income Housing Fund's Due Diligence Review was successfully completed on September 28, 2012; and approved by Department of Finance on November 8, 2012. This audit confirmed there were no residual assets available for distribution. The Successor Agency is currently in the process of completing the Due Diligence Review for the non-housing RDA funds. The City and Successor Agency plan to pursue reinstating the Cooperative Agreement obligation after a Finding of Completion is received.

Securing Former RDA Programs/Funding

The following obligations have been Certified by the County Auditor-Controller and have received initial approval by all local authorities and the Department of Finance. These balances represent the amounts listed on the Certified Recognized Obligation Payment Schedule as of December 31, 2011.

Mall Economic Development - \$1 Million

An agreement to provide frontage improvements on 41st Avenue and update architectural features of the Capitola Mall. These funds would be used for sidewalk widening, landscaping, improved bicycle and public access, and assisting with the reconstruction of the existing public transit center located at the mall.

Library Development – \$2.1 Million

This approved obligation will provide \$2.6 million in funding to construct a 12,500 square foot library branch.

Housing Rental Subsidies - \$2 Million

The RDA previously provided rental subsidies to eligible mobile home park residents as part of the homeowner's acquisition of the park or as assistance to low income residents who were affected by the repeal of rent control. In FY11/12, this program provided subsidies to over 60 recipients.

Tax Allocation Note - \$1.1 Million

Funding for this note was approved and paid in FY11/12 with Redevelopment Reserve funds. Final payment of this debt relieves the General Fund from assuming this third party obligation.

Relevant Financial Policies

Financial Management Policies

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

A key component of this policy focuses on reserve requirements. Each fiscal year, the final adopted General Fund budget is required to have a Contingency Reserve appropriation equal to 10% of the General Fund operating expenditures; and an Emergency Reserve appropriation equal to 5% of the General Fund Operating Expenditures. The purpose of the Contingency Reserve is to provide a prudent level of financial resources to protect against temporary revenue shortfalls; unanticipated operating costs; and/or to meet short-term cash flow

requirements. The purpose of the Emergency Reserve Fund is to protect against one-time significant costs that may arise from major unpredictable emergency events. These funds were nearly depleted due to the March 2011 heavy rainstorm and subsequent pipe failure. The emergency recovery costs in the amount of \$795,300 were recognized as an extraordinary item in the FY10/11 financial statements and \$622,631 in the FY11/12 financial statements. Replenishment strategies are discussed in the Long-Term Financial Planning section of this document. This City is also considering amending the policy to increase the reserve thresholds.

Investment Policy

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

AWARD FOR EXCELLENCE IN FINANCIAL REPORTING

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, 2011 by the California Society of Municipal Finance Officers (CSMFO). The City has received this award every year since FY 99/00. The City believes the current CAFR meets the Certificate for Outstanding Financial Reporting requirements and it will be submitted to the CSMFO Award program.

For Fiscal Year ended June 30, 2012, the City will also be submitting the CAFR to the Government Finance Officers Association of the United States and Canada to determine its eligibility for the Certificate of Achievement for Excellence in Financial Reporting. This Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of State and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. The City believes the current CAFR meets the Certificate of Achievement for Excellence in Financial Reporting.

ACKNOWLEDGEMENTS

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

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

Respectfully submitted,



Jamie Goldstein
City Manager

CITY OF CAPITOLA
LIST OF PRINCIPAL OFFICIALS
FOR
FISCAL YEAR ENDED JUNE 30, 2012

ELECTED OFFICIALS

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

APPOINTED OFFICIALS

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

DEPARTMENT HEADS/ADMINISTRATORS

Administrative Services Director - Lisa Murphy
Chief of Police - Rudy Escalante
City Clerk - Su Sneedon
Community Development Director - Susan Westman
Finance Director - Tori Hannah
Public Works Director - Steve Jesberg

Citizens of the City of Capitola

Council Members

City Treasurer

City Manager

City Attorney (contract)

Exec Assistant to the City Manager

City Clerk

Receptionist

Records Coordinator

Information Systems Specialist

Community Dev Director (Interim)

Finance Director

Police Chief

Public Works Director

Recreation Supervisor

Admin Services Director

Bldg Official
Currently reporting to Public Works

Senior Planner
Assoc Planner (Frozen)
Dev Service Tech 2/3 FTE
Housing Planner (Frozen)

Building Inspector

Supervisor Acct.
Finance Staff (2)

Acct. II

Admin Asst.
Captain-Admin Div (Frozen)
Detectives (2)
Records Mgr
Records Clerk (2)
Admin Analyst

Captain-Op. Div.
Sergeants (4)
Police Officers (14)
Parking Enforcement (3)
Community Service Officer (2) (1) Frozen

Maintenance Superintendent Frozen
Street Supervisor
Maintenance Worker 3 (2) (1) Frozen
Maintenance Worker 1&2 (8) (1) Frozen

Recreation Staff (2)
Dev Service Tech 1/3 FTE
Fleet Maintenance

Art & Cultural
Museum

California Society of Municipal Finance Officers

Certificate of Award

***Outstanding Financial Reporting
for the Fiscal Year Ending June 30, 2011***

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 29, 2012





Scott Johnson
CSMFO President



Chu Thai, Chair
Professional Standards and
Recognition Committee

Dedicated Excellence in Municipal Financial Reporting

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FINANCIAL SECTION

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ROGERS, ANDERSON, MALODY & SCOTT, LLP
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ramscca.net

INDEPENDENT AUDITOR'S REPORT

PARTNERS

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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 (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, as of June 30, 2012, and the respective changes in financial position of the City for the year then ended in conformity with accounting principles generally accepted in the United States of America.

On December 29, 2011, the California Supreme Court upheld Assembly Bill X1 26 (Bill) that provides for the dissolution of all redevelopment agencies in the State of California. Therefore, as of February 1, 2012, the Capitola Redevelopment Agency (a component unit of the City) ceased to exist. All functions of the former redevelopment agency either passed to the City or to the Successor Agency to the Capitola Redevelopment Agency.

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In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 budgetary comparison information, as listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining nonmajor fund financial statements, nonmajor individual budgetary comparison information, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and the nonmajor individual budgetary comparison information 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 basic financial statements and certain other 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 basic financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Rogers Anderson Maloney & Scott, LLP

January 16, 2013

Management's Discussion and Analysis

As management of the City of Capitola, California, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. Readers are encouraged to consider the information presented here in conjunction with the accompanying letter of transmittal and the basic financial statements.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$19.8 million (*net assets*). Of this amount, \$4.1 million (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The total net assets decreased by \$160,156 from FY 10/11. This included a prior period adjustment of \$123,292 and a \$36,864 reduction in net assets from governmental activities.
- The City's net capital assets decreased by \$1.8 million from the prior year.
- The City's long-term liabilities decreased by \$688,265 from the prior year.
- An extraordinary gain was recognized of \$379,963 on the government wide financial statement. This included a \$1,002,594 gain on the dissolution of the RDA and a \$622,631 loss related to the storm drain failure.

Fund Highlights

- The City's governmental funds reported combined fund balances of \$7.9 million, a decrease of \$76,226 from the prior year. Of this amount, \$2.6 million is reported as nonspendable, \$1 million is assigned, and \$2.5 million is available for spending at the City's discretion. An additional \$1.9 million is restricted for specific purposes by their providers through constitutional provisions or by enabling legislation. This is in compliance with Governmental Accounting Standard Board's (GASB) Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions, which is further described in Note 1, Section D10.
- The \$76,226 decrease in the City's governmental funds reported combined fund balances was primarily the net effect of increased revenues, reduced spending, and an extraordinary loss of \$812,908. This extraordinary loss includes \$622,631 due to a storm drain failure and a \$190,277 loss due to the dissolution of the Redevelopment Agency.
- The Unassigned fund balance for the General Fund was \$2.6 million or 23% of the total General Fund operating expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

The government-wide financial statements include not only the primary government activities, but also one legally separate entity: The City of Capitola Redevelopment Agency (RDA). Due to the dissolution of the RDA, activities in the government-wide statements are reported up to January 31, 2012. These activities are blended with those of the primary government because the City Council serves as the governing board for each of these component units and the component units function as part of the City's government.

The Government-Wide Financial Statements can be found on pages 17-18 of this report.

Fund Financial Statements

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

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements, however governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as

well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financial requirements.

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

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

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

The basic governmental fund financial statements can be found on pages 19-24 of this report.

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

Notes to the Financial Statements

The Notes to the basic financial statements provide additional information that is not essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 28-62 of this report.

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City of Capitola, assets exceeded liabilities by \$19.8 million at the close of the most recent fiscal year.

	Governmental Activities	
	2012	2011
Current and other assets	\$ 13,643,385	\$ 14,583,748
Capital assets	14,308,355	16,088,996
Total Assets	\$ 27,951,740	\$ 30,672,744
Other liabilities	1,489,248	3,361,831
Long term liabilities		
Due in one year	621,475	804,208
Due in more than one year	6,063,530	6,569,062
Total Liabilities	8,174,253	10,735,101
Net Assets:		
Invested in Capital Assets, net of accumulated depreciation and related debt	11,918,355	15,053,786
Restricted	3,724,947	1,511,250
Unrestricted	4,134,185	3,249,315
Total Net Assets, as restated	\$ 19,777,487	\$ 19,814,351

The largest portion of the City's net assets, \$11.9 million or 60%, is reflected in its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets were not available for future spending. Although the City of Capitola's investment in capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, \$3.7 million or 19%, represented resources that were subject to external restrictions on how they may be used. The remaining \$4.1 million or 21%, of the City's net assets, were "unrestricted," and may be used to meet the government's ongoing obligations to citizens and creditors.

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

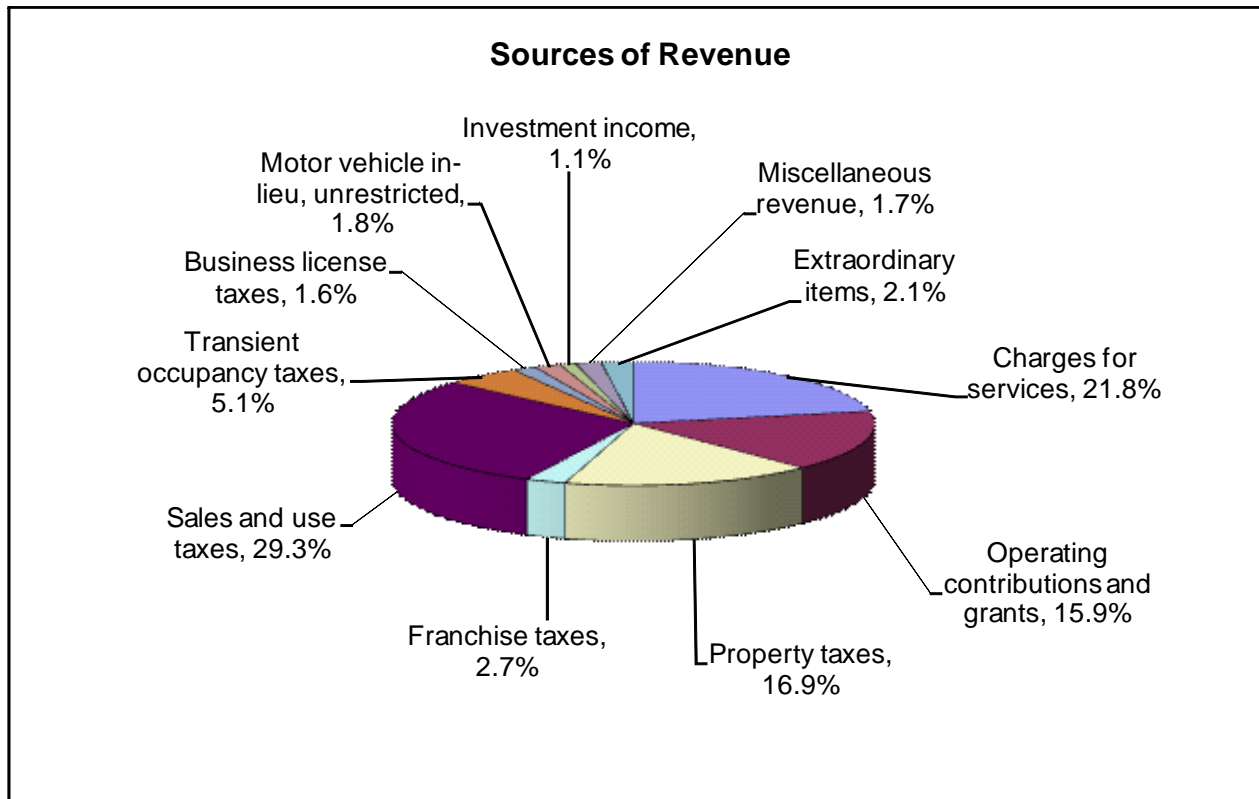
Governmental Activities

Governmental activities decreased the City of Capitola's net assets by \$36,864; thereby retaining a relatively consistent balance over the prior year. The FY 11/12 beginning net assets were restated to \$19.8 million due to a prior period adjustment of \$123,292. The Statement of Changes in Net Assets is provided below, followed by an explanation of key changes in FY 11/12:

	Governmental Activities	
	2012	2011
Revenues		
Program revenues:		
Charges for services	\$ 3,880,665	\$ 3,446,410
Operating contributions and grants	2,815,151	1,040,129
Capital contributions and grants	-	421,219
General revenues:		
Taxes:		
Property taxes	2,993,125	4,107,291
Franchise taxes	482,782	477,084
Sales and use taxes	5,200,303	4,890,518
Transient occupancy taxes	912,851	601,726
Business license taxes	281,336	266,948
Motor vehicle in-lieu, unrestricted	315,480	283,955
Investment income	190,390	185,346
Miscellaneous revenue	309,110	289,481
Extraordinary items:		
Flood disaster loss	(622,631)	(795,304)
Gain on dissolution of Redevelopment Agency	1,002,594	-
Total revenues	<u>17,761,156</u>	<u>15,214,803</u>
Expenses		
General government	4,850,957	5,452,712
Public safety	5,490,993	5,422,504
Community development	3,471,434	2,067,847
Culture and recreation	1,009,568	994,906
Transportation	2,556,293	2,444,924
Interest and other charges	418,775	448,182
Total expenses	<u>17,798,020</u>	<u>16,831,075</u>
Change in Net Assets	<u>\$ (36,864)</u>	<u>\$ (1,616,272)</u>
Ending Net Assets, as restated	<u>\$ 19,777,487</u>	<u>\$ 19,814,351</u>

Revenues

As shown in the in the Statement of Changes in Net Assets, revenues for FY 11/12 were \$17.8 million. The following graph includes program and general revenues and shows the percentage of governmental revenues by source:



These revenues represent an increase of approximately of \$2.5 million over the prior year. This was primarily the result of the following factors:

- Charges for Services – As a result of the RDA dissolution act, the Oversight Board to the Successor Agency approved funding for an Administrative Allowance of \$250,000 to assist in winding down the affairs of the former RDA.
- Grants and Contributions – Recognition of \$1.2 million in grant funding related to the Bay Avenue Senior Housing Project, a 109 unit senior low income housing rehabilitation project.
- Property Taxes – Reduction of approximately \$1 million in property tax revenues due to the dissolution of the RDA.
- Sales Tax Revenues – Increased by approximately \$300,000 due to general economic recovery.
- Transient Occupancy Taxes - Increased by \$311,125 due to the opening of a major new hotel and general economic improvement.

- Extraordinary Items – In FY 10/11, the City recognized an extraordinary loss of \$795,304. In FY 11/12, this loss continued with an additional \$622,631 spent on storm drain recovery efforts. When this loss was netted with the gain on the RDA dissolution of \$1,002,594, this resulted in a \$1 million increase over the prior year. Specific information related to the RDA gain calculation is presented below:

Gain on RDA Dissolutions – Transfers to the Successor Agency	
Long-Term Liabilities	\$2,543,565
Capital Assets – Rispin	(1,350,694)
Remaining Fund Balance	(190,277)
Gain Recognized:	\$1,002,594

Cost of Services

Under GASB 34, program revenues are derived directly from programs or from parties outside the reporting government's taxpayers or citizenry. They reduce the net cost of the function to be financed from the government's general revenues. General revenues are all other revenues not categorized as program revenues, and include taxes, unrestricted grants, contributions, investment earnings, and miscellaneous revenues. Total program revenues from governmental activities were \$7 million. The table below presents the costs of each of the following City's programs:

	Total Cost of Services	Program Revenues	Net Cost of Services
General government	\$ 4,850,957	\$ 2,390,199	\$ 2,460,758
Public safety	5,490,993	983,047	4,507,946
Community development	3,471,434	2,387,372	1,084,062
Culture and recreation	1,009,568	751,356	258,212
Transportation	2,556,293	183,842	2,372,451
Interest and other charges	418,775	-	418,775
Totals	<u>\$ 17,798,020</u>	<u>\$ 6,695,816</u>	<u>\$ 11,102,204</u>

A description of each program is listed below:

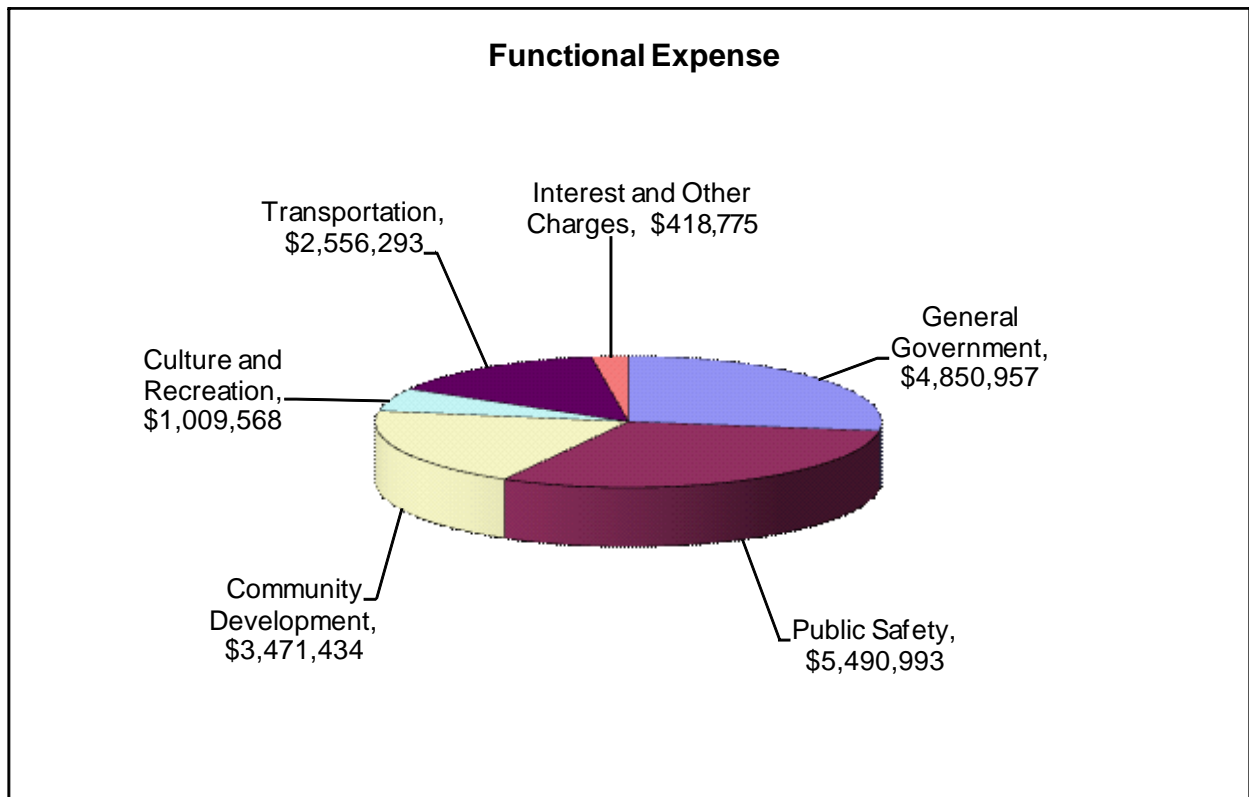
- General Government expenses comprise approximately 27% of all government expenses. This includes City Council, City Manager, City Clerk, City Attorney, Finance, Administrative Services, and Risk Management. These programs are offset by parking meter collections, grants, and administrative support fees.
- Public safety expenses comprise 31% of the governmental expenses. Revenues from fines, citations, grants, and animal services partially offset the cost of this program.
- Community Development expenses comprise approximately 20% of all governmental expenses. Various building and planning fees, along with grant revenues assist in funding these program costs.
- Culture and Recreation expenses comprise over 6% of all governmental expenses. These programs are primarily funded through recreational class and sports fees.

- Transportation/Public Works comprise 14% of all governmental expenses. This includes the street, facility, park, and fleet maintenance; and oversight of the Pacific Cove Mobile Home Relocation Plan. Costs are partially offset by motor vehicle fuel taxes and various fees.
- Interest expense comprises 2% of the governmental expenses. This interest expense is used to pay long-term debt obligations.

Expenses

As shown in the Statement of Changes in Net Assets, expenditures increased by approximately \$1 million. This was primarily the result of increased Community Development spending of \$1.4 million related to grant funded activities; net of reductions in General Government spending of \$601,755. In FY 10/11, over \$600,000 of General Government spending was attributed to additional costs incurred in the City Attorney’s Office. These costs included approximately \$520,000 related to several significant mobile home rent control cases; and a Council approved write-off of approximately \$80,000 in bad debt related to mobile home administrative fees. In FY 11/12, the City Attorney’s expenses returned to levels relatively consistent with prior years.

A distribution of expenses by Function is provided below:



Financial Analysis of the City's Funds

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

Governmental Funds

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

At the end of the current fiscal year, the City of Capitola's governmental funds reported a combined ending fund balance of \$7.9 million, a decrease of \$76,226 in comparison with the prior fiscal year. Approximately \$2.6 million is reported as nonspendable, \$1 million is assigned to the Capital Projects Fund, and \$2.5 million is available for spending at the City's discretion. An additional \$1.8 is restricted for specific purposes, which includes \$1.4 million in debt proceeds to be used to fund the costs of closing the Pacific Cove Mobile Home Park.

General Fund

The General Fund is the chief operating fund of the City of Capitola. At the end of the current fiscal year, the total fund balance was \$4.6 million. Approximately 57% was unassigned fund balance, which was available for spending at the government's discretion. The majority of the nonspendable balance relates to loans due from the Successor Agency. This includes a Purchase Agreement for the Rispin Property in the amount of \$1.35 million and a \$618,028 Loan and Cooperative Agreement that was used to establish the Redevelopment Agency. Additional information regarding these two agreements can be found in Notes 6 and 18.

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

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

	City Budget Documents	General Plan / Open Space	Emergency / Contingency Reserve	Internal Service Funds	Financial Statements
Beginning Fund Balance, as Restated	\$ 1,721,526	\$ 303,594	\$ 1,069,573	\$ 1,484,041	\$ 4,578,734
Revenues	\$ 12,714,485	\$ 181,924		\$ -	\$ 12,896,409
Expenditures	11,322,126	225,411	-	(264,676)	11,282,861
Net Operating Difference	\$ 1,392,359	\$ (43,487)	\$ -	\$ 264,676	\$ 1,613,548
Financing Sources/Uses	\$ (579,802)	\$ -	\$ 114,000	\$ (525,500)	\$ (991,302)
Extraordinary Item	-	-	(622,631)	-	(622,631)
Net Change in Fund Balance	812,557	(43,487)	(508,631)	(260,824)	(385)
Ending Fund Balance	\$ 2,534,083	\$ 260,107	\$ 560,942	\$ 1,223,217	\$ 4,578,349

Federal Home Loan Reuse

The Federal Home Loan Reuse fund receives loan payments from recipients of HOME Program loans; and uses these revenues to fund additional affordable housing activities. All housing funded activities must be within the City and be in accordance with the Federal Home Reuse Guidelines. The FY11/12 revenues represent the receipt of principle and interest payments related to the Wharf Road Manor Homeowner's Association Loan Program, while expenses represent funding for additional grants and subsidies. Deferred interest revenue of \$12,011 was also recorded in FY11/12.

RDA Low Income Housing Fund

This fund receives 20% of the Redevelopment Agency tax increment revenues that are required to be set aside by state law, and their related expenses. The \$1.3 million in expenditures represent payments of approved recognized obligations. The activity shown in the financial statements represent activity for the period of July 1, 2011 through January 31, 2012. As of February 1, 2012, this fund ceased to exist. The remaining fund balance and obligations were transferred to the Capitola Housing Successor. Additional information regarding this transition can be found in Note 15.

Pacific Cove Debt Financing

The Pacific Cove Debt Financing Fund is used to account for the debt proceeds and the corresponding expenditures for the Pacific Cove Mobile Home Park Relocation Plan. This fund is also used for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs of the City's long term debt. In FY 11/12, the City received debt proceeds of \$2.39 million and expended approximately \$917,000 on park closure costs including the purchase of coaches, professional services, and maintenance. It is anticipated that the remaining \$1.4 million in fund balance will be used in FY12/13 to complete the park closure.

RDA Debt Service

This fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal and interest for the RDA. This fund also receives tax increment and processes payments related to RDA activity and pass-through agreements. In FY11/12, the RDA Debt Service Fund received a partial payment of property tax increment of \$1.2 million. This was used to fund obligations listed on the approved Enforceable Obligation Payment Schedule. The activity shown in the financial statements represents the activity from July 1, 2011 to January 31, 2012. As of February 1, 2012, the Agency ceased to exist; and the financial accounting for the Successor Agency was transitioned to a Private Purpose Trust Fund. Additional information can be found in Note 15.

GENERAL FUND BUDGETARY HIGHLIGHTS

A detailed budgetary comparison schedule for the year ended June 30, 2012 is presented as Required Supplementary Information following the notes to the financial statements. This information can be found on page 64. Key budgetary differences are provided below.

Revenues:

Revenues exceeded the Final Budget by approximately \$448,000. Key factors relating to the increase include: Sales tax receipts of approximately \$153,000 in the Fourth Quarter; and \$163,000 in combined increased TOT tax revenues, a prior year sales tax true-up; and an additional one-time property tax revenues related to the RDA dissolution. Planning and building fees also increased due to activity associated with a major new retailer.

Expenses:

Expenses prior to transfers and the extraordinary loss were approximately \$586,000 below the Amended budget. This was primarily the result of the following factors:

- Public Safety savings of approximately \$500,000: This savings was achieved primarily through a reduction in police overtime, a partial police officer vacancy, a vacant .50 FTE Police Records Clerk; and the carry-forward of grants and contracts.
- General Government and Community Development savings of approximately \$80,000: This was primarily the result of salary savings from a partial Finance Director vacancy; and position transitions in the Community Development and City Clerk's Office.

Appropriations:

Variances between the Original and Final budgets are primarily due to the inclusion of continuing appropriations for special projects from the prior year.

Fund Balance:

The General Fund Ending Fund Balance was \$4,578,349 as of June 30, 2012. This amount was approximately \$1 million greater than the final budget projection based on the revenue and expenditure information noted above. The Unassigned amounts identified as Contingency and Emergency reserves are provided for reference. An additional discussion of the City's Contingency and Emergency reserves can be found in the Financial Management Policies section of the Transmittal letter.

Fund balance:		
Nonspendable:		
Prepaid items	\$	2,408
Due from successor agency		1,968,028
Unassigned:		
Emergency reserve		156,046
Contingencies		404,896
Unassigned		<u>2,046,971</u>
 Total fund balance	 \$	 <u>4,578,349</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's value of governmental assets (net of accumulated depreciation) at the end of FY 11/12 was \$14,308,355. This investment in capital assets includes land, building, equipment, vehicles, and infrastructure. The infrastructure classification typically includes roads, streets, sidewalks, medians, and bridges. The total decrease in the City of Capitola's investment in capital assets for the current fiscal year was 11.1% or \$1.78 million. Approximately \$1.35 million of this reduction can be attributed to the transfer of the Rispin Mansion and land from the former RDA to the Successor Agency. The accounting transfer was consistent with the RDA dissolution requirements.

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

Governmental Activities

Land	\$	3,844,909
Buildings and improvements		3,100,207
Equipment		3,000,750
Infrastructure		24,250,498
Construction in progress		588,903
Depreciation		<u>(20,476,912)</u>
 Total fixed assets	 \$	 <u>14,308,355</u>

Long-Term Debt

The City's long-term debt at the end of FY11/12 was \$6,685,005. This represents a reduction of \$688,265 or 9.3% when compare to the FY 10/11. Significant changes include the transfer of \$2.5 million in long-term obligations to the Successor Agency and the addition of \$2.39 million in capital lease financing for the Pacific Cove Relocation Project. Additional contributing factors include the retirement of a capital lease agreement for a street sweeper, RDA pass-through payments of \$179,502; and a \$455,000 pension obligation bond payment.

An overview of all long-term obligations is presented below; while comprehensive information can be found in Notes 5 and 6.

Governmental Activities

Bonds Payable:	
2007 POB Bonds	\$ 3,375,000
Loans Payable:	
Capital Lease Payable - Pacific Cove	2,390,000
Notes Payable	38,249
Compensated absences	590,625
Net OPEB Obligation	<u>291,131</u>
Total	<u>\$ 6,685,005</u>

ECONOMIC FACTORS, NEXT YEAR'S BUDGETS, AND RATES

On June 14, 2012, the Council adopted the FY 12/13 Budget, with a total appropriation of \$18.5 million, and a General Fund appropriation of \$12.2 million. Adequate resources were projected to be available to fund the proposed expenditures. The General Fund budget reflects a conservative estimate of growth; with sales tax revenues anticipated to increase by 2% and an additional \$350,000 in projected receipts from a new major retail store. A similar projection of growth was forecasted for TOT taxes; while property taxes were estimated to be relatively stable. While the projected \$500,000 increase from sale tax revenues represent a positive impact to the General Fund, it is anticipated to be offset by the loss of regular recurring revenues, including interest payments on City/RDA loans of \$152,520, rental revenues of \$130,000 from the closure of the Pacific Cove Mobile Home Park; and the expiration of grant revenues.

Additional cost-control measures included negotiating new contracts with all bargaining units, which retain a cap on the City's share of pension payments. This strategy has proven to assist the City in maintaining relatively flat payroll expenses over the last couple of years; while also insulating the City from future projected rising pension costs.

Prospects for the Future

At the time this document was prepared, Capitola voters approved an additional 1/4 cent sales tax (Measure O). This measure is anticipated to generate close to \$1.1 million annually in additional revenues. This additional source of revenue was not included in the FY 12/13 budget; however, a draft five-year plan has been prepared which includes proposed funding for much-needed CIP projects, and replenishing the Emergency and Contingency reserves.

The City completed the Meet and Confer process with the California Department of Finance (DOF) to dispute a prorated share of \$152,520 in interest payments on City/RDA loans. These payments were made in accordance with the approved Enforceable Obligation Payment Schedule (EOPS). Recently, the DOF reaffirmed their denial of the prorated payment. This final determination will impact the City's General Fund; however there should be sufficient fund balance available to cover the payment.

Local, State, and National Economy

Over the last few years, events in the local, state, and national economies have led to a significant downturn in financial markets; however, there are now beginning signs of an economic recovery. This has been reflected in increased sales tax, TOT tax, and the increasing demand for building/planning services. The Santa Cruz County Auditor-Controller has also indicated that while some cities within the area are still seeing a slight decrease in property tax values, properties in Capitola were retaining or actually seeing small valuation increases. These factors combined with recovery from the storm drain failure, make the City of Capitola's prospects for the future cautiously optimistic.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

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CITY OF CAPITOLA
Statement of Net Assets
June 30, 2012

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 5,481,893
Accounts receivable, net of allowance for uncollectibles	107,195
Due from other governments	1,396,190
Due from successor agency	1,968,028
Loans receivable	3,995,768
Debt issuance costs	105,451
Prepays	588,860
Capital assets:	
Non-depreciable:	
Land	3,844,909
Construction in progress	588,903
Depreciable:	
Equipment	3,000,750
Buildings and improvements	3,100,207
Infrastructure	24,250,498
Accumulated depreciation	<u>(20,476,912)</u>
 Total Assets	 <u>27,951,740</u>
LIABILITIES	
Accounts payable	652,046
Accrued liabilities	258,571
Interest payable	120,459
Deposits payable	292,977
Unearned revenue	165,195
Noncurrent liabilities:	
Due within one year	621,475
Due in more than one year	<u>6,063,530</u>
 Total Liabilities	 <u>8,174,253</u>
NET ASSETS	
Invested in capital assets, net of related debt	11,918,355
Restricted for:	
Public safety	50,757
Transportation	2,445,232
Community development	1,140,751
Culture and recreation	88,207
Unrestricted	<u>4,134,185</u>
 Total Net Assets	 <u><u>\$ 19,777,487</u></u>

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

CITY OF CAPITOLA
Statement of Activities
Year Ended June 30, 2012

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:				
General government	\$ 4,850,957	\$ 1,058,698	\$ 1,331,501	\$ -
Public safety	5,490,993	759,403	223,644	-
Community development	3,471,434	1,144,816	1,242,556	-
Culture and recreation	1,009,568	751,356	-	-
Transportation	2,556,293	166,392	17,450	-
Interest and other charges	418,775	-	-	-
Total Governmental Activities	\$ 17,798,020	\$ 3,880,665	\$ 2,815,151	\$ -
General Revenues:				
Taxes:				
Property taxes				2,993,125
Franchise taxes				482,782
Sales and use taxes				5,200,303
Transient occupancy taxes				912,851
Business license taxes				281,336
Motor vehicle in-lieu, unrestricted				315,480
Investment income				190,390
Miscellaneous revenue				309,110
Extraordinary Items:				
Flood disaster loss				(622,631)
Gain on dissolution of Redevelopment Agency				1,002,594
Total General Revenues and Extraordinary Items				11,065,340
Change in Net Assets				(36,864)
Net Assets, Beginning of Year, as Restated				19,814,351
Net Assets, End of Year				\$ 19,777,487

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

GOVERNMENTAL FUNDS

Major Governmental Funds

GENERAL FUND

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

SPECIAL REVENUE FUNDS

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

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

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. As of February 1, 2012, the Agency ceased to exist (See note 15). The activity shown is for the period of July 1, 2011 through January 31, 2012.

DEBT SERVICE FUNDS

Debt Service Funds are used to account for all financial resources that are restricted, committed, or assigned to expenditure for principal, interest and related costs. The following funds have been classified as major funds:

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

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. As of February 1, 2012, the Agency ceased to exist (See note 15). The activity shown is for the period of July 1, 2011 through January 31, 2012.

NON-MAJOR GOVERNMENTAL FUNDS

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

CITY OF CAPITOLA
Governmental Funds
Balance Sheet
June 30, 2012

	General	Special Revenue Fund Federal Home Loan Reuse
ASSETS		
Cash and investments	\$ 2,230,509	\$ 8,201
Accounts receivable	82,740	-
Due from other governments	1,301,949	6
Due from other funds (note 3)	198,498	-
Due from successor agency	1,968,028	-
Loans receivable	-	3,646,526
Prepays	2,408	-
	\$ 5,784,132	\$ 3,654,733
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 282,899	\$ -
Accrued liabilities	256,545	-
Deferred revenue	418,196	3,646,526
Due to other funds	-	-
Deposits payable	248,143	-
	1,205,783	3,646,526
Fund balances:		
Nonspendable	1,970,436	-
Restricted	-	8,207
Assigned	-	-
Unassigned	2,607,913	-
	4,578,349	8,207
Total Liabilities and Fund Balances	\$ 5,784,132	\$ 3,654,733

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

Special Revenue Fund	Debt Service Funds		Non-Major Governmental Funds	Totals
RDA Low Income Housing	Pacific Cove Debt Financing	RDA Debt Service		
\$ -	\$ 1,735,872	\$ -	\$ 1,507,311	\$ 5,481,893
-	-	-	24,455	107,195
-	1,849	-	92,386	1,396,190
-	-	-	-	198,498
-	-	-	-	1,968,028
-	-	-	349,242	3,995,768
-	-	-	586,452	588,860
<u>\$ -</u>	<u>\$ 1,737,721</u>	<u>\$ -</u>	<u>\$ 2,559,846</u>	<u>\$ 13,736,432</u>
\$ -	\$ 305,120	\$ -	\$ 64,027	\$ 652,046
-	-	-	2,026	258,571
-	-	-	350,657	4,415,379
-	-	-	198,498	198,498
-	-	-	44,834	292,977
-	305,120	-	660,042	5,817,471
-	-	-	586,452	2,556,888
-	1,432,601	-	416,938	1,857,746
-	-	-	1,045,241	1,045,241
-	-	-	(148,827)	2,459,086
-	1,432,601	-	1,899,804	7,918,961
<u>\$ -</u>	<u>\$ 1,737,721</u>	<u>\$ -</u>	<u>\$ 2,559,846</u>	<u>\$ 13,736,432</u>

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CITY OF CAPITOLA
Governmental Funds
Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Assets
June 30, 2012

Fund balances of governmental funds	\$	7,918,961
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets net of depreciation have not been included in governmental fund activity:</p>		
Capital assets		34,785,267
Accumulated depreciation		(20,476,912)
<p>Long term debt has not been included in the governmental fund activity:</p>		
Notes payable		(38,249)
Bonds payable		(3,375,000)
Capital leases payable		(2,390,000)
Compensated absences		(590,625)
Net OPEB Obligation		(291,131)
Accrued interest payable		(120,459)
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.</p>		
Long-term receivables		4,250,184
Deferred charges		105,451
		105,451
Net assets of governmental activities	\$	19,777,487

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

CITY OF CAPITOLA
Governmental Fund Types
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2012

	General	Special Revenue
		Fund
		Federal
		Home
		Loan Reuse
REVENUES		
Taxes	\$ 8,370,134	\$ -
Licenses & permits	610,940	-
Fines & forfeitures	724,407	-
Intergovernmental	1,343,011	-
Charges for services	1,472,504	-
Use of money and property	289,519	24,316
Other revenue	85,894	-
Total Revenues	12,896,409	24,316
EXPENDITURES		
Current:		
General government	2,450,483	-
Public safety	5,306,870	-
Community development	662,692	21,238
Culture and recreation	910,719	-
Transportation	1,952,097	-
Capital outlay	-	-
Debt service:		
Debt issuance costs	-	-
Principal	-	-
Interest	-	-
Total Expenditures	11,282,861	21,238
Excess (Deficiency) of Revenues over (Under) Expenditures	1,613,548	3,078
OTHER FINANCING SOURCES (USES)		
Proceeds from capital lease	-	-
Transfers in	50,000	-
Transfers out	(1,041,302)	-
Total Other Financing Sources (Uses)	(991,302)	-
EXTRAORDINARY ITEMS		
Flood disaster loss	(622,631)	-
Gain (loss) on dissolution of redevelopment agency	-	-
Total Extraordinary Items	(622,631)	-
Net Change in Fund Balances	(385)	3,078
Fund Balances, Beginning of Year, as Restated	4,578,734	5,129
Fund Balances, End of Year	\$ 4,578,349	\$ 8,207

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

Special Revenue Fund	Debt Service Funds		Non-Major Governmental Funds	Totals
RDA Low Income Housing	Pacific Cove Debt Financing	RDA Debt Service		
\$ -	\$ -	\$ 1,218,926	\$ 288,947	\$ 9,878,007
-	-	-	18,958	629,898
-	-	-	-	724,407
-	-	-	1,412,457	2,755,468
-	-	-	434,507	1,907,011
3	2,976	1,390	84,673	402,877
-	-	-	3,731	89,625
<u>3</u>	<u>2,976</u>	<u>1,220,316</u>	<u>2,243,273</u>	<u>16,387,293</u>
-	916,981	616,175	50,710	4,034,349
-	-	-	129,181	5,436,051
1,263,518	-	-	1,510,923	3,458,371
-	-	-	129,844	1,040,563
-	-	-	251,430	2,203,527
-	-	-	756,948	756,948
-	43,394	-	-	43,394
-	-	179,502	493,680	673,182
-	-	176,270	217,956	394,226
<u>1,263,518</u>	<u>960,375</u>	<u>971,947</u>	<u>3,540,672</u>	<u>18,040,611</u>
<u>(1,263,515)</u>	<u>(957,399)</u>	<u>248,369</u>	<u>(1,297,399)</u>	<u>(1,653,318)</u>
-	2,390,000	-	-	2,390,000
376,982	-	-	1,066,302	1,493,284
-	-	(376,982)	(75,000)	(1,493,284)
<u>376,982</u>	<u>2,390,000</u>	<u>(376,982)</u>	<u>991,302</u>	<u>2,390,000</u>
-	-	-	-	(622,631)
<u>696</u>	<u>-</u>	<u>(190,973)</u>	<u>-</u>	<u>(190,277)</u>
<u>696</u>	<u>-</u>	<u>(190,973)</u>	<u>-</u>	<u>(812,908)</u>
(885,837)	1,432,601	(319,586)	(306,097)	(76,226)
<u>885,837</u>	<u>-</u>	<u>319,586</u>	<u>2,205,901</u>	<u>7,995,187</u>
<u>\$ -</u>	<u>\$ 1,432,601</u>	<u>\$ -</u>	<u>\$ 1,899,804</u>	<u>\$ 7,918,961</u>

CITY OF CAPITOLA
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2012

Net change in fund balances - total governmental funds \$ (76,226)

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

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

Capital outlays	823,513
Depreciation	(1,059,930)
Loss on disposal of assets	(193,530)

Repayment of debt service principal and capital lease liabilities are expenditures in the governmental funds but the repayment reduces long-term liabilities in the statement of net assets. 673,182

The issuance of long-term debt provides current financial resources to governmental funds. This transaction, however, does not have an 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.

Proceeds from Capital lease	(2,390,000)
Other long-term debt issuance	(132,056)
Long-term debt issuance costs	43,394

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Amortization of issuance costs	(13,063)
Change in compensated absences payable	60,382
Change in OPEB	(66,808)
Change in accrued interest expense	(24,549)

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

Grant revenues	1,125,956
----------------	-----------

Net gain in closing of RDA recognized on Government Wide Statements 1,192,871

Change in net assets of governmental activities \$ (36,864)

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

CITY OF CAPITOLA
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2012

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and investments	\$ 1,830,873	\$ 36,098
Accounts receivable	3,285,176	32
Capital assets:		
Land	1,038,880	-
Building and improvements	<u>311,814</u>	<u>-</u>
 Total Assets	 <u>6,466,743</u>	 <u>\$ 36,130</u>
LIABILITIES		
Deferred revenue	3,283,806	\$ -
Deposits	-	36,130
Long-term liabilities (note 6):		
Due within one year	1,211,720	-
Due in more than one year	<u>3,233,845</u>	<u>-</u>
 Total Liabilities	 <u>7,729,371</u>	 <u>\$ 36,130</u>
NET ASSETS (DEFICIT)		
Held in trust for successor agency and other purposes	<u>(1,262,628)</u>	
 Total Net Assets (Deficit)	 <u>\$ (1,262,628)</u>	

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

CITY OF CAPITOLA
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the period from inception (February 1, 2012) to June 30, 2012

	Private Purpose Trust Fund
ADDITIONS	
Tax revenue:	
Property	\$ 15,831
Investment earnings	825
Other revenue	2,123
Total additions	18,779
 DEDUCTIONS	
Administrative allowance	255,062
Debt service:	
Interest	23,750
Total deductions	278,812
 EXTRAORDINARY ITEM	
Extraordinary gain (loss) on Redevelopment Agency dissolution	(1,002,595)
Change in net assets	(1,262,628)
Net assets, beginning of the period	-
Net assets (deficit), end of the period	\$ (1,262,628)

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

City of Capitola
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For Year Ended June 30, 2012

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CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

1) **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 served in separate session as the governing body of the Capitola Redevelopment Agency, although this agency is a legal entity separate from the City.

The Capitola Redevelopment Agency is included as a component unit in the accompanying financial statements. The financial activities of the foregoing entity have been aggregated and merged (termed "blending") with those of the City in the accompanying financial statements, as it 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 Redevelopment Agency exists for the purpose of facilitating the City's capital financing program. On December 29, 2011, a Supreme Court ruling directed that all redevelopment agencies be dissolved as of February 1, 2012; therefore, these funds account for activities of the Redevelopment Agency through January 31, 2012. See note 15 for additional information on the redevelopment dissolution.

B) **Basis of Presentation**

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

B) Basis of Presentation, (continued)

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. All City activities are governmental; no business-type activities are reported in the statements.

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

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

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

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

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

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

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

The City reports the following major governmental funds:

General Fund

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

Federal Home Loan Reuse Fund

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

RDA Low Income Housing Fund

The RDA Low Income Housing Fund accounts for 20% of the Redevelopment Agency tax increment revenues that are set aside by state law, and the use of those revenues. As of February 1, 2012, the Agency ceased to exist (See note 15). The activity shown is for the period of July 1, 2011 through January 31, 2012.

Pacific Cove Debt Financing Fund

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

RDA Debt Service Fund

The RDA Debt Service 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. As of February 1, 2012, the Agency ceased to exist (See note 15). The activity shown is for the period of July 1, 2011 through January 31, 2012.

The City also reports the following Fiduciary fund types:

Agency Funds

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

Private Purpose Trust Funds

These funds account for the activities of the City of Capitola as Successor Agency to the Capitola Redevelopment Agency and the Capitola Housing Successor. The Successor Agency's primary purpose is to expedite the dissolution of the former Redevelopment Agency's assets in accordance with AB X1 26 and AB 1484, while the Capitola Housing Successor provides housing assistance through the use of assets transferred from the RDA Low Income Housing Fund.

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*.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

1) Cash and Investments (continued)

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

2) Receivables and Payables

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

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

3) Property Taxes

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

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

3) Property Taxes (continued)

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

4) Capital Assets

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

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

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

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

5) Prepaid Items

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

6) 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 the 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.

7) Compensated Absences

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

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

8) Reclassifications and Eliminations

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

9) Use of Estimates

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

10) Fund Equity

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

Nonspendable – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.

Restricted – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions or by enabling legislation.

Committed – amounts constrained to specific purposes by a government itself, using the highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned – amounts that are for any purpose; positive amounts are reported only in a general fund.

The City Council has the authority to establish, modify, or rescind fund balance commitments by resolution.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

10) Fund Equity, (continued)

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

2) CASH AND INVESTMENTS

Cash and investments held by the City at June 30, 2012 are classified in the accompanying financial statement as follows:

Statement of Net Assets:	
Cash and investments	\$ 5,481,893
Statement of Fiduciary Net Assets:	
Cash and investments	<u>1,866,971</u>
Total cash and investments	<u><u>\$ 7,348,864</u></u>

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

Petty cash	\$ 1,450
Demand deposits	2,471,970
Investments	<u>4,875,444</u>
Total cash and investments	<u><u>\$ 7,348,864</u></u>

Investments Authorized by the California Government Code and the City of Capitola's Investment Policy

Allowable investment instruments are defined in the California Government Code Section 53600, et. seq., as amended. If the Code is further revised to allow additional investments or is changed regarding the limits on certain categories of investments, the City is authorized to conform to these changes, excluding those changes that may be prohibited by this policy. Where the Government Code specifies a percentage limitation for a particular category of investments, that percentage is applicable only at the date of purchase.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

2) CASH AND INVESTMENTS, (continued)

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

Authorized Investment Type	*Maximum Maturity	*Maximum Percentage of Portfolio	*Maximum Investment in One Issuer
U. S. Treasury Bills	5 years	60%	None
Negotiable Certificates of Deposit	1 year	None	None
Money Market Mutual Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	\$50 million
Guaranteed Investment Contracts	15 months	None	None

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

Disclosures Relating to Interest Rate Risk

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

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

Investment Type	Remaining Maturity				Total
	12 months or less	13 to 24 months	25 to 60 months	More than 60 months	
Local Agency Investment Fund	\$ 4,875,444	\$ -	\$ -	\$ -	\$ 4,875,444
Total	<u>\$ 4,875,444</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,875,444</u>

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

2) CASH AND INVESTMENTS, (continued)

Investment with Fair Values Highly Sensitive to Interest Rate Fluctuations

During the fiscal year ended June 30, 2012, the City did not hold any investments that were highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

Disclosures Relating to Credit Risk

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

Investment Type	Total	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End		
				AAA	Aa	Not Rated
Local Agency Investment Fund	<u>\$ 4,875,444</u>	N/A	N/A	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,875,444</u> *

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

Concentration of Risk

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

2) CASH AND INVESTMENTS, (continued)

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., brokerdealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2012 the City had no deposits with financial institutions in excess of federal depository insurance limits that were held in collateralized accounts.

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 prorate 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.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

3) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Advances from Other Funds

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 5%. 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, 2012, 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. 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.

Due to the Dissolution of the Agency in the current year, the balance of the loans previously made to the redevelopment agency were transferred to the Successor Agency to the former redevelopment agency, pursuant to AB X1 26 and AB 1484. Therefore, the balance was moved in the current fiscal year from an Advance to Other Funds to a Due from Successor Agency. See Successor Agency Long Term Debt note 6.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

3) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS, (continued)

Due To/From Other Funds

Due to/from other funds at June 30, 2012 is as follows:

Due from other funds	Due to other funds	Amount
General Fund	Non-Major governmental funds	\$ 198,498

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

Interfund Transfers

Interfund transfers for the year ended June 30, 2012 are as follows:

		Transfers In			Total
		General Fund	RDA Low Income Fund	Non-Major Governmental Funds	
Transfers Out	General Fund	\$ -	\$ -	\$ 1,041,302	\$ 1,041,302
	RDA Debt Service Fund	-	376,982	-	376,982
	Non-Major Governmental Funds	50,000	-	25,000	75,000
	Total	\$ 50,000	\$ 376,982	\$ 1,066,302	\$ 1,493,284

Transfers to the RDA Low Income Housing Fund totaled \$376,982 and were made from the RDA Debt Service Fund. Through February 1, 2012, the California Health and Safety Code required the Agency project area to deposit 20% of allocated incremental property tax revenues into a Low Income Housing Fund. This money is restricted for the purpose of increasing and improving the community's supply of low income housing. Effective February 1, 2012, the Redevelopment Agency Low Income Housing Fund (LMIHF) became the Capitola Housing Successor, a Private Purpose Trust Fund under the direction of the Capitola City Council.

Transfers to the Non-Major Funds of \$1,041,302 were made from the General Fund. These transfers were for capital projects \$50,000, 2007 Pension Obligation Bond Payments \$900,500, and \$90,802 which represents 16% of the Village Parking Meter revenues.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

3) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS, (continued)

Housing and Community Development Loan Program

The City uses Federal HOME Loan Reuse, Affordable Housing and CDBG Program Income funds to provide housing loans to eligible applicants. Such loans are made to low and moderate income households to improve or rehabilitate residences. The City accounts for this program in the Special Revenue Funds. Total loans receivable of \$4.0 million at June 30, 2012 are listed below:

	<u>CDBG Program Income</u>	<u>Federal Home Loan Reuse</u>	<u>Affordable Housing</u>	<u>Total</u>
Individual Loans	\$ 169,345	\$ 533,342	\$ 19,897	\$ 722,584
Bay Avenue Senior Apartments	-	2,900,000	-	2,900,000
Castle Mobile Home Park	-	-	160,000	160,000
Wharf Road Manor	-	213,184	-	213,184
	<u>\$ 169,345</u>	<u>\$ 3,646,526</u>	<u>\$ 179,897</u>	<u>\$ 3,995,768</u>

They have been reflected in the accompanying financial statements as loans receivable with an offsetting deferred revenue in the fund financial statements.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

4) CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012 is as follows:

	Beginning balance	Additions	Deletions	Transfers to Successor Agency	Ending balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 4,883,789	\$ -	\$ -	\$ (1,038,880)	\$ 3,844,909
Construction in progress	501,916	130,197	(43,210)	-	588,903
Total capital assets, not being depreciated	5,385,705	130,197	(43,210)	(1,038,880)	4,433,812
Capital assets, being depreciated:					
Building and improvements	3,256,481	365,040	(209,500)	(311,814)	3,100,207
Equipment	2,960,247	266,353	(225,850)	-	3,000,750
Infrastructure	24,145,365	105,133	-	-	24,250,498
Total capital assets, being depreciated	30,362,093	736,526	(435,350)	(311,814)	30,351,455
Less accumulated depreciation	(19,658,802)	(1,059,930)	241,820	-	(20,476,912)
Total capital assets, being depreciated, net	10,703,291	(323,404)	(193,530)	(311,814)	9,874,543
Total governmental activities capital assets, net of accumulated depreciation	\$ 16,088,996	\$ (193,207)	\$ (236,740)	\$ (1,350,694)	\$ 14,308,355

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	\$ 644,822
Public safety	54,942
Cultural and Recreation	35,570
Transportation	324,596
	<hr/>
Total Depreciation Expense - Governmental Activities	\$ 1,059,930

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

5) LONG TERM DEBT

A summary of changes in long-term debt for the fiscal year ended June 30, 2012 was as follows:

	Beginning balance	Additions	Reductions	Transfer to Successor Agency	Ending balance	Due Within One Year
2007 POB Bonds	\$ 3,830,000	\$ -	\$ (455,000)	\$ -	\$ 3,375,000	\$ 485,000
Capital Lease - Cove Financing	-	2,390,000	-	-	2,390,000	66,664
Capital Leases Payable	35,210	-	(35,210)	-	-	-
Notes Payable	1,003,470	38,249	(3,470)	(1,000,000)	38,249	4,710
Compensated Absences	651,007	97,166	(157,548)	-	590,625	65,101
Net OPEB Obligation	224,323	66,808	-	-	291,131	-
RDA Pass-Throughs	1,629,260	93,807	(179,502)	(1,543,565)	-	-
Totals	\$ 7,373,270	\$ 2,686,030	\$ (830,730)	\$ (2,543,565)	\$ 6,685,005	\$ 621,475

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
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	645,000	19,382	664,382
Total	\$ 3,375,000	\$ 642,017	\$ 4,017,017

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

5) LONG TERM DEBT, (continued)

Capital Leases Payable - Pacific Cove Debt Financing

On March 23, 2012, the City leased the real property on which the existing City Hall is located, together with adjacent real property which is used for public parking purposes to a nonprofit public benefit corporation for an up-front rental payment of \$2,390,000, which is sufficient to enable the City to finance the Pacific Cove Mobile Home Park Project. The Corporation then leased the Leased property back to the City, all under a Lease and Sublease Agreement between the Corporation as lessee and sublessor, and the City as lessor and sublessee. Under the Lease, the City is obligated to pay semiannual lease payments in consideration of the lease. The lease has a 20 year term, with a 5.14% fixed interest rate for the first 10 years, then resets to a 10 year T-Bill plus 3%.

Future lease payments under the capital lease as of June 30, 2012 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 66,664	\$ 114,547	\$ 181,211
2014	74,532	118,474	193,006
2015	78,412	114,594	193,006
2016	82,494	110,512	193,006
2017	86,789	106,217	193,006
2018-2022	506,610	458,418	965,028
2023-2027	652,946	312,082	965,028
2028-2032	841,553	123,476	965,029
	<u>\$ 2,390,000</u>	<u>\$ 1,458,320</u>	<u>\$ 3,848,320</u>

Capital Leases Payable

In Fiscal Year 2007-08, the City entered into a four-year Lease Purchase Agreement to lease a Street Sweeper from First Municipal Leasing Corporation for \$165,450. The equipment did not have a net book value included in the statement of net assets at June 30, 2012. The purchase financing was completed in Fiscal Year 2011-2012.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

5) LONG TERM DEBT, (continued)

Notes Payable

On September 29, 2000, the Capitola Redevelopment 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. As of February 1, 2012, notes payable were transferred to the Successor Agency of the Capitola Redevelopment Agency due to AB X1 26, which dissolved redevelopment agencies in the State of California as of February 1, 2012. The Successor Agency, a separate legal entity, is responsible for the repayment of the principal and interest of the outstanding notes payable. Additions to the Successor Agency, in the form of property taxes, have been pledged for the repayment of enforceable obligations (which include the notes payable). Since the Redevelopment Agency no longer exists, the bonds have been removed from the City's government-wide financial statements.

On January 26, 2012 the City Council approved the City's participation in a financing program and retrofit project with PG&E to place LED fixtures in City-owned streetlights. The City has executed a loan document with PG&E in the amount of \$38,249. The terms of the loan are at 0% interest and will be paid off over 86 months. The monthly payment will be \$444.76 per month.

Compensated Absences

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

City employees accumulate earned but unused benefits that can be converted to cash at termination of employment. The non-current portion of these vested benefits, payable in accordance with various collective bargaining agreements, totals \$590,625 as of June 30, 2012.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

5) LONG TERM DEBT, (continued)

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.

This note was fully paid at June 30, 2012.

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 portion has been paid to the County.

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

5) LONG TERM DEBT, (continued)

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. Prefunding in the amount of the maximum obligation of the Agency through the fiscal year ending June 30, 2018 is \$2,640,000. The Agency 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.

County Library Building Fund

As of February 1, 2012, the Redevelopment Agency Pass-Through Agreements were transferred to the Successor Agency to the Capitola Redevelopment Agency due to AB X1 26, which dissolved redevelopment agencies in the State of California as of February 1, 2012. The Successor Agency, a separate legal entity, is responsible for the repayment of the principal and interest of the outstanding bonds. Additions to the Successor Agency, in the form of property taxes, have been pledged for the repayment of enforceable obligations (which include the Redevelopment Agency Pass-Through Agreements). Since the Redevelopment Agency no longer exists, the Redevelopment Agency Pass-Through Agreements have been removed from the City's government-wide financial statements.

6) SUCCESSOR AGENCY LONG TERM DEBT

In accordance with the provisions of AB X1 26 (Bill) and the California Supreme Court's decision to uphold the Bill, the obligations of the former redevelopment agency became vested with the funds established for the successor agency upon the date of dissolution, February 1, 2012. Former tax increment revenues pledged to fund the debts of the former redevelopment agency will be distributed to the Successor Agency subject to the reapportionment of such revenues as provided by the Bill.

The debt of the Successor Agency as of June 30, 2012 is as follows:

	Balance at transfer from Redevelopment Agency	Additions	Reductions	Ending balance	Due Within One Year
Advances Payable	\$ 1,968,028	\$ -	\$ -	\$ 1,968,028	\$ -
Notes Payable	1,000,000	-	-	1,000,000	1,000,000
RDA Pass-Throughs	1,543,565	-	(66,028)	1,477,537	211,720
Totals	<u>\$ 4,511,593</u>	<u>\$ -</u>	<u>\$ (66,028)</u>	<u>\$ 4,445,565</u>	<u>\$ 1,211,720</u>

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

6) SUCCESSOR AGENCY LONG TERM DEBT, (continued)

Debt Service Requirements to Maturity

Notes Payable

Fiscal Year Ending June 30,	Principal	Interest
2013	\$ -	\$ 47,500
2014	1,000,000	47,500
Total	<u>\$ 1,000,000</u>	<u>\$ 95,000</u>

County Library Building Fund

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

Fiscal Year	Total Amount of Agency Assistance Obligation	Minimum Scheduled Payment Amount
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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

7) **FUND BALANCE CLASSIFICATIONS**

The details of the fund balances as of June 30, 2012 are presented below:

	General Fund	Federal Home Loan Reuse	RDA Low Income Housing	Pacific Cove Debt Financing	RDA Debt Service	Other Governmental Funds	Total Governmental Funds
Nonspendable:							
Prepays	\$ 2,408	\$ -	\$ -	\$ -	\$ -	\$ 586,452	\$ 588,860
Due from Successor Agency	1,968,028	-	-	-	-	-	1,968,028
Restricted for:							
Transportation	-	-	-	1,432,601	-	5,639	1,438,240
Public Safety	-	-	-	-	-	50,724	50,724
Community Development	-	8,207	-	-	-	272,368	280,575
Culture and Recreation	-	-	-	-	-	88,207	88,207
Assigned to:							
Other Capital Projects	-	-	-	-	-	1,045,241	1,045,241
Unassigned:							
Emergency Reserve	156,046	-	-	-	-	-	156,046
Contingencies	404,896	-	-	-	-	-	404,896
Unassigned	2,046,971	-	-	-	-	(148,827)	1,898,144
Total	\$ 4,578,349	\$ 8,207	\$ -	\$ 1,432,601	\$ -	\$ 1,899,804	\$ 7,918,961

8) **OTHER REQUIRED DISCLOSURES**

Deficit Fund Balances

The following funds reported deficit fund balances at June 30, 2012:

Parking Reserve	\$ (2,902)
CDBG	(21,554)
CDBG Program Income	(18,379)

These deficits are expected to be reduced by future revenues or transfers from other funds.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

9) RISK MANAGEMENT

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

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

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

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

10) JOINT VENTURES

Santa Cruz Consolidated Emergency Communications Center

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

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

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

Fiscal Year Ending June 30,	Annual Use Payment
2013	\$ 34,366
2014	34,299
2015	33,988
2016	34,256
2017	34,450
2018-2022	170,476
2023-2027	170,926
2028-2034	239,640
Total	\$ 752,401

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.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

11) CITY'S EMPLOYEES' RETIREMENT PLAN

Plan Description

The City of Capitola contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. 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.

Funding Policy

Active plan members are required to contribute a percentage of their annual covered salary. The City of Capitola actuarially determined FY11/12 member contribution rates for both the Miscellaneous Plan and the Safety Plan: 8% and 9% respectively. The required employer contribution rates for the fiscal year 2011-12 were 14.221% for the Miscellaneous Plan members and 24.112% for Safety Plan members. In 2007, all memoranda of understanding (MODS) contained caps on the City's share of retirement contributions. The rates for the Miscellaneous and Safety PERS retirements plans were set at 16.488% and 28.291%, respectively. These caps were in effect in FY 11/12 and were extended in FY12/13.

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

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

<u>Fiscal Year</u>	<u>Required Contributions</u>	<u>Percentage Contributed</u>
2010	\$ 384,507	100%
2011	430,383	100%
2012	542,125	100%

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

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

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

Fiscal Year	Required Contributions	Percentage Contributed
2010	\$ 383,836	100%
2011	405,773	100%
2012	478,776	100%

12) 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.

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 ending, contributions totaled \$19,052: \$3,476 by the City and \$15,576 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.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

12) PUBLIC AGENCY RETIREMENT SYSTEM, (continued)

Contributions, (continued)

The City's contribution for fiscal year 2011-12 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 1/1/11	\$	70,964
Contributions		22,129
Earnings		470
Subtotal		93,563
Less: Expenses		(4,692)
Disbursements		(23,556)
Balance 12/31/11	\$	65,315

13) OTHER POST EMPLOYMENT BENEFITS

Plan Description

The City's defined benefit postemployment healthcare plan, (City of Capitola Retiree Healthcare Plan, CRHP), provides medical benefits to eligible retired City employees and spouses. CRHP is an agent multiple-employer plan administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions, as well as other requirements, is established by State statute within the Public Employees' Retirement Law. 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 currently contributes the Public Employees' Medical and Hospital Care Act (PEMHCA) minimum.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

13) OTHER POST EMPLOYMENT BENEFITS, (continued)

Funding Policy, (continued)

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. On May 14, 2009, the City Council adopted a resolution indicating that contributions will be made on the “pay-as-you-go.” This method requires 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 2012 were as follows:

	Total
Annual required contribution	\$ 88,344
Interest on net OPEB obligation	10,095
Adjustments to annual required contribution	(9,253)
Annual OPEB cost (expense)	89,186
Contributions made	(22,378)
Increase in net OPEB obligation	66,808
Net OPEB obligation - beginning of year	224,323
Net OPEB obligation - end of year	\$ 291,131

For 2012, the City’s annual OPEB cost (expense) of \$89,186 for CRHP was greater than the ARC by \$842. The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the two preceding years were as follows:

THREE YEAR TREND INFORMATION FOR CRHP			
Fiscal Year	Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 89,186	25.1%	\$ 291,131
6/30/2011	99,690	24.5%	224,323
6/30/2010	93,339	18.5%	149,108

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

13) OTHER POST EMPLOYMENT BENEFITS, (continued)

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2012, was as follows:

Actuarial Accrued Liability (AAL)	\$ 1,006,369
Actuarial Value Plan Assets	\$ -
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.

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%

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

14) COMMITMENTS AND CONTINGENT LIABILITIES

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

15) DISSOLUTION OF CALIFORNIA REDEVELOPMENT AGENCIES

On December 29, 2011, the California Supreme Court upheld Assembly Bill X1 26 (Bill) that provides for the dissolution of all redevelopment agencies in the State of California. Most cities in California had established a redevelopment agency that was included in the reporting entity of the city as a blended component unit (since the city council, in many cases, also served as the governing board for those agencies).

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. If the city declines to accept the role of successor agency, other local agencies may elect to perform this role. If no local agency accepts the role of successor agency the Governor is empowered by the Bill to establish a local "designated local authority" to perform this role. On January 12, 2012, the City Council met and created a Successor Agency in accordance with the Bill as part of City resolution number 3906.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated tax revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full.

The Bill 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 the Bill.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

15) DISSOLUTION OF CALIFORNIA REDEVELOPMENT AGENCIES, (continued)

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

This includes a City / former RDA Loan and Repayment Agreement in the amount of \$618,028; and a Rispin Purchase Loan in the amount of \$1,350,000. Annual interest for both loans in the amount of \$152,520 was paid in January 2012. Due to the Department of Finance's denial of this obligation, the General Fund will have to return these funds to the Successor Agency.

The Successor Agency, City, and the Oversight Board has also approved a resolution to terminate the Rispin Property Purchase Loan in exchange for the return of the property. This would result in the reduction of \$1,350,000 of the Amount Due from the Successor Agency in exchange for the related asset. The Department of Finance requested the Oversight Board reconsider this decision; and the Oversight Board unanimously reaffirmed their property transfer decision in August. The City did not receive a response from the Department of Finance in relation to this action, and the statutory time to deny the action has elapsed. The City's RDA attorney believes this action is effective due timing; however, it could still be contested at a later date by the Department of Finance.

The City intends to try to reinstate the Loan and Repayment and any contested Rispin Purchase Loan obligations after receiving a Finding of Completion.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final seven months of the activity of the redevelopment agency continued to be reported in the governmental funds of the City. After the date of dissolution, activities of the dissolved redevelopment agency are reported in a fiduciary trust fund (private purpose trust fund) in the financial statements of the City.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

15) DISSOLUTION OF CALIFORNIA REDEVELOPMENT AGENCIES, (continued)

The movement of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary loss (or gain) in the governmental fund financial statements. The receipt of the assets and liabilities as of January 31, 2012 was reported in the private-purpose trust fund as an extraordinary gain (or loss).

Because of the different measurement focus of the governmental funds (current financial resources measurement focus) and the measurement focus of the trust funds (economic resources measurement focus), the extraordinary loss recognized in the governmental funds will not be the same amount as the extraordinary gain that will be recognized in the fiduciary fund financial statements.

16) RISKS AND UNCERTAINTIES

Grants

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

Successor Agency

Deductions (expenses) incurred by the Successor Agency for the year ended June 30, 2012 (and subsequent years in which the Successor Agency is in operation) are subject to review by various State agencies and the County in which the Successor Agency resides. If any expenses incurred by the Successor Agency are disallowed by the State agencies or County, the City, acting as the Successor Agency could be liable for the repayment of the disallowed costs from either its own funds or by the State withholding remittances normally paid to the City. The amount, if any, of expenses that may be disallowed by the State agencies or County cannot be determined at this time as to be immaterial or not. Furthermore, as of June 30, 2012, the Successor Agency to the former Redevelopment Agency is subject to several reviews and agreed-upon procedures to be performed on the appropriateness of the dissolution and transfer of asset and liabilities to the Successor Agency as well as a review of any transfers made to the City, County, and/or private parties for the period from January 1, 2011 through June 30, 2012. The result of the reviews and procedures could impact the City and its finances if an unfavorable outcome results from them. The amount, materiality, or need for a possible contingency cannot be determined at this time.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

17) 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 was recognized as an extraordinary item in the FY 2010-11 Statement of Revenues, Expenditures, and Changes in Fund Balances in the General Fund and the Statement of Activities. An additional amount of \$622,631 was recognized in FY11-12 Financial Statements for additional repairs related to the flood damage.

18) PRIOR PERIOD RESTATEMENT

FUND STATEMENTS

General Fund

Fund balance - beginning, as previously reported	\$ 4,759,453
Prior period adjustment	<u>(180,719)</u>
Fund balance - beginning, as restated	<u>\$ 4,578,734</u>

Fund balance was restated from prior year by \$(180,719). This restatement is due to the City choosing to present the Parking Reserve Fund as a separate fund. The Parking Reserve Fund was combined and presented with the General Fund in prior years.

Parking Reserve Fund

Fund balance - beginning, as previously reported	\$ -
Prior period adjustment	<u>180,719</u>
Fund balance - beginning, as restated	<u>\$ 180,719</u>

Fund balance was restated from prior year by \$180,719. This restatement is due to the City choosing to present the Parking Reserve Fund as a separate fund. The Parking Reserve Fund was combined and presented with the General Fund in prior years.

RDA Debt Service Fund

Fund balance - beginning, as previously reported	\$ 442,878
Prior period adjustment	<u>(123,292)</u>
Fund balance - beginning, as restated	<u>\$ 319,586</u>

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2012

18) PRIOR PERIOD RESTATEMENT, (continued)

Fund balance was restated from prior year by \$(123,292). This restatement is due to items that should have been reversed in prior year related to a pass-thru payment in the amount of \$108,700, and interest earnings Due from Other Governments of \$14,592.

GOVERNMENT WIDE STATEMENTS

Net assets - beginning, as previously reported	\$ 19,937,643
Prior period adjustment	<u>(123,292)</u>
Net assets - beginning, as restated	<u>\$ 19,814,351</u>

Net Assets was restated from prior year by \$(123,292). This restatement is due to items that should have been reversed in prior year related to a pass-thru payment in the amount of \$108,700, and interest earnings Due from Other Governments of \$14,592.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CAPITOLA
Schedule of Funding Progress for CRHP
Year Ended June 30, 2012

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

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

GENERAL FUND

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

CITY OF CAPITOLA
Required Supplementary Information
General Fund
Budgetary Comparison Schedule
Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 8,091,200	\$ 8,008,875	\$ 8,370,134	\$ 361,259
Licenses and permits	509,500	525,200	610,940	85,740
Fines and forfeitures	814,000	704,000	724,407	20,407
Intergovernmental	1,092,600	1,285,036	1,343,011	57,975
Charges for services	1,561,500	1,546,400	1,472,504	(73,896)
Use of money and property	332,300	281,800	289,519	7,719
Other revenue	59,500	96,500	85,894	(10,606)
Total revenues	<u>12,460,600</u>	<u>12,447,811</u>	<u>12,896,409</u>	<u>448,598</u>
Expenditures:				
Current:				
General government	2,324,300	2,477,031	2,450,483	26,548
Public safety	5,620,070	5,804,889	5,306,870	498,019
Community development	722,685	717,660	662,692	54,968
Culture and recreation	979,260	929,040	910,719	18,321
Transportation	2,090,785	1,940,670	1,952,097	(11,427)
Total expenditures	<u>11,737,100</u>	<u>11,869,290</u>	<u>11,282,861</u>	<u>586,429</u>
Excess (deficiency) of revenues over (under) expenditures	<u>723,500</u>	<u>578,521</u>	<u>1,613,548</u>	<u>1,035,027</u>
Other financing sources (uses):				
Transfers in	25,000	50,000	50,000	-
Transfers out	(832,500)	(1,045,500)	(1,041,302)	4,198
Total Other Financing Sources (Uses)	<u>(807,500)</u>	<u>(995,500)</u>	<u>(991,302)</u>	<u>4,198</u>
Extraordinary item:				
Flood disaster loss	-	(530,000)	(622,631)	(92,631)
Net change in fund balance	(84,000)	(946,979)	(385)	946,594
Fund balance, beginning, restated	<u>4,578,734</u>	<u>4,578,734</u>	<u>4,578,734</u>	<u>-</u>
Fund balance, ending	<u>\$ 4,494,734</u>	<u>\$ 3,631,755</u>	<u>\$ 4,578,349</u>	<u>\$ 946,594</u>

SPECIAL REVENUE FUNDS

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

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

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. As of February 1, 2012, the Agency ceased to exist (See note 15). The activity shown is for the period of July 1, 2011 through January 31, 2012.

CITY OF CAPITOLA
Federal Home Loan Reuse Fund
Major Special Revenue Fund
Budgetary Comparison Schedule
Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Use of money and property	\$ 12,300	12,300	\$ 24,316	\$ 12,016
Total revenues	12,300	12,300	24,316	12,016
Expenditures:				
Community development	-	9,228	21,238	(12,010)
Total expenditures	-	9,228	21,238	(12,010)
Excess (deficiency) of revenues over (under) expenditures	12,300	3,072	3,078	6
Net change in fund balance	12,300	3,072	3,078	6
Fund balance, beginning	5,129	5,129	5,129	-
Fund balance, ending	\$ 17,429	\$ 8,201	\$ 8,207	\$ 6

CITY OF CAPITOLA
RDA Low Income Housing Fund
Major Special Revenue Fund
Budgetary Comparison Schedule
Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Use of money and property	\$ -	\$ -	\$ 3	\$ 3
Total revenues	-	-	3	3
Expenditures:				
Community development	1,455,700	1,455,700	1,263,518	192,182
Total expenditures	1,455,700	1,455,700	1,263,518	192,182
Excess (deficiency) of revenues over (under) expenditures	(1,455,700)	(1,455,700)	(1,263,515)	192,185
Other financing sources:				
Transfers in	550,000	550,000	376,982	(173,018)
Total other financing sources	550,000	550,000	376,982	(173,018)
Extraordinary item:				
Gain on dissolution of redevelopment agency	-	-	696	696
Net change in fund balance	\$ (905,700)	\$ (905,700)	(885,837)	\$ 19,863
Fund balance, beginning			885,837	
Fund balance, ending			\$ -	

CITY OF CAPITOLA
Notes to Required Supplementary Information
Year Ended June 30, 2012

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.

Budgets were adopted for all governmental funds with the exception of the following Special Revenue Fund: CDBG Program Income Fund.

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>DEPARTMENTS</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
General Fund Department:			
Community Services:			
Transportation	\$ 1,940,670	\$ 1,952,097	\$ (11,427)
 <u>FUNDS</u>			
Major Fund:			
Federal Home Loan Reuse	\$ 9,228	\$ 21,238	\$ (12,010)
Non-Major Governmental:			
Wharf Fund	104,934	118,155	(13,221)
Parking Reserve Fund	125,000	224,423	(99,423)

SUPPLEMENTARY INFORMATION

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DEBT SERVICE FUNDS

Debt Service Funds are used to account for all financial resources that are restricted, committed, or assigned to expenditure for principal, interest and related costs. The following funds have been classified as a major fund:

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

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. As of February 1, 2012, the Agency ceased to exist (See note 15). The activity shown is for the period of July 1, 2011 through January 31, 2012.

CITY OF CAPITOLA
Pacific Cove Debt Financing Fund
Major Debt Service Fund
Budgetary Comparison Schedule
Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Investment income	\$ -	\$ -	\$ 2,976	\$ 2,976
Total revenues	-	-	2,976	2,976
Expenditures:				
General government	-	2,330,000	916,981	1,413,019
Debt service:				
Debt issuance costs	-	45,500	43,394	2,106
Total expenditures	-	2,375,500	960,375	1,415,125
Excess (deficiency) of revenues over (under) expenditures	-	(2,375,500)	(957,399)	1,418,101
Other financing sources:				
Proceeds from capital lease	-	2,375,500	2,390,000	14,500
Total other financing sources	-	2,375,500	2,390,000	14,500
Net change in fund balance	-	-	1,432,601	1,432,601
Fund balance, beginning	-	-	-	-
Fund balance, ending	\$ -	\$ -	\$ 1,432,601	\$ 1,432,601

CITY OF CAPITOLA
RDA Debt Service Fund
Major Debt Service Fund
Budgetary Comparison Schedule
Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 2,400,000	\$ 2,400,000	\$ 1,218,926	\$ (1,181,074)
Use of money and property	10,000	10,000	1,390	(8,610)
Total revenues	<u>2,410,000</u>	<u>2,410,000</u>	<u>1,220,316</u>	<u>(1,189,684)</u>
Expenditures:				
General government	1,447,600	1,403,396	616,175	787,221
Capital outlay	550,000	-	-	-
Debt service:				
Principal	245,500	245,500	179,502	65,998
Interest	230,000	230,000	176,270	53,730
Total expenditures	<u>2,473,100</u>	<u>1,878,896</u>	<u>971,947</u>	<u>906,949</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(63,100)</u>	<u>531,104</u>	<u>248,369</u>	<u>(282,735)</u>
Other financing uses:				
Transfers out	<u>(550,000)</u>	<u>(550,000)</u>	<u>(376,982)</u>	<u>173,018</u>
Total other financing uses	<u>(550,000)</u>	<u>(550,000)</u>	<u>(376,982)</u>	<u>173,018</u>
Extraordinary item:				
Loss on dissolution of redevelopment agency	<u>-</u>	<u>-</u>	<u>(190,973)</u>	<u>(190,973)</u>
Net change in fund balance	<u>\$ (613,100)</u>	<u>\$ (18,896)</u>	<u>(319,586)</u>	<u>\$ (300,690)</u>
Fund balance, beginning, restated			<u>319,586</u>	
Fund balance, ending			<u>\$ -</u>	

**NON-MAJOR SPECIAL REVENUE FUNDS,
NON-MAJOR DEBT SERVICE FUND AND
NON-MAJOR CAPITAL PROJECT FUND**

SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

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

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

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

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

**NON-MAJOR SPECIAL REVENUE FUNDS,
NON-MAJOR DEBT SERVICE FUND AND
NON-MAJOR CAPITAL PROJECT FUND, (continued)**

SPECIAL REVENUE FUNDS (continued)

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

BEGIN Grant Fund - This 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.

CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Balance Sheet
June 30, 2012

	SPECIAL REVENUE FUNDS		
	Supplemental Law Enforcement	Gas Tax	Wharf
Assets			
Cash and investments	\$ 50,939	\$ -	\$ 41,365
Accounts receivable	9,964	-	-
Due from other governments	52	30,701	56
Loans receivable	-	-	-
Prepaid items	33	-	-
	Total Assets	\$ 30,701	\$ 41,421
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 254	\$ 23,487	\$ 3,776
Accrued liabilities	2,026	-	-
Deferred revenue	-	-	-
Due to other funds	7,951	3,601	-
Deposits payable	-	-	1,000
	Total Liabilities	27,088	4,776
Fund balances:			
Nonspendable	33	-	-
Restricted	50,724	3,613	36,645
Assigned	-	-	-
Unassigned	-	-	-
	Total Fund Balances (Deficit)	3,613	36,645
	Total Liabilities and Fund Balances	\$ 30,701	\$ 41,421

SPECIAL REVENUE FUNDS

Development Fees	Parking Reserve	Technology Fees	PEG Cable TV Access	Capitola Village and Wharf BIA
\$ 3,441	\$ -	\$ 25,194	\$ 51,511	\$ 3,617
-	-	-	51	2,640
-	-	-	4,806	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 3,441</u>	<u>\$ -</u>	<u>\$ 25,194</u>	<u>\$ 56,368</u>	<u>\$ 6,257</u>
-	-	-	-	-
-	-	-	4,806	825
1,415	-	-	-	-
-	2,902	-	-	-
-	-	-	-	-
<u>1,415</u>	<u>2,902</u>	<u>-</u>	<u>4,806</u>	<u>825</u>
-	-	-	-	-
2,026	-	25,194	51,562	5,432
-	-	-	-	-
-	(2,902)	-	-	-
<u>2,026</u>	<u>(2,902)</u>	<u>25,194</u>	<u>51,562</u>	<u>5,432</u>
<u>\$ 3,441</u>	<u>\$ -</u>	<u>\$ 25,194</u>	<u>\$ 56,368</u>	<u>\$ 6,257</u>

CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Balance Sheet
June 30, 2012

	SPECIAL REVENUE FUNDS		
	CDBG	CDBG Program Income	HOME Grant
Assets			
Cash and investments	\$ -	\$ -	\$ 5,230
Accounts receivable	11,800	-	-
Due from other governments	56,771	-	-
Loans receivable	-	169,345	-
Prepaid items	-	-	-
Total Assets	\$ 68,571	\$ 169,345	\$ 5,230
 Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 30,452	\$ -	\$ -
Accrued liabilities	-	-	-
Deferred revenue	-	169,345	-
Due to other funds	59,673	18,379	-
Deposits payable	-	-	-
Total Liabilities	90,125	187,724	-
 Fund balances:			
Nonspendable	-	-	-
Restricted	-	-	5,230
Assigned	-	-	-
Unassigned	(21,554)	(18,379)	-
Total Fund Balances (Deficit)	(21,554)	(18,379)	5,230
Total Liabilities and Fund Balances	\$ 68,571	\$ 169,345	\$ 5,230

SPECIAL REVENUE FUNDS		DEBT SERVICE FUND	CAPITAL PROJECTS FUND	Total Non-Major Governmental Funds
Affordable Housing	BEGIN Grant	2007 POB Debt Service	Capital Projects	
\$ 176,341	\$ 60,171	\$ -	\$ 1,089,502	\$ 1,507,311
-	-	-	-	24,455
-	-	-	-	92,386
179,897	-	-	-	349,242
-	-	586,419	-	586,452
<u>\$ 356,238</u>	<u>\$ 60,171</u>	<u>\$ 586,419</u>	<u>\$ 1,089,502</u>	<u>\$ 2,559,846</u>
\$ -	\$ -	\$ -	\$ 427	\$ 64,027
-	-	-	-	2,026
179,897	-	-	-	350,657
-	-	105,992	-	198,498
-	-	-	43,834	44,834
<u>179,897</u>	<u>-</u>	<u>105,992</u>	<u>44,261</u>	<u>660,042</u>
-	-	586,419	-	586,452
176,341	60,171	-	-	416,938
-	-	-	1,045,241	1,045,241
-	-	(105,992)	-	(148,827)
<u>176,341</u>	<u>60,171</u>	<u>480,427</u>	<u>1,045,241</u>	<u>1,899,804</u>
<u>\$ 356,238</u>	<u>\$ 60,171</u>	<u>\$ 586,419</u>	<u>\$ 1,089,502</u>	<u>\$ 2,559,846</u>

CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
June 30, 2012

	<u>SPECIAL REVENUE FUNDS</u>		
	Supplemental Law Enforcement	Gas Tax	Wharf
Revenues:			
Taxes	\$ -	\$ 288,947	\$ -
Licenses & permits	-	-	-
Intergovernmental	169,901	-	-
Charges for services	-	-	-
Use of money and property	105	30	83,386
Other revenue	-	-	-
	<u>170,006</u>	<u>288,977</u>	<u>83,386</u>
Total Revenues			
Expenditures:			
Current:			
General government	-	-	-
Public safety	129,181	-	-
Community development	-	-	-
Culture and recreation	-	-	105,351
Transportation	-	245,286	-
Capital outlay	-	-	12,804
Debt service:			
Principal	-	38,680	-
Interest and fiscal charges	-	1,451	-
	<u>129,181</u>	<u>285,417</u>	<u>118,155</u>
Total Expenditures			
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>40,825</u>	<u>3,560</u>	<u>(34,769)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	25,000
Transfers out	-	-	-
	<u>-</u>	<u>-</u>	<u>25,000</u>
Total Other Financing Sources (Uses)			
Net Change in Fund Balances	40,825	3,560	(9,769)
Fund Balances (Deficit), Beginning of Year, as Restated	<u>9,932</u>	<u>53</u>	<u>46,414</u>
Fund Balances (Deficit), End of Year	<u>\$ 50,757</u>	<u>\$ 3,613</u>	<u>\$ 36,645</u>

SPECIAL REVENUE FUNDS

<u>Development Fees</u>	<u>Parking Reserve</u>	<u>Technology Fees</u>	<u>PEG Cable TV Access</u>	<u>Capitola Village and Wharf BIA</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	18,958	-
-	-	-	-	-
-	-	13,906	-	67,049
-	-	-	258	121
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>13,906</u>	<u>19,216</u>	<u>67,170</u>
-	-	-	45,590	-
-	-	-	-	-
-	-	-	-	67,193
-	-	-	-	-
-	6,144	-	-	-
-	218,279	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>-</u>	<u>224,423</u>	<u>-</u>	<u>45,590</u>	<u>67,193</u>
<u>-</u>	<u>(224,423)</u>	<u>13,906</u>	<u>(26,374)</u>	<u>(23)</u>
-	90,802	-	-	-
-	(50,000)	-	-	-
-	40,802	-	-	-
<u>-</u>	<u>(183,621)</u>	<u>13,906</u>	<u>(26,374)</u>	<u>(23)</u>
<u>2,026</u>	<u>180,719</u>	<u>11,288</u>	<u>77,936</u>	<u>5,455</u>
<u>\$ 2,026</u>	<u>\$ (2,902)</u>	<u>\$ 25,194</u>	<u>\$ 51,562</u>	<u>\$ 5,432</u>

CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
June 30, 2012

	SPECIAL REVENUE FUNDS		
	CDBG	CDBG Program Income	HOME Grant
Revenues:			
Taxes	\$ -	\$ -	\$ -
Licenses & permits	-	-	-
Intergovernmental	151,280	-	1,091,276
Charges for services	-	-	-
Use of money and property	-	10	-
Other revenue	-	3,731	-
Total Revenues	151,280	3,741	1,091,276
Expenditures:			
Current:			
General government	-	-	-
Public safety	-	-	-
Community development	168,767	6,680	1,091,276
Culture and recreation	-	-	-
Transportation	-	-	-
Capital outlay	-	-	-
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total Expenditures	168,767	6,680	1,091,276
Excess (Deficiency) of Revenues Over (Under) Expenditures	(17,487)	(2,939)	-
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balances	(17,487)	(2,939)	-
Fund Balances (Deficit), Beginning of Year, as Restated	(4,067)	(15,440)	5,230
Fund Balances (Deficit), End of Year	\$ (21,554)	\$ (18,379)	\$ 5,230

SPECIAL REVENUE FUNDS		DEBT SERVICE FUND	CAPITAL PROJECTS FUND	Total Non-Major Governmental Funds
Affordable Housing	BEGIN Grant	2007 POB Debt Service	Capital Projects	
\$ -	\$ -	\$ -	\$ -	\$ 288,947
-	-	-	-	18,958
-	-	-	-	1,412,457
9,647	-	-	343,905	434,507
569	194	-	-	84,673
-	-	-	-	3,731
<u>10,216</u>	<u>194</u>	<u>-</u>	<u>343,905</u>	<u>2,243,273</u>
-	-	1,500	3,620	50,710
-	-	-	-	129,181
177,007	-	-	-	1,510,923
-	-	-	24,493	129,844
-	-	-	-	251,430
-	-	-	525,865	756,948
-	-	455,000	-	493,680
-	-	216,505	-	217,956
<u>177,007</u>	<u>-</u>	<u>673,005</u>	<u>553,978</u>	<u>3,540,672</u>
<u>(166,791)</u>	<u>194</u>	<u>(673,005)</u>	<u>(210,073)</u>	<u>(1,297,399)</u>
-	-	900,500	50,000	1,066,302
-	-	-	(25,000)	(75,000)
-	-	900,500	25,000	991,302
<u>(166,791)</u>	<u>194</u>	<u>227,495</u>	<u>(185,073)</u>	<u>(306,097)</u>
<u>343,132</u>	<u>59,977</u>	<u>252,932</u>	<u>1,230,314</u>	<u>2,205,901</u>
<u>\$ 176,341</u>	<u>\$ 60,171</u>	<u>\$ 480,427</u>	<u>\$ 1,045,241</u>	<u>\$ 1,899,804</u>

CITY OF CAPITOLA
Supplemental Law Enforcement Fund
Non-Major Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Intergovernmental	\$ 71,400	171,400	\$ 169,901	\$ (1,499)
Use of money and property	-	-	105	105
Total revenues	71,400	171,400	170,006	(1,394)
Expenditures:				
Public safety	71,400	176,400	129,181	47,219
Total expenditures	71,400	176,400	129,181	47,219
Net change in fund balance	-	(5,000)	40,825	45,825
Fund balance, beginning	9,932	9,932	9,932	-
Fund balance, ending	\$ 9,932	\$ 4,932	\$ 50,757	\$ 45,825

CITY OF CAPITOLA
Gas Tax Fund
Non-Major Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 263,000	263,000	\$ 288,947	\$ 25,947
Investment income	400	400	30	(370)
Total revenues	<u>263,400</u>	<u>263,400</u>	<u>288,977</u>	<u>25,577</u>
Expenditures:				
Transportation	252,600	252,600	245,286	7,314
Debt service:				
Principal	37,100	37,100	38,680	(1,580)
Interest and fiscal charges	3,100	3,100	1,451	1,649
Total expenditures	<u>292,800</u>	<u>292,800</u>	<u>285,417</u>	<u>7,383</u>
Net change in fund balance	(29,400)	(29,400)	3,560	32,960
Fund balance, beginning	<u>53</u>	<u>53</u>	<u>53</u>	<u>-</u>
Fund balance (deficit), ending	<u>\$ (29,347)</u>	<u>\$ (29,347)</u>	<u>\$ 3,613</u>	<u>\$ 32,960</u>

CITY OF CAPITOLA
Wharf Fund
Non-Major Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Use of money and property	\$ 80,850	\$ 80,850	\$ 83,386	\$ 2,536
Total revenues	<u>80,850</u>	<u>80,850</u>	<u>83,386</u>	<u>2,536</u>
Expenditures:				
Culture and recreation	80,000	104,934	105,351	(417)
Capital outlay	-	-	12,804	(12,804)
Total expenditures	<u>80,000</u>	<u>104,934</u>	<u>118,155</u>	<u>(13,221)</u>
Other financing sources:				
Transfers in	-	25,000	25,000	-
Net change in fund balance	850	916	(9,769)	(10,685)
Fund balance, beginning	<u>46,414</u>	<u>46,414</u>	<u>46,414</u>	<u>-</u>
Fund balance, ending	<u><u>\$ 47,264</u></u>	<u><u>\$ 47,330</u></u>	<u><u>\$ 36,645</u></u>	<u><u>\$ (10,685)</u></u>

CITY OF CAPITOLA
Development Fees Fund
Non-Major Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Charges for services	\$ 10,000	\$ 10,000	\$ -	\$ (10,000)
Total revenues	10,000	10,000	-	(10,000)
Expenditures	-	-	-	-
Net change in fund balance	10,000	10,000	-	(10,000)
Fund balance, beginning	2,026	2,026	2,026	-
Fund balance, ending	\$ 12,026	\$ 12,026	\$ 2,026	\$ (10,000)

CITY OF CAPITOLA
Parking Reserve fund
Non-Major Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Investment income	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
Expenditures:				
Transportation	-	-	6,144	(6,144)
Capital outlay	25,000	125,000	218,279	(93,279)
Total expenditures	25,000	125,000	224,423	(99,423)
Other financing sources (uses):				
Transfers in	100,000	100,000	90,802	(9,198)
Transfers out	(50,000)	(50,000)	(50,000)	-
Total other financing sources (uses)	50,000	50,000	40,802	(9,198)
Net change in fund balance	25,000	(75,000)	(183,621)	(108,621)
Fund balance, beginning	180,719	180,719	180,719	-
Fund balance (deficit), ending	<u>\$ 205,719</u>	<u>\$ 105,719</u>	<u>\$ (2,902)</u>	<u>\$ (108,621)</u>

CITY OF CAPITOLA
Technology Fees Fund
Non-Major Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Charges for services	\$ 5,900	\$ 5,900	\$ 13,906	\$ 8,006
Total revenues	5,900	5,900	13,906	8,006
Expenditures:				
Capital outlay	5,000	-	-	-
Total expenditures	5,000	-	-	-
Net change in fund balance	900	5,900	13,906	8,006
Fund balance, beginning	11,288	11,288	11,288	-
Fund balance, ending	<u>\$ 12,188</u>	<u>\$ 17,188</u>	<u>\$ 25,194</u>	<u>\$ 8,006</u>

CITY OF CAPITOLA
PEG Cable TV Access Fund
Non-Major Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Licenses & permits	\$ 19,500	\$ 19,500	\$ 18,958	\$ (542)
Use of money and property	600	600	258	(342)
Total revenues	<u>20,100</u>	<u>20,100</u>	<u>19,216</u>	<u>(884)</u>
Expenditures:				
General government	<u>54,500</u>	<u>54,500</u>	<u>45,590</u>	<u>8,910</u>
Total expenditures	<u>54,500</u>	<u>54,500</u>	<u>45,590</u>	<u>8,910</u>
Net change in fund balance	(34,400)	(34,400)	(26,374)	8,026
Fund balance, beginning	<u>77,936</u>	<u>77,936</u>	<u>77,936</u>	<u>-</u>
Fund balance, ending	<u><u>\$ 43,536</u></u>	<u><u>\$ 43,536</u></u>	<u><u>\$ 51,562</u></u>	<u><u>\$ 8,026</u></u>

CITY OF CAPITOLA
Capitola Village and Wharf BIA Fund
Non-Major Special Revenue Fund
Budgetary Comparison Schedule
Year ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Charges for services	\$ 70,200	\$ 70,200	\$ 67,049	\$ (3,151)
Use of money and property	100	100	121	21
Total revenues	<u>70,300</u>	<u>70,300</u>	<u>67,170</u>	<u>(3,130)</u>
Expenditures:				
Community development	<u>71,600</u>	<u>71,600</u>	<u>67,193</u>	<u>4,407</u>
Total expenditures	<u>71,600</u>	<u>71,600</u>	<u>67,193</u>	<u>4,407</u>
Net change in fund balance	(1,300)	(1,300)	(23)	1,277
Fund balance, beginning	<u>5,455</u>	<u>5,455</u>	<u>5,455</u>	<u>-</u>
Fund balance, ending	<u><u>\$ 4,155</u></u>	<u><u>\$ 4,155</u></u>	<u><u>\$ 5,432</u></u>	<u><u>\$ 1,277</u></u>

CITY OF CAPITOLA
CDBG Fund
Non-Major Special Revenue Fund
Budgetary Comparison Schedule
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 70,000	70,000	\$ 151,280	\$ 81,280
Total revenues	<u>70,000</u>	<u>70,000</u>	<u>151,280</u>	<u>81,280</u>
Expenditures:				
Community development	<u>7,100</u>	<u>187,047</u>	<u>168,767</u>	<u>18,280</u>
Total expenditures	<u>7,100</u>	<u>187,047</u>	<u>168,767</u>	<u>18,280</u>
Net change in fund balance	62,900	(117,047)	(17,487)	99,560
Fund balance (deficit), beginning	<u>(4,067)</u>	<u>(4,067)</u>	<u>(4,067)</u>	<u>-</u>
Fund balance (deficit), ending	<u>\$ 58,833</u>	<u>\$ (121,114)</u>	<u>\$ (21,554)</u>	<u>\$ 99,560</u>

**CITY OF CAPITOLA
HOME Grant Fund
Non-Major Special Revenue Fund
Budgetary Comparison Schedule
Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Intergovernmental	\$ -	1,200,000	\$ 1,091,276	\$ (108,724)
Total revenues	-	1,200,000	1,091,276	(108,724)
Expenditures:				
Community development	10	1,215,000	1,091,276	123,724
Total expenditures	10	1,215,000	1,091,276	123,724
Net change in fund balance	(10)	(15,000)	-	15,000
Fund balance, beginning	5,230	5,230	5,230	-
Fund balance (deficit), ending	\$ 5,220	\$ (9,770)	\$ 5,230	\$ 15,000

CITY OF CAPITOLA
Affordable Housing Fund
Non-Major Special Revenue Fund
Budgetary Comparison Schedule
Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Charges for services	\$ 18,000	18,000	\$ 9,647	\$ (8,353)
Use of money and property	-	-	569	569
Total revenues	18,000	18,000	10,216	(7,784)
Expenditures:				
Community development	193,000	195,250	177,007	18,243
Total expenditures	193,000	195,250	177,007	18,243
Net change in fund balance	(175,000)	(177,250)	(166,791)	10,459
Fund balance, beginning	343,132	343,132	343,132	-
Fund balance, ending	\$ 168,132	\$ 165,882	\$ 176,341	\$ 10,459

**CITY OF CAPITOLA
 BEGIN Grant Fund
 Non-Major Special Revenue Fund
 Budgetary Comparison Schedule
 Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Use of money and property	\$ -	\$ -	\$ 194	\$ 194
Total revenues	-	-	194	194
Expenditures:				
General government	60,000	60,000	-	60,000
Total expenditures	60,000	60,000	-	60,000
Net change in fund balance	(60,000)	(60,000)	194	60,194
Fund balance (deficit), beginning	59,977	59,977	59,977	-
Fund balance, ending	\$ (23)	\$ (23)	\$ 60,171	\$ 60,194

CITY OF CAPITOLA
2007 POB Debt Service Fund
Non-Major Debt Service Fund
Budgetary Comparison Schedule
Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Use of money and property	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
Expenditures:				
General government	2,000	2,000	1,500	500
Debt service:				
Principal	455,000	455,000	455,000	-
Interest and fiscal charges	216,500	216,500	216,505	(5)
Total expenditures	673,500	673,500	673,005	495
Other financing sources:				
Transfers in	900,500	900,500	900,500	-
Net change in fund balance	227,000	227,000	227,495	495
Fund balance, beginning	252,932	252,932	252,932	-
Fund balance, ending	\$ 479,932	\$ 479,932	\$ 480,427	\$ 495

CITY OF CAPITOLA
Capital Projects Fund
Non-Major Capital Projects Fund
Budgetary Comparison Schedule
Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Charges for services	\$ 130,000	130,000	\$ 343,905	\$ 213,905
Total revenues	130,000	130,000	343,905	213,905
Expenditures:				
General government	241,700	49,200	3,620	45,580
Culture and recreation	205,000	25,000	24,493	507
Capital outlay	50,000	522,862	525,865	(3,003)
Total expenditures	496,700	597,062	553,978	43,084
Other financing sources (uses):				
Transfers in	50,000	50,000	50,000	-
Transfers out	-	(25,000)	(25,000)	-
Total other financing sources (uses)	50,000	25,000	25,000	-
Net change in fund balance	(316,700)	(442,062)	(185,073)	256,989
Fund balance, beginning	1,230,314	1,230,314	1,230,314	-
Fund balance, ending	\$ 913,614	\$ 788,252	\$ 1,045,241	\$ 256,989

CITY OF CAPITOLA
Statement of Changes in Fiduciary Assets and Liabilities
Fiduciary Funds - Agency Funds
Year ended June 30, 2012

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2012</u>
<u>BROOKVALE ASSESSMENT DISTRICT</u>				
Assets				
Cash and investments	\$ 15,819	\$ 64	\$ -	\$ 15,883
Accounts receivable	<u>19</u>	<u>14</u>	<u>19</u>	<u>14</u>
Total assets	<u>\$ 15,838</u>	<u>\$ 78</u>	<u>\$ 19</u>	<u>\$ 15,897</u>
Liabilities				
Due to bond holders	<u>\$ 15,838</u>	<u>\$ 78</u>	<u>\$ 19</u>	<u>\$ 15,897</u>
Total liabilities	<u>\$ 15,838</u>	<u>\$ 78</u>	<u>\$ 19</u>	<u>\$ 15,897</u>
<u>AUTO CENTER ASSESSMENT DISTRICT</u>				
Assets				
Cash and investments	\$ 20,133	\$ 82	\$ -	\$ 20,215
Accounts receivable	<u>24</u>	<u>18</u>	<u>24</u>	<u>18</u>
Total assets	<u>\$ 20,157</u>	<u>\$ 100</u>	<u>\$ 24</u>	<u>\$ 20,233</u>
Liabilities				
Due to bond holders	<u>\$ 20,157</u>	<u>\$ 100</u>	<u>\$ 24</u>	<u>\$ 20,233</u>
Total liabilities	<u>\$ 20,157</u>	<u>\$ 100</u>	<u>\$ 24</u>	<u>\$ 20,233</u>
<u>TOTALS - ALL AGENCY FUNDS</u>				
Assets				
Cash and investments	\$ 35,952	\$ 146	\$ -	\$ 36,098
Accounts receivable	<u>43</u>	<u>32</u>	<u>43</u>	<u>32</u>
Total assets	<u>\$ 35,995</u>	<u>\$ 178</u>	<u>\$ 43</u>	<u>\$ 36,130</u>
Liabilities				
Due to bond holders	<u>\$ 35,995</u>	<u>\$ 178</u>	<u>\$ 43</u>	<u>\$ 36,130</u>
Total liabilities	<u>\$ 35,995</u>	<u>\$ 178</u>	<u>\$ 43</u>	<u>\$ 36,130</u>

Financial Trends

2012-	1	Net Assets by Component
2012-	2	Changes in Net Assets
2012-	3	Fund Balances of Government Funds
2012-	4	Changes in Fund Balances of Government Funds
2012-	5	General Revenues By Source

Revenue Capacity

2012-	6	Assessed Value & Est. Actual Value of Taxable Property
2012-	7	Assessed Value of Taxable Property
2012-	8	Direct & Overlapping Property Tax Rates
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2012-	10	Property Tax Levies & Collections
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Debt Capacity

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2012-	13	Ratios of General Bonded Debt Outstanding
2012-	14	Direct and Overlapping Debt
2012-	15	Legal Debt Margin Information
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Demographic and Economic Information

2012-	17	Demographic and Economic Statistics
2012-	18	Principal Employers - Top Ten
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Operating Information

2012-	20	Operating Indicators by Function
2012-	21	Capital Asset Statistics by Function

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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	\$ 11,918
Restricted for										
Debt Service	1,380	437	-	-	-	-	-	-	-	-
Public Safety	-	-	-	-	14	4	-	-	10	51
Transportation	-	-	-	42	602	464	73	63	184	2,445
Community Development	1,590	1,742	2,157	3,310	3,633	1,717	1,107	1,317	1,256	1,141
Culture and Recreation	-	-	-	-	-	-	-	-	185	88
Total Restricted	\$ 2,970	\$ 2,179	\$ 2,157	\$ 3,352	\$ 4,249	\$ 2,185	\$ 1,180	\$ 1,380	\$ 1,635	\$ 3,725
Unrestricted	3,227	3,547	1,944	4,732	5,135	3,191	3,435	4,575	3,249	4,134
Total Primary govt net assets	<u>\$ 20,730</u>	<u>\$ 21,277</u>	<u>\$ 19,107</u>	<u>\$ 22,656</u>	<u>\$ 25,034</u>	<u>\$ 21,012</u>	<u>\$ 20,274</u>	<u>\$ 21,553</u>	<u>\$ 19,938</u>	<u>\$ 19,777</u>

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

Source: City of Capitola Finance Department

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

EXPENSES:	Fiscal Year			
	2003	2004	2005	2006
Primary government activities				
General government	\$ 4,567	\$ 4,654	\$ 4,206	\$ 3,963
Public safety	4,298	4,254	4,542	5,350
Community development	958	1,052	4,177	1,227
Culture and recreation	1,518	1,385	1,476	1,511
Transportation	1,495	1,432	1,397	1,501
Interest and other charges	184	171	171	152
Total primary government expenses	\$ 13,020	\$ 12,948	\$ 15,969	\$ 13,704
PROGRAM REVENUES:				
Primary government activities				
Charges for services:				
General government	\$ 699	\$ 1,218	\$ 1,046	\$ 724
Public safety	569	617	609	556
Community development	353	429	510	1,478
Culture and recreation	700	705	769	685
Transportation	41	32	34	11
Operating grants and contributions	339	301	291	812
Capital grants and contributions	583	496	324	161
Total primary govt program revenues	\$ 3,284	\$ 3,798	\$ 3,583	\$ 4,427
NET PRIMARY GOVT REV/(EXP)	\$ (9,736)	\$ (9,150)	\$ (12,386)	\$ (9,277)
GENERAL REVENUES AND OTHER				
CHANGES IN NET ASSETS:				
Primary government activities				
Taxes:				
Property Taxes	\$ 2,397	\$ 2,657	\$ 2,903	\$ 3,465
Transaction and Use Tax (.25%)	-	-	209	975
Sales and Use tax	5,300	5,395	5,235	4,132
Transient occupancy taxes	492	493	516	543
Franchise taxes	321	364	391	418
Business license tax	275	-	-	303
Other taxes	61	-	-	-
Intergovernmental	594	502	261	1,415
Investment income	365	281	510	226
Other general revenues	12	24	191	109
Transfers	-	-	-	-
Extraordinary Item	-	-	-	-
Total primary government activities	\$ 9,817	\$ 9,716	\$ 10,216	\$ 11,586
CHANGES IN NET ASSETS:				
Total primary government activities	\$ 81	\$ 566	\$ (2,170)	\$ 2,309

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

Fiscal Year						
2007	2008	2009	2010	2011	2012	
\$ 4,343	\$ 4,398	\$ 4,482	\$ 5,103	\$ 5,453	\$ 4,851	
5,733	5,298	5,927	5,533	5,422	5,491	
1,550	2,193	2,218	2,428	2,068	3,471	
1,596	1,658	1,035	1,025	995	1,010	
1,697	1,522	2,530	1,932	2,445	2,556	
190	589	533	509	448	419	
<u>\$ 15,109</u>	<u>\$ 15,658</u>	<u>\$ 16,725</u>	<u>\$ 16,530</u>	<u>\$ 16,831</u>	<u>\$ 17,798</u>	
\$ 705	\$ 794	\$ 658	\$ 806	\$ 759	\$ 1,059	
688	736	905	1,009	902	759	
1,469	1,153	1,617	2,266	1,077	1,145	
749	726	709	696	655	751	
18	13	34	53	54	166	
1,010	1,420	286	1,469	1,040	3,131	
514	-	527	388	421	-	
<u>\$ 5,153</u>	<u>\$ 4,842</u>	<u>\$ 4,736</u>	<u>\$ 6,687</u>	<u>\$ 4,908</u>	<u>\$ 7,011</u>	
<u>\$ (9,956)</u>	<u>\$ (10,816)</u>	<u>\$ (11,989)</u>	<u>\$ (9,843)</u>	<u>\$ (11,923)</u>	<u>\$ (10,787)</u>	
\$ 3,916	\$ 4,034	\$ 4,147	\$ 4,066	\$ 4,107	\$ 2,993	
1,048	1,016	788	928	850	932	
4,174	3,939	2,858	3,289	3,002	3,322	
604	644	605	592	602	913	
438	437	459	462	477	483	
326	299	278	282	267	281	
-	-	-	-	-	-	
1,421	1,507	1,417	979	1,323	947	
287	379	394	238	185	190	
120	452	305	287	289	309	
-	-	-	-	-	-	
-	-	-	-	(795)	380	
<u>\$ 12,334</u>	<u>\$ 12,707</u>	<u>\$ 11,251</u>	<u>\$ 11,123</u>	<u>\$ 10,307</u>	<u>\$ 10,750</u>	
<u>\$ 2,378</u>	<u>\$ 1,891</u>	<u>\$ (738)</u>	<u>\$ 1,280</u>	<u>\$ (1,616)</u>	<u>\$ (37)</u>	

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
GENERAL FUND										
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	Pre-GASB 54 balances stated above								\$ 1,973	\$ 1,970
Nonspendable									-	-
Restricted									-	-
Committed									-	-
Assigned									-	-
Unassigned	2,786	2,608								
Total General Fund	\$ 2,151	\$ 4,072	\$ 4,915	\$ 6,483	\$ 6,777	\$ 6,503	\$ 5,998	\$ 6,362	\$ 4,759	\$ 4,578
ALL OTHER GOVERNMENT FUNDS										
Reserved										
Low income housing	\$ 1,590	\$ 1,742	\$ 1,655	\$ 1,790	\$ 1,808	\$ -	\$ -	\$ -	Represented below per GASB 54	
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	Pre-GASB 54 balances stated above								\$ 109	\$ 586
Nonspendable									1,705	1,858
Restricted									-	-
Committed									1,564	1,045
Assigned									(19)	(148)
Unassigned										
Total All Other Govt Funds	\$ 4,790	\$ 3,255	\$ 2,166	\$ 3,017	\$ 3,794	\$ 5,297	\$ 4,298	\$ 3,728	\$ 3,359	\$ 3,341
TOTAL	\$ 6,941	\$ 7,327	\$ 7,081	\$ 9,500	\$ 10,571	\$ 11,800	\$ 10,296	\$ 10,090	\$ 8,118	\$ 7,919

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

Source: City of Capitola Finance Department

2012-3

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

	Fiscal Year				
	2003	2004	2005	2006	2007
REVENUES:					
Taxes	\$ 8,846	\$ 8,909	\$ 9,253	\$ 11,375	\$ 12,047
Licenses & permits	199	746	835	357	255
Intergovernmental	1,532	1,206	918	750	1,225
Fines and forfeitures	534	575	571	512	639
Charges for services	1,503	1,405	1,578	2,092	2,263
Use of money and property	366	440	510	778	971
Other	208	193	299	86	89
Total revenues	<u>\$ 13,188</u>	<u>\$ 13,474</u>	<u>\$ 13,964</u>	<u>\$ 15,950</u>	<u>\$ 17,489</u>
EXPENSES:					
Current:					
General government	\$ 3,712	\$ 3,699	\$ 3,437	\$ 3,266	\$ 3,583
Public safety	4,080	4,087	4,726	5,261	5,631
Community development	949	1,075	1,547	1,358	1,831
Culture and recreation	1,477	1,346	1,446	1,478	1,564
Transportation	1,312	1,325	1,436	1,493	1,690
Capital outlay	631	1,640	885	413	1,858
Subtotal	<u>\$ 12,161</u>	<u>\$ 13,172</u>	<u>\$ 13,477</u>	<u>\$ 13,269</u>	<u>\$ 16,157</u>
Debt service:					
Cost of Issuance	\$ -	\$ -	\$ -	\$ -	\$ -
Principal retirement	1,020	959	559	91	91
Interest and agent fees	193	196	174	171	170
Subtotal	<u>\$ 1,213</u>	<u>\$ 1,155</u>	<u>\$ 733</u>	<u>\$ 262</u>	<u>\$ 261</u>
Total expenditures	<u>\$ 13,374</u>	<u>\$ 14,327</u>	<u>\$ 14,210</u>	<u>\$ 13,531</u>	<u>\$ 16,418</u>
Excess/(deficiency) of revenues over/(under) expenditures	<u>\$ (186)</u>	<u>\$ (853)</u>	<u>\$ (246)</u>	<u>\$ 2,419</u>	<u>\$ 1,071</u>
OTHER FINANCING SOURCES/(USES):					
Sale of capital assets	\$ -	\$ 1,239	\$ -	\$ -	\$ -
Transfers in	1,980	1,624	469	1,053	1,764
Transfers out	(1,980)	(1,624)	(469)	(1,053)	(1,764)
Issuance of bonds	-	-	-	-	-
Payment to bond escrow agent	-	-	-	-	-
Total other financing sources/(uses)	<u>\$ -</u>	<u>\$ 1,239</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Special Items					
Flood Disaster loss	\$ -	\$ -	\$ -	\$ -	\$ -
Prefunding of PERS liability	-	-	-	-	-
Gain/Loss on RDA dissolution	-	-	-	-	-
Net change in fund balances	<u>\$ (186)</u>	<u>\$ 386</u>	<u>\$ (246)</u>	<u>\$ 2,419</u>	<u>\$ 1,071</u>
Beginning fund balance, as restated	\$ 7,127	\$ 6,941	\$ 7,327	\$ 7,081	\$ 9,500
Changes in fund balance	(186)	386	(246)	2,419	1,071
Ending fund balance	<u>\$ 6,941</u>	<u>\$ 7,327</u>	<u>\$ 7,081</u>	<u>\$ 9,500</u>	<u>\$ 10,571</u>
Debt service as a percentage of noncapital expenditures	9.97%	8.77%	5.44%	1.97%	1.62%

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

Fiscal Year					
2008	2009	2010	2011	2012	
\$ 12,008	\$ 10,239	\$ 10,285	\$ 10,335	\$ 9,878	
270	664	609	474	630	
1,121	1,745	2,932	2,426	2,755	
672	702	803	702	724	
2,467	1,744	1,380	1,278	1,907	
1,046	812	595	492	403	
434	178	163	173	90	
<u>\$ 18,018</u>	<u>\$ 16,084</u>	<u>\$ 16,767</u>	<u>\$ 15,880</u>	<u>\$ 16,387</u>	
\$ 3,672	\$ 3,591	\$ 4,232	\$ 4,483	\$ 4,034	
5,246	5,869	5,441	5,468	5,436	
2,324	2,362	2,338	1,986	3,458	
1,630	1,009	986	1,009	1,041	
1,476	2,575	2,017	2,294	2,204	
1,015	1,224	847	665	757	
<u>\$ 15,363</u>	<u>\$ 16,630</u>	<u>\$ 15,861</u>	<u>\$ 15,905</u>	<u>\$ 16,930</u>	
\$ 125	\$ -	\$ -	\$ -	\$ 43	
123	499	535	704	673	
471	529	507	447	394	
<u>\$ 719</u>	<u>\$ 1,028</u>	<u>\$ 1,042</u>	<u>\$ 1,151</u>	<u>\$ 1,110</u>	
<u>\$ 16,082</u>	<u>\$ 17,658</u>	<u>\$ 16,903</u>	<u>\$ 17,056</u>	<u>\$ 18,040</u>	
<u>\$ 1,936</u>	<u>\$ (1,574)</u>	<u>\$ (136)</u>	<u>\$ (1,176)</u>	<u>\$ (1,653)</u>	
\$ 166	\$ -	\$ -	\$ -	\$ 2,390	
2,754	1,775	1,337	1,945	2,272	
(2,754)	(1,775)	(1,337)	(1,945)	(2,272)	
5,040	-	-	-	-	
-	-	-	-	-	
<u>\$ 5,206</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,390</u>	
\$ -	\$ -	\$ -	\$ (795)	\$ (623)	
(5,913)	-	-	-	-	
-	-	-	-	(190)	
<u>\$ 1,229</u>	<u>\$ (1,574)</u>	<u>\$ (136)</u>	<u>\$ (1,971)</u>	<u>\$ (76)</u>	
\$ 10,571	\$ 11,800	\$ 10,226	\$ 10,090	\$ 7,995	
1,229	(1,574)	(136)	(1,971)	(76)	
<u>\$ 11,800</u>	<u>\$ 10,226</u>	<u>\$ 10,090</u>	<u>\$ 8,119</u>	<u>\$ 7,919</u>	
4.68%	6.18%	6.57%	7.24%	6.56%	

2012-4

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

General Revenue By Source

Fiscal Year	Sales Tax Revenue	Property Taxes	Transient Occupancy Tax	Franchise Taxes	Business Licenses	Investment Income	Miscellaneous, Intergovernmental, and Other Revenues	Total General Revenues
2003	\$ 5,300,068	\$ 2,396,806	\$ 492,539	\$ 321,027	\$ 274,871	\$ 365,690	\$ 666,378	\$ 9,817,379
2004	5,394,876	2,656,740	493,364	363,655	272,200	281,245	253,478	9,715,558
2005	5,234,955	3,111,857	515,578	390,908	319,000	509,839	133,918	10,216,055
2006	6,460,002	3,464,933	543,438	417,451	302,890	225,995	171,041	11,585,750
2007	6,579,908	3,915,955	603,997	438,412	325,946	287,069	183,019	12,334,306
2008	6,417,075	4,033,686	643,541	437,065	299,394	379,439	497,094	12,707,294
2009	4,859,096	4,147,459	605,365	459,042	277,959	394,135	507,957	11,251,013
2010	4,993,844	4,065,897	591,925	461,937	281,739	237,926	489,162	11,122,430
2011	4,890,518	4,107,291	601,726	477,084	266,948	185,346	573,436	11,102,349
2012	5,200,303	2,993,125	912,851	482,782	281,336	190,390	309,110	10,369,897

Source: City of Capitola Finance Department

2012-5

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

Fiscal Year	City of Capitola					City of Capitola Redevelopment Agency				
	Secured	Unsecured	Less Exemptions	Plus Reimbursed Home-owners Exemption	Taxable Assessed Value	Secured	Unsecured	Less Exemptions	Plus Reimbursed Home-owners Exemption	Taxable Assessed Value
2003	\$ 1,136,170	\$ 63,858	\$ 32,853	\$ 12,279	\$ 1,179,454	Separate RDA figures are not available				
2004	1,222,957	63,534	24,504	11,691	1,273,678	\$ 207,571	\$ 32,157	\$ 3,850	\$ 448	\$ 236,326
2005	1,409,131	62,603	32,012	10,878	1,450,600	216,849	35,131	3,917	447	248,510
2006	1,531,428	68,903	29,922	10,725	1,581,134	228,497	35,405	3,994	448	260,356
2007	1,643,540	71,369	30,385	10,728	1,695,252	235,447	36,450	4,087	476	268,286
2008	1,708,219	73,545	36,208	10,710	1,756,266	245,860	33,375	4,412	482	275,305
2009	1,706,927	68,288	28,067	10,500	1,757,648	245,533	35,458	4,161	487	277,317
2010	1,722,042	71,726	32,453	10,279	1,771,594	243,089	33,390	4,434	489	272,534
2011	1,741,005	69,324	36,040	10,049	1,784,338	RDA was dissolved 2/1/2012 by the State of CA				
2012	2,000,212	106,037	47,069	10,759	2,069,939	RDA was dissolved 2/1/2012 by the State of CA				

NOTES:

RDA figures were included in City figures for the years 2003-2004.

The RDA was dissolved 2/1/2012 by the State of California and property is now recognized only as City of Capitola taxable property.

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

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

2012-6

CITY OF CAPITOLA, CALIFORNIA
 Assessed Value of Taxable Property
 Last Eight Fiscal Years

Fiscal Year End	Residential Property	Commercial Property	Industrial Property	Other Property ⁽¹⁾	Unsecured Property	Less Tax- Exempt Property	Taxable Assessed Value	2011 CAFR -	Total Direct Tax Rate ⁽²⁾
								Taxable Assessed Value (\$000)	
2003	N/A								
2004									
2005	\$ 918,254,843	\$ 273,905,181	\$ 1,646,123	\$ 107,581,419	\$ 63,673,612	\$ 28,553,261	\$ 1,336,507,917	\$ 1,273,678	0.075337
2006	1,004,314,702	281,101,027	1,679,046	123,493,355	62,603,554	32,011,696	1,441,179,988	1,450,600	0.075337
2007	1,108,582,803	296,608,931	1,712,628	125,364,805	73,764,846	30,376,557	1,575,657,456	1,581,134	0.075337
2008	1,209,782,056	308,069,194	2,146,882	124,289,341	71,369,352	30,385,429	1,685,271,396	1,695,252	0.075337
2009	1,252,723,082	313,207,738	2,189,820	140,845,833	73,545,346	36,213,515	1,746,298,304	1,756,266	0.075337
2010	1,241,919,122	325,932,471	2,233,616	128,690,679	68,288,364	18,279,394	1,748,784,858	1,757,648	0.075337
2011	1,260,433,122	328,469,254	2,228,324	132,238,098	71,725,723	32,452,572	1,762,641,949	1,771,594	0.075337
2012	1,280,024,829	329,772,835	2,245,103	130,282,093	69,323,734	36,032,657	1,775,615,937	1,784,338	0.075337

Source: Santa Cruz County Assessor data, MuniServices, LLC

(1) Includes Public Unitary

(2) Total direct tax rate is the city share of the 1% Proposition 13 tax only for TRA 03-108

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

City Direct Rates	Fiscal Year						
	2006	2007	2008	2009	2010	2011	2012
City basic rate	0.2500%	0.2500%	0.2500%	0.2500%	0.2500%	0.2500%	0.2500%
Redevelopment Agency	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
Total City Direct Rate	0.2500%	0.2500%	0.2500%	0.2500%	0.2500%	0.2500%	0.2500%
Overlapping Rates							
<u>General Fund</u>							
Santa Cruz County General Fund	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%
<u>Board Governed Districts</u>							
<u>Autonomous Districts</u>							
<u>City</u>							
<u>School Districts</u>							
Soquel Elementary School GO DS 2002 Series A	0.0119%	0.0114%	0.0114%	0.0112%	0.0116%	0.0117%	0.0116%
Soquel Elementary School GO DS 2002 Series B	0.0092%	0.0092%	0.0092%	0.0089%	0.0090%	0.0095%	0.0093%
Soquel Elementary School GO DS 2002 Series C	n/a	0.0071%	0.0071%	0.0031%	0.0030%	0.0032%	0.0032%
Santa Cruz High School GO DS 1998 A&B/2005REF	0.0052%	0.0163%	0.0163%	0.0174%	0.0169%	0.0208%	0.0206%
Santa Cruz High School GO DS 1998 Series C	0.0085%	0.0029%	0.0029%	0.0053%	0.0111%	0.0025%	0.0054%
Cabrillo College GO DS 1998 Series A	0.0002%	0.0011%	0.0011%	n/a	n/a	n/a	n/a
Cabrillo College GO DS 1998 Series B	0.0061%	0.0063%	0.0063%	0.0065%	0.0071%	0.0070%	0.0075%
Cabrillo College GO DS 1998 Series C	0.0019%	0.0023%	0.0023%	0.0025%	0.0030%	0.0013%	0.0015%
Cabrillo College GO DS 1998 Series D	0.0007%	0.0013%	0.0013%	0.0015%	0.0018%	0.0015%	0.0015%
Cabrillo College GO DS 2004 Series A	0.0124%	0.0082%	0.0082%	0.0092%	0.0099%	0.0102%	0.0110%
Cabrillo College GO DS 2004 Series B	n/a	0.0040%	0.0040%	0.0052%	0.0055%	0.0054%	0.0057%
Cabrillo College GO DS 1998A REF 2004	0.0054%	0.0068%	0.0068%	0.0083%	0.0087%	0.0108%	0.0118%
Total overlapping debt repaid with property taxes	0.0615%	0.0770%	0.0770%	0.0792%	0.0876%	0.0838%	0.0890%
Total Direct Rate	1.0615%	1.0770%	1.0770%	1.0792%	1.0876%	1.0838%	1.0890%

NOTES: *Overlapping rates are those of the local and county governments that apply to property owners within the City of Capitola. Not all overlapping rates apply to all City of Capitola property owners, (e.g. the rates for school districts apply only to the proportion of the government's property owners whose property is located within the geographic boundaries of the school district).*

The June, 1978 passage of Proposition 13, an amendment to the California State Constitution, limits the property tax rate to a base of \$1.00 per \$100.00 collected. The \$1.00 rate is levied by the County and apportioned to local agencies according to a formula prescribed by the California Legislature. Data for Capitola is not available prior to 2006. Additional years will be added until ten fiscal years of information is available.

SOURCE: Santa Cruz County Assessor's Office

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

Taxpayer	2012		2003	
	2012 Gross Assessed Valuation	Percent of Total City Gross Assessed Valuation	2003 Gross Assessed Valuation	Percent of Total City Gross Assessed Valuation
Macerich Partnership LP	\$ 88,433,999	4.17%	\$ 58,952,781	4.91%
Aspromonte Hotels LLC	17,849,664	0.84%		
Ow George Jr Trustees Et al	12,230,160	0.58%	9,968,981	0.83%
Bay Avenue Senior Housing LP	10,105,591	0.48%		
Target Corporation	8,667,960	0.41%		
Wirtanen Melanie Kett Trustee	8,271,180	0.39%		
850 Rosedale LLC	7,813,404	0.37%		
1100 41st Avenue LLC	7,578,743	0.36%		
Loma Vista Estates Owners Assoc	7,030,099	0.33%		
Brown Ranch Properties	6,649,609	0.31%	5,499,547	0.46%
Baskin Properties LLC			13,453,243	1.12%
Bochner, Dan Zw/m Jt Et al			11,011,927	0.92%
Salvation Army Corporation, The			8,515,780	0.71%
Leavesly Ocean Inn-Vestors			5,763,459	0.48%
Sears Roebuck & Company			5,530,859	0.46%
	<u>\$ 174,630,409</u>	<u>8.24%</u>	<u>\$ 118,696,577</u>	<u>9.89%</u>
Memo: Gross Assessed Value	\$ 2,118,314,482	100.00	\$ 1,200,028,000	100.00%

NOTES: Only eight taxpayers are identified for 2003 because Macerich Partnership was listed separately for each of three separate parcels for the 2003 CAFR. Macerich Partnership for 2012 reflects four separate parcels combined under one identifier.

Gross Assessed Value excludes the RDA property areas for 2003. The State of California dissolved RDAs as of 2/1/2012 and that property value is included in the Gross for 2012 and beyond.

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

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

Fiscal Year Ended June 30,	Property Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2003	\$ 2,039,535	\$ 2,039,535	100%	-	\$ 2,039,535	100%
2004	2,200,889	2,200,889	100%	-	2,200,889	100%
2005	2,268,012	2,268,012	100%	-	2,268,012	100%
2006	2,412,712	2,412,712	100%	-	2,412,712	100%
2007	2,605,158	2,605,158	100%	-	2,605,158	100%
2008	2,715,388	2,715,388	100%	-	2,715,388	100%
2009	2,851,724	2,851,724	100%	-	2,851,724	100%
2010	2,783,546	2,783,546	100%	-	2,783,546	100%
2011	2,813,554	2,813,554	100%	-	2,813,554	100%
2012	1,900,533	1,900,533	100%	-	1,900,533	100%

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

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

2012-10

CITY OF CAPITOLA, CALIFORNIA
 Top 25 Sales Tax Taxpayers
 Alphabetical, as of June 30, 2012

TOP 25 SALES TAX TAXPAYERS

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
Ross Stores	41st Avenue
Santa Cruz Mazda	Auto Plaza Drive
Save Mart Supermarkets	41st Avenue
Sears Roebuck & Company	Capitola Road
Shadowbrook Restaurant	Wharf Road
Shell Service Stations	41st Avenue
Sierra Utility Sales	41st Avenue
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, 2012. It is alphabetical and is not indicative of relative nor total sales volume.

Source: California State Board of Equalization

2012-11

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

Fiscal Year Ended June 30	Government/Total Primary Government Activities			Tot. Gov't./ Primary Gov't. Activities	Total Outstanding Debt to Personal Income	Debt per capita personal income	Debt per Capita
	General Obligation Bonds	Lease Revenue Bonds	Other debt				
2003	\$ -	\$ 1,280,000	\$ 1,738,856	\$ 3,018,856	0.80%	\$ 81	\$ 299
2004	-	440,000	1,703,322	2,143,322	0.54%	54	214
2005	-	-	2,928,408	2,928,408	0.70%	70	295
2006	-	-	2,886,924	2,886,924	0.63%	63	292
2007	-	-	2,845,020	2,845,020	0.56%	55	287
2008	5,040,000	-	2,807,848	7,847,848	1.54%	153	786
2009	4,670,000	-	2,775,079	7,445,079	1.45%	146	739
2010	4,265,000	-	2,768,854	7,033,854	1.35%	138	690
2011	3,830,000	-	2,629,226	6,459,226	1.78%	178	648
2012	3,375,000	-	1,432,600	4,807,600	1.36%	136	482

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

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

Other debt has included a tax anticipation note, county library long term debt balance, and RDA deferred pass throughs. It currently is a Lease/Sublease Financing Agreement for Pacific Cove resident relocation.

Source: City of Capitola Financial Statements

2012-12

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

Fiscal Year Ended June 30,	<u>Government/Total Primary Government Activities</u>		Total Governmental / Primary Government Activities	Total Outstanding Debt to Personal Income	Debt per capita personal income	Debt per Capita
	General Obligation Bonds	Lease Revenue Bonds				
2003	\$ -	\$ 1,280,000	\$ 1,280,000	0.34%	\$ 34	\$ 127
2004	-	440,000	440,000	0.11%	11	44
2005	-	-	-	0.00%	-	0
2006	-	-	-	0.00%	-	0
2007	-	-	-	0.00%	-	0
2008	5,040,000	-	5,040,000	0.99%	99	505
2009	4,670,000	-	4,670,000	0.91%	91	464
2010	4,265,000	-	4,265,000	0.82%	83	418
2011	3,830,000	-	3,830,000	1.06%	105	384
2012	3,375,000	-	3,375,000	0.96%	95	338

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

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CITY OF CAPITOLA, CALIFORNIA
 Direct & Overlapping Debt
 Fiscal Year end
 June 30, 2012

2011-12 Assessed Valuation		\$ 1,784,916,806	
Redevelopment Incremental Valuation		238,630,551	
Adjusted Assessed Valuation		\$ 1,546,286,255	
OVERLAPPING TAX AND ASSESSMENT DEBT:			
	<u>% Applicable ⁽¹⁾</u>	<u>Total Debt</u>	<u>City's Share of</u>
		<u>6/30/2012</u>	<u>Debt 6/30/2012</u>
Cabrillo Joint Community College District	5.713%	\$ 156,041,516	\$ 8,914,652
Santa Cruz City High School District	15.041%	43,589,845	6,556,349
Live Oak School District	9.672%	17,363,789	1,679,426
Soquel Union School District	56.489%	11,950,000	6,750,436
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		<u>\$ 228,945,150</u>	<u>\$ 23,900,863</u>
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Santa Cruz County Certificates of Participation	5.764%	\$ 70,818,063	\$ 4,081,953
Santa Cruz County Office of Education Certificates of Participation	5.764%	10,930,000	630,005
Cabrillo Joint Community College District Certificates of Participation	5.713%	1,735,000	99,121
Live Oak School District Certificates of Participation	9.672%	15,127,892	1,463,170
Soquel Union School District	56.489%	2,155,000	1,217,338
Santa Cruz City Schools Certificates of Participation	15.041%	6,306,000	948,485
City of Capitola General Fund Obligations	100.000%	324,116	324,116
City of Capitola Lease Financing	100.000%	2,390,000	2,390,000
City of Capitola Pension Obligation Bond	100.000%	3,375,000	3,375,000
Monterey Bay Unified Air Pollution Control Authority Certificates of Participation	2.040%	1,755,000	35,802
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		<u>\$ 114,916,071</u>	<u>\$ 14,564,990</u>
TOTAL DIRECT DEBT		<u>\$ 6,089,116</u>	<u>\$ 6,089,116</u>
COMBINED TOTAL DEBT		<u>\$ 343,861,221</u>	<u>\$ 38,465,853 ⁽²⁾</u>

(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 2011-12 Assessed Valuation	
Total Overlapping Tax and Assessment Debt	1.34%
Ratios to Adjusted Assessed Valuation	
Combined Direct Debt (\$6,089,116)	0.39%
Combined Total Debt	2.49%
STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/12	\$0

Source: MuniServices, LLC

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Assessed Valuation	\$ 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	\$ 2,118,314
RDA Base Valuation	188,349	194,534	202,415	214,599	226,445	234,306	241,324	243,336	238,631	238,800
Adj. assessed valuation	\$ 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	\$ 1,879,514
Debt limit percentage	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Debt limit	151,752	163,794	190,398	207,860	223,270	232,119	230,084	232,565	235,755	281,927
Total net applicable debt										
Gen. obligation bonds	1,280	440	-	-	-	5,040	4,670	4,265	3,830	3,375
Legal debt margin	\$ 150,472	\$ 163,354	\$ 190,398	\$ 207,860	\$ 223,270	\$ 227,079	\$ 225,414	\$ 228,300	\$ 231,925	\$ 278,552
Ratio of Total Net Applicable Debt to Debt Limit	0.85%	0.27%	0.00%	0.00%	0.00%	2.22%	2.07%	1.87%	1.65%	1.21%

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.

2012-15

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

Fiscal Year Ended June 30,	Other Revenue Bonds				Tax Allocation Bonds			
	Available Revenue	Debt Service			Tax Increment	Debt Service		
		Principal	Interest	Coverage		Principal	Interest	Coverage
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
2012	-	-	-	n/a	-	-	-	n/a

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

SOURCE: City of Capitola financial statements

2012-16

CITY OF CAPITOLA
 Demographic and Economic Statistics
 Last Ten Fiscal Years

Calendar Year	Population (1)	Per Capita Personal Income (2)	Median Age (3)	Unemployment Rate (4)
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%
2012	9,981	35,405	42.9	5.5%

Sources:

(1) California Department of Finance Projections

(2) U.S. Census Bureau, 2010 American Community Survey, U.S. Department of Commerce, Bureau of Economic Analysis

(3) MuniServices, LLC, U.S. Census Bureau, 2010 American Community Survey. The California Department of Finance demographic estimates now incorporate 2010 Census counts as the benchmark. Therefore, estimates for 2010 - 2012 published in this report might be noticeably different from the previous year estimates.

(4) Employment Data is provided by the EDD's Bureau of Labor Statistics Department.

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

Employer	Fiscal year ended June 30,					
	2012			2006		
	Ranking	Number of Employees	% of Total Employment	Ranking	Number of Employees	% of Total Employment
Subaru, Toyota, Kia of Santa Cruz	1	180	2.61%			0.00%
Macy's	2	150	2.17%	1	250	3.73%
Gayle's Bakery & Rosticceria	3	141	2.04%			0.00%
Sears	4	135	1.96%	5	150	2.24%
Whole Foods Market	5	126	1.83%			0.00%
Shadowbrook Restaurant ⁽¹⁾	6	119	1.72%	6	135	2.01%
Trader Joe's	7	101	1.46%			0.00%
Nob Hill	8	96	1.39%			0.00%
Kohls	9	95	1.38%			0.00%
Pacific Coast Manor	10	90	1.30%			0.00%
Mervyn's LLC ⁽²⁾				2	230	3.43%
Santa Cruz County Office of Education ⁽³⁾				3	220	3.28%
Gottschalks Inc. ⁽⁴⁾				4	188	2.81%
Orchard Supply Hardware ⁽⁵⁾				7	125	1.87%
Spa Fitness Centers, Inc. ⁽⁶⁾				8	125	1.87%
Longs Drug Stores ⁽⁷⁾				9	100	1.49%
JC Penney ⁽⁸⁾				10	100	1.49%
		1233	17.87%		1623	24.22%
Total City Labor Force ⁽⁹⁾		6900	100.00%		6701	100.00%

SOURCE: MuniService, LLC and Capitola Finance Department
The 2006 results are based on direct communication with city's local businesses.

- (1) Shadowbrook Restaurant is also listed as Culinary Enterprises, Inc. in previous documents
- (2) Mervyn's LLC closed the Capitola store at the end of calendar 2008.
- (3) The County Office of Education moved to a new facility outside of the City in August, 2011.
- (4) Gottschalks Inc. closed the Capitola store at the end of fiscal year 2009.
- (5) Orchard Supply Hardware remains in business in Capitola but is not currently one of the top ten employers in the City.
- (6) Spa Fitness Centers, Inc. was sold and now does business as In-Shape Capitola. They are not currently one of the top ten employers in the City.
- (7) Longs Drug Stores had two locations in the City of Capitola that were bought and now operate as CVS/Pharmacy.
- (8) JC Penney closed their Capitola store which was a Capitola Mall anchor store. It was replaced by Macy's.
- (9) Total City Labor Force provided by EDD Labor Force Data

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

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government										
City Manager	7.25	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.75
Finance	5.25	5.25	5.25	5.25	5.25	5.38	4.38	4.38	4.38	4.38
City Attorney	0.30	0.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	<u>12.80</u>	<u>12.75</u>	<u>13.75</u>	<u>13.75</u>	<u>13.75</u>	<u>13.88</u>	<u>12.88</u>	<u>12.88</u>	<u>12.88</u>	<u>13.13</u>
Police										
Chief, Captain, Sgts.	7.00	7.00	7.00	7.00	7.00	7.00	6.00	6.00	6.00	6.00
Officers	12.00	13.00	13.00	14.00	15.00	15.00	15.00	15.00	15.50	15.00
CSOs	2.00	2.00	3.00	3.00	3.00	3.00	3.00	2.00	2.00	2.00
Parking Enforcement	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	2.00	3.00
Administrative	3.30	3.25	5.50	5.75	6.50	6.50	6.50	4.75	4.75	3.75
	<u>27.30</u>	<u>28.25</u>	<u>31.50</u>	<u>32.75</u>	<u>34.50</u>	<u>34.50</u>	<u>33.50</u>	<u>30.75</u>	<u>30.25</u>	<u>29.75</u>
Public Works										
Streets	8.33	8.33	8.33	8.33	8.00	8.33	8.33	7.33	7.33	7.33
Parks	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.00	4.00	3.00
Fleet Maintenance	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	<u>14.33</u>	<u>14.33</u>	<u>14.33</u>	<u>14.33</u>	<u>14.00</u>	<u>14.33</u>	<u>14.33</u>	<u>12.33</u>	<u>12.33</u>	<u>11.33</u>
Recreation										
Supervisor	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Other - full year	3.50	2.00	2.00	2.00	2.00	2.00	1.50	1.50	1.50	1.50
	<u>4.50</u>	<u>3.00</u>	<u>3.00</u>	<u>3.00</u>	<u>3.00</u>	<u>3.00</u>	<u>2.50</u>	<u>2.50</u>	<u>2.50</u>	<u>2.50</u>
Community Development	3.67	3.67	4.67	4.67	4.00	4.67	4.67	3.67	3.67	1.67
Building	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.00	1.50	2.00
Total City Employees	<u>64.60</u>	<u>64.00</u>	<u>69.25</u>	<u>70.50</u>	<u>71.25</u>	<u>72.38</u>	<u>69.88</u>	<u>63.13</u>	<u>63.13</u>	<u>60.38</u>

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

SOURCE: City of Capitola Finance Department

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

INDICATOR	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<u>Police department</u> (calendar years)										
Adult arrests	791	852	877	879	1,069	1,000	908	850	731	766
Calls for service (in thousands)	19	22	18	21	22	21	20	20	19	20
<u>Public works</u>										
Miles paved	26	26	26	26	26	26	26	26	26	26
<u>New construction</u>										
Commercial units	1	2	-	2	3	1	1	1	-	-
Valuation (in millions)	\$ 1	\$ 1	-	\$ 4	\$ 5	\$ 1	\$ 1	\$ 13	-	-
Residential units ⁽¹⁾	9	7	10	17	18	69	122	8	3	7
Valuation (in millions)	\$ 2	\$ 3	\$ 4	\$ 6	\$ 6	\$ 11	\$ 20	\$ 2	\$ 1	\$ 3
<u>Recreation Revenue</u>										
(in thousands)										
Classes	\$ 296	\$ 330	\$ 321	\$ 335	\$ 356	\$ 378	\$ 336	\$ 319	\$ 325	\$ 329
Sports fees	87	79	61	72	82	70	71	59	61	60
Junior Guard	152	142	171	169	184	175	194	214	220	241
Camp Capitola	62	54	71	67	76	80	80	79	102	121
Aquatics	29	24	27	27	23	19	-	-	-	-
Net Class Revenue	\$ 626	\$ 629	\$ 651	\$ 670	\$ 721	\$ 722	\$ 681	\$ 671	\$ 708	\$ 751
Jade St. Rental	n/a	7	16	16	8	7	4	5	5	6
Net Recreation Rev	\$ 626	\$ 636	\$ 667	\$ 686	\$ 729	\$ 729	\$ 685	\$ 676	\$ 713	\$ 757

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

Source: City of Capitola Police Department, Public Works Director, Building Official, and City financial records.

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

Indicator	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Public works										
Streets (miles)	26	26	26	26	26	26	26	26	26	26
Streetlights	71	71	71	71	71	71	71	71	71	71
Traffic signals	8	8	8	8	8	8	8	8	8	8
Parks and recreation										
Parks	7	7	7	7	7	7	7	7	7	7
Community centers	1	1	1	1	1	1	1	1	1	1
General										
Commercial buildings	2	2	2	2	2	2	2	2	2	2

Source: City of Capitola Public Works Director

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