

# Comprehensive Annual Financial Report



City of Capitola, California

For Fiscal Year Ended June 30, 2013



# **CITY OF CAPITOLA, CALIFORNIA**

COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**City Of Capitola  
Comprehensive Annual Financial Report  
Year Ended June 30, 2013**

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## **INTRODUCTORY SECTION**

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January 14, 2014

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

SUBJECT: Comprehensive Annual Financial Report - June 30, 2013

The Comprehensive Annual Financial Report (CAFR) for the City of Capitola for the fiscal year ended June 30, 2013 is hereby submitted.

#### **REPORT PURPOSE AND ORGANIZATION**

State law requires that the accounts and fiscal affairs of all municipal entities be examined annually by an independent certified public accountant. The City's independent auditor, Rogers, Anderson, Malody, and Scott, LLP has audited the City's financial statements and issued an unqualified opinion that financial statements for fiscal year ended June 30, 2013 are fairly presented in conformity with generally accepted accounting principles (GAAP). This opinion, along with the basic financial statements of the City, are hereby submitted as the CAFR for the City of Capitola for the fiscal year ended June 30, 2013 and included in the financial section of this report in fulfillment of the above requirement.

The independent audit of the financial statements is also typically conducted in conjunction with the federally mandated Single Audit. The standards governing the Single Audit require the independent auditor to report on items beyond fair presentation of the financial statements, including internal controls and compliance with legal requirements involving the administration of federal awards. A separately issued Single Audit on Federal Award Programs is available for the year ended June 30, 2012. A Single Audit Report was not required or prepared in FY 12/13 because the City had less than \$500,000 in federal grant expenditures.

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



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

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

## **CITY OF CAPITOLA PROFILE**



The City of Capitola is a small coastal community located in Santa Cruz County that occupies approximately two square miles and serves a population 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 small coastal towns by Sunset Magazine, Capitola offers fishing and boating services in addition to its beachfront restaurants, shops, and entertainment. Other visitor attractions include the Capitola Historical Museum and Capitola Wharf.

Although Capitola is considered a central coast beach destination, it is also one of two major retail centers in Santa Cruz County. The Capitola Mall combined with Brown'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, 95% of Capitola residents are high school graduates and 41% possess a Bachelor's Degree or higher level degree.

### **Form of Government**

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

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

## **City Services**

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

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

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

## **Budgetary Policy and Control**

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

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

The Successor Agency's two-year budget is incorporated into the City's budget process; however, 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. In FY 11/12, the local economy began to show signs of economic recovery, which resulted in a net surplus in the General Fund's primary operations of \$812,557. This trend continued in FY 12/13 with core revenues, such as sales and transient occupancy

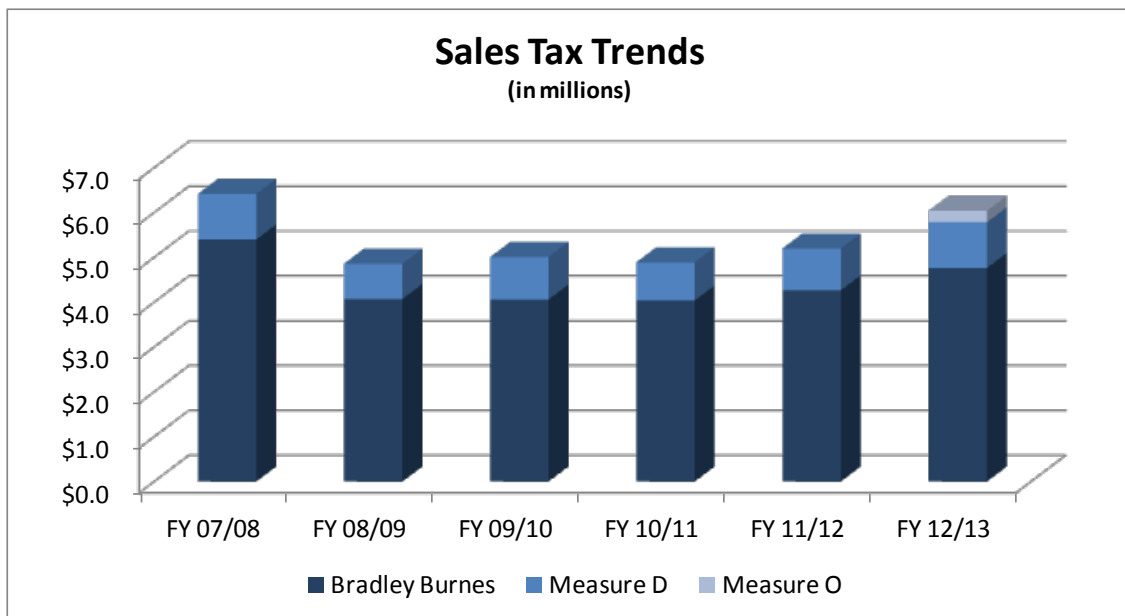
taxes outperforming their combined budgetary projections by over 3.5%. This increased performance, combined with salary and contract savings; and one-time revenues resulted in a net surplus in the General Fund’s primary operations of \$193,404, after reserve contributions and CIP transfers. While this reflects a better-than anticipated recovery, the City has taken a conservative approach in developing the FY 13/14 budget.

The local unemployment rate provides a good indication of the area’s economic stability. In Santa Cruz County, the unemployment rate declined from a five-year high of 12.7% in 2010 to 7.5% in 2013. This reduction was consistent with an overall decline in the State’s unemployment rate. In the City of Capitola, unemployment rates were moderately more favorable with a five-year high of 7.3% in 2011, and a 2013 rate of 5.5%. 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 68% of all General Fund Revenues.

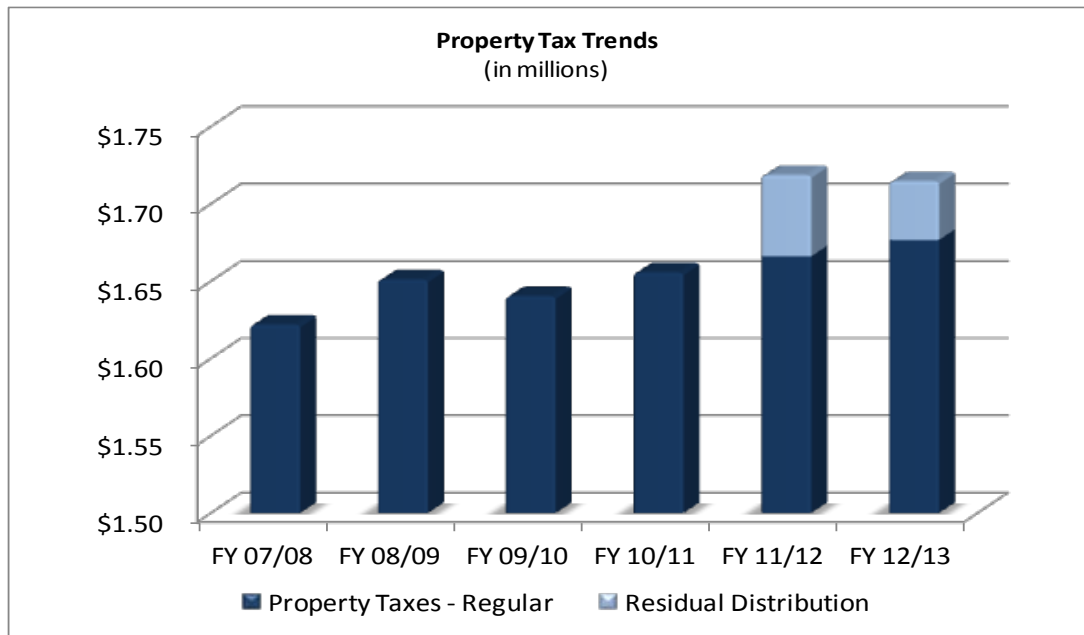
Sales tax is the City’s largest source of revenue, accounting for over 46% of the General Fund Revenues. The City sales tax consists of 1% Bradley Burns; 0.25% Capitola District Tax (Measure D); and a new 0.25% Capitola District Tax (Measure O) that became effective in the last quarter of FY 12/13. In FY 12/13, the combined sales tax receipts of \$6 million were 2.5% higher than amended budgetary estimates, and approximately 16.2% higher than the prior year. This increase resulted from the addition of a new Target retail store located in the Capitola Mall, along with improved economic performance.

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

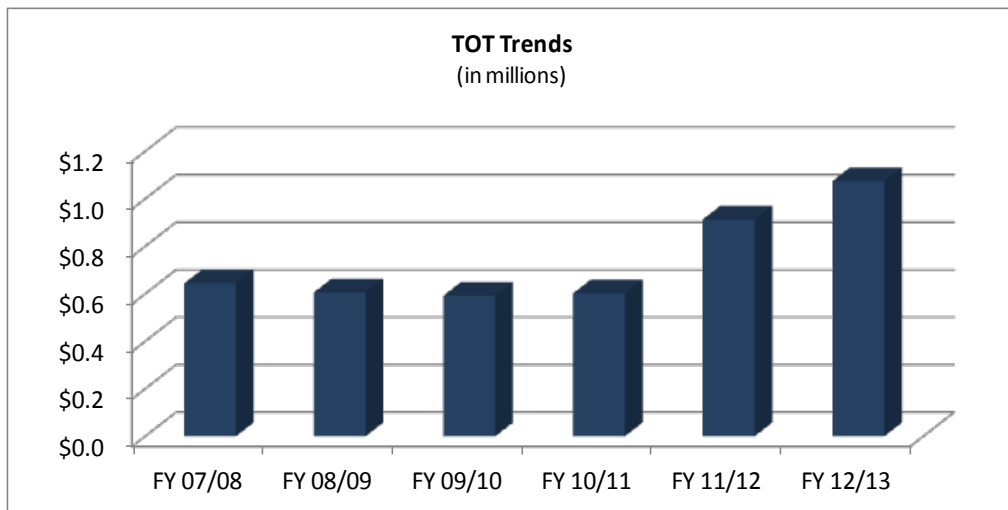


Capitola’s second major source of revenue is property tax. In FY 10/11, the General Fund and the Capitola Redevelopment Agency (RDA) received property tax revenues of \$1.7 million and \$2.4 million, respectively. Due to the dissolution of the RDA, the RDA’s tax increment revenues are distributed to the Successor Agency Private Purpose Trust Fund in amounts that are only sufficient to fund obligations approved by the independent Oversight Board. In FY12/13 the General Fund received \$1.7 million in property tax receipts, prior to inclusion of Documentary Transfer Tax and Residual RDA distributions. This base amount was approximately \$10,600 more than the prior year, and within \$1,000 of the final budgeted amount. In FY 11/12, City received \$52,534 in RPTTF revenues, while in FY 12/13 the City received \$37,928. These residual distributions are not indicative of a change in property values, but a distribution of excess property tax funds that were redistributed as part of the RDA dissolution process.

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



Transient occupancy tax (TOT) represents over 8% of General Fund revenues. In FY 11/12, revenues increased by \$310,000 over the prior year due to increased economic performance and the addition of a new 84-room major hotel. Economic growth has continued through FY 12/13 with TOT revenues rising by \$161,154 or 17.7% over the prior year. A portion of this increase can be attributed to a one-time internal hotel adjustment of \$48,300. While the City has projected a conservative growth rate of 2% in FY 13/14, the first quarter revenue receipts are trending positively at 19% or \$55,000 over the prior year quarter. Due to this increased performance and Capitola’s seaside location, the City is continuing efforts to attract hotels to the area.



**Long-term Financial Planning**

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

Planning for Sales Tax Revenues

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

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

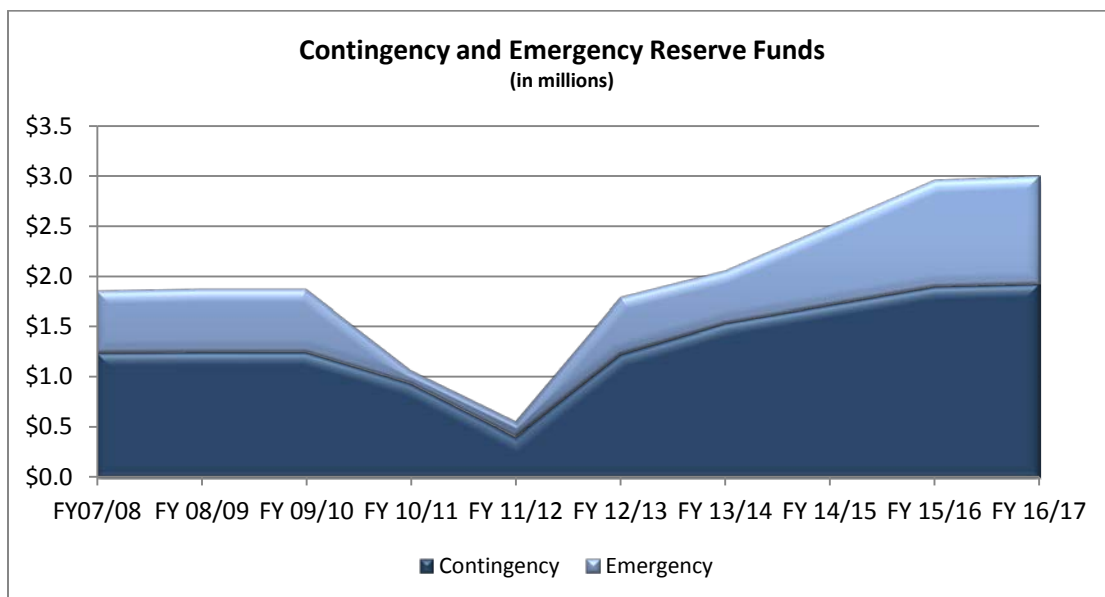
Replenishing and Increasing Reserves

In March of 2011, an underground storm drain failed which resulted in damage to the Pacific Cove Mobile Home Park, City Hall, and portions of Capitola Village. As a result, the City paid \$1.4 million in flood related costs over the last two fiscal years; and assumed a \$2.39 million debt to relocate residents of the City-owned mobile home park. This incident reduced the City’s reserves from \$1.87 million in FY 09/10 to \$561,000 in FY 11/12, with an additional \$200,000 reduction anticipated in FY 13/14 to repair a damaged retaining wall.

The 2011 storm drain failure, along with the economic downturn, emphasized the need to review reserve policy levels to ensure the City was maintaining a sufficient balance to effectively manage unforeseen events. In a review of the City’s 2012 Benchmark Report, Capitola had the lowest reserve to operating expenditure ratio when compared to the benchmark cities. After reviewing GFOA recommendations and the City’s financial history, the City increased the reserve policy levels. The Emergency Reserves were increased from 5% to 10% of operating expenditures and the Contingency Reserves were increased from 10% to 15% of operating expenditures to assist with the volatile nature of the City’s primary revenue sources, and uneven receipting patterns of annual major revenues. The following chart contrasts the FY 12/13 ending fund balances with the original and revised funding policy levels.

Fund	Fiscal Year 12/13	Original Policy Level	Revised Policy Level	Deficit to Revised Policy Level
Contingency	\$1,222,600	10% - \$1.2 M	15% - \$1.8 M	\$577,400
Emergency	\$569,800	5% - 0.6 M	10% - \$1.2 M	\$630,200
Total	\$1,792,400	15% - \$1.8 M	25% - \$3.0 M	\$1,207,600

Based on the original five-year Measure O Plan, the reserves would be fully funded in FY 16/17; however an additional \$300,000 contribution from an insurance settlement and an additional allocation of \$350,000 from the General Fund’s operating surplus, are anticipated to bring the reserves to within \$41,000 of their full funding level in FY 15/16. The historical and projected funding levels are presented below:



### Controlling Payroll Costs

The City of Capitola participates in the California Public Employees Retirement System (CalPERS). Over the last two years, the CalPERS Board has approved two measures that are projected to increase the employer contribution rates. This includes reducing the discount rate on actuarial earnings for the investment pool from 7.75% to 7.5%; and changing the terms on amortization and smoothing policies. These two measures are projected to increase employer contribution rates by an annual amount of two percentage points for Public Safety Employees and 1% for Miscellaneous Employees. While most cities are preparing for these rising costs, the City of Capitola has negotiated caps on the employer's share of retirement contributions.

The City's retirement caps, which were initially implemented in 2007, have proven to be an effective cost containment strategy. The City's maximum PERS contributions are set at 28.291% for Safety employees and 16.488% for Miscellaneous employees. In FY 11/12, the City implemented further retirement reforms which included a 5% lower cap on the City's share of PERS costs for newly hired employees. These "second tier" caps are applicable through the first five years of employment, with effective rates for Safety and Miscellaneous at 23.291% and 11.488%, respectively. These internal measures combined with the State's Public Employee Pension Reform Act (PEPRA) are anticipated to provide additional assistance in controlling payroll costs. The PEPRA legislation which became effective in January of 2013, is applicable to all new employees who have not been previously enrolled in PERS or a reciprocal plan. The new PEPRA plans provide reduced benefit plans at a lower cost to both the employer and employee.

All labor agreements include a CPI-based Cost of Living Adjustment (COLA) that has been included in the FY 14/15 Planned Budget, with similar CPI-based COLAs scheduled over the term of the contract. The City's cap on PERS contributions may be revisited if PERS costs reach a specified threshold.

### **Major Initiatives**

#### Managing the Dissolution of the Redevelopment Agency (RDA)

In 2011, the Governor of the State of California signed Assembly Bill X1 26 which dissolved 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 Housing 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 Real Property Tax Trust Fund (RPTTF) revenues sufficient to pay items on an approved Recognized Obligation Payment Schedule (ROPS). Payments listed on the Successor Agency's ROPS were 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 funded by former Low/Moderate 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 RPTTF funding for two City/RDA loans. This

denial resulted in a reduction of \$152,520 in annual interest payments to the General Fund; as well as the 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 provides Capitola residents and visitors with additional park space, as well as relieves 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.

The City also requested retention of \$88,970 for seven months of interest payments on the City/RDA loans for the period from July 1, 2011 to January 31, 2012. This amount represents the prorated share of interest payments due to the City prior to the effective date of the RDA dissolution. The prorated payments 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 determination was upheld. This resulted in the General Fund returning \$152,520 to the Successor Agency to meet approved Successor Agency Obligations.

The City has received a finding of completion related to the RDA dissolution process. On January 10, 2012, AB 1484 was amended to provide additional clarification on the RDA dissolution process. This legislation 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. In FY 12/13, the City also completed two mandated Due Diligence Reviews and an Asset Transfer Review. As a result of the Asset Transfer Review, the General Fund was required to return an additional \$47,895 to the Successor Agency for interest paid on the Loan and Cooperative Agreement prior to the adoption of the legislation dissolving the Agency. Although the City and Successor Agency disagreed with these findings, the City returned these funds to maintain compliance.

AB 1484 contains a provision which allows the City to seek reinstatement of the loans; however this provision requires that the accumulated interest on the principal be recalculated from the origin of the loan at the interest rate earned by funds deposited into the Local Agency Investment Fund. The Oversight Board has approved an interest rate reduction; however the Successor Agency was required to resubmit the request in accordance with the legislative timelines. Some cities have been successful in rescinding DOF determinations through legal actions. The City plans to seek reinstatement of the Loan and Cooperative Agreement as either part of AB 1484 or a separate legal process. The City filed a Long Range Property Management Plan in November of 2013, which indicates the Successor Agency does not have any real property to report.

#### Insurance Settlement

The City is insured for claims up to \$20 million, with a \$10,000 deductible per occurrence. Although the insurance was in effect at the time of the storm drain failure, the City's insurance company denied the City's claims for reimbursement. The insurance company asserted that the damage was caused by a "flood" for which the City did not have insurance coverage. The City believed this interpretation was incorrect and sought legal action. After two years of working with legal counsel and the insurance company, the parties



agreed to a \$1.35 million settlement. The proceeds, minus legal fees were allocated to the following funding priorities: \$500,000 to prepayment of Pacific Cove Lease Debt, \$350,000 to Capital Improvement Projects, and \$295,000 to reserves. The prepayment of debt was anticipated to save the City over \$150,000 in interest costs over the lifetime of the loan. The capital improvement funds were applied to the following previously unfunded projects: \$150,000 for Stockton Avenue Pedestrian Improvements; \$70,000 for Hill Street Pedestrian Improvements; \$100,000 for park improvements; and \$30,000 to fund Historic Depot street frontage and landscaping improvements. A complete discussion of reserves is included in the Long-Term Planning section of this letter.

#### *Transitioning the former Pacific Cove Mobile Home Park to a Temporary Parking Lot*

In FY 12/13, the City made the decision to convert the former Pacific Mobile Home Park to a temporary 226-space parking area, with the expectation it would be converted to a public park, if the City developed a parking garage in the adjacent parking lot. This lot is anticipated to provide additional parking for Village businesses and Capitola Beach, while also assisting to attract a new hotel to the Village. It is anticipated that during summer months, a shuttle will operate between the parking lot and the Village/beach area to alleviate traffic congestion in the waterfront areas. An additional benefit realized from this project will include moving the Police storage facility to a refurbished mobile home. This transition will allow the Community Room at City Hall to be available to the public.

The \$1.38 million project will include paving, lighting, landscaping, restroom updates, and the addition of pay stations to both the new temporary lot and the upper Pacific Cove lot. This project has received funding approval for a low-interest loan through the California Infrastructure and Economic Development Bank (IBank). Construction and project reimbursements are scheduled to begin in the late summer of 2013. The debt service is anticipated to be paid from the savings realized through the tax-exempt refinancing of the Pacific Cove Mobile Home Park loan and revenue from the new parking lot.

#### *Debt Reduction Strategies*

In FY 12/13, the City has been successful in retiring, prefunding, or reducing interest rates on significant debt obligations. Information pertaining to these reductions are listed below:

##### *Library Development – \$2.1 Million*

This approved Successor Agency obligation is intended to fund construction of a 12,500 square foot library branch at the corner of Clares Street and Wharf Road. The original obligation of \$2.6 million had a balance of \$2.1 million on June 30, 2012, with an annual FY 12/13 scheduled payment scheduled at \$211,720. In FY 12/13, the Successor Agency received approval to make an additional payment of \$739,548 from Real Property Tax Trust Funds. If continued accelerated payments are approved, it is anticipated that this obligation will be paid in 2016, which is two years earlier than the scheduled retirement date.

##### *Pacific Cove Lease Financing - \$1.8 Million*

In FY 11/12, the City initiated a \$2.39 taxable lease/sublease agreement to fund the closure of the Pacific Cove Mobile Home Park. In FY 12/13, it was determined that the site would be used for public purpose which allowed the City to refinance the loan at a lower rate. The original 20-year lease include a 5.14% fixed interest rate for the first ten years, with a reset to a 10 year T-Bill plus 3%. This amount was refinanced at a fixed interest rate of 3.25%, with a reset to a T-Bill plus 1.5% in year 10. As a result of the refinancing, annual loan payments will be reduced by approximately \$28,000. It is also estimated that the City will save \$350,000 in interest payments during the first nine years of the loan. In FY 12/13, the City also made an additional principal payment of \$476,190. This prefunding is estimated to save the City \$150,000 over the life of the loan, while also decreasing the loan term.

### *Other Post Employment Benefit Obligation (OPEB)*

The City currently pays for retiree health benefits on a pay-as-you-go basis. In FY 12/13, the City made the decision to begin prefunding the OPEB obligation. This initial prefunding amount of \$30,000 has been incorporated in the FY 13/14 budget. The City's FY 12/13 Unfunded Actuarially Accrued Liability (UAAL) is \$1,076,209. Dependant upon the trust fund and investment plan selected, this could reduce the UAAL by as much as \$350,000.

## **Relevant Financial Policies**

### *Financial Management Policies*

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

A key component of this policy focuses on reserve requirements. Each fiscal year, the final adopted General Fund budget is required to have a Contingency Reserve appropriation equal to 15% of the General Fund operating expenditures; and Emergency Reserve appropriation equal to 10% of the General Fund Operating Expenditures. The purpose of the Contingency Reserve is to provide a prudent level of financial resources to protect against temporary revenue shortfalls; unanticipated operating costs; and/or to meet short-term cash flow requirements. The purpose of the Emergency Reserve Fund is to protect against one-time significant costs that may arise from major unpredictable emergency events. In FY 12/13, the combined thresholds were increased from 15% to 25% to provide a safeguard for future unanticipated events. Replenishment strategies and support for the new policy requirements are discussed in the Long-Term Financial Planning section of this document.

### *Investment Policy*

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

## **AWARD FOR EXCELLENCE IN FINANCIAL REPORTING**

The 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, 2012 by the California Society of Municipal Finance Officers (CSMFO). The City has received this award consistently since FY 99/00.

The Government Finance Officers Association of the United States and Canada (GFOA) also awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Capitola's CAFR for the

fiscal year ended June 30, 2012. This is the first year the City has received this prestigious award. This Certificate of Achievement is a prominent national award recognizing conformance with the highest standards for preparation of State and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A GFOA Certificate of Achievement is valid for a period of only one year. The City of Capitola believes this current CAFR conforms to the Certificate of Achievement program requirements; and will be submitting it to GFOA for review. Once a GFOA Award is received, CSMFO prohibits cities from applying and receiving both awards. Because the City has received the GFOA Award and plans to submit the current year document to the GFOA, it will not be applying for the CSMFO Certificate this year.

## **ACKNOWLEDGEMENTS**

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

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

Respectfully submitted,



Jamie Goldstein  
City Manager

**CITY OF CAPITOLA**  
**LIST OF PRINCIPAL OFFICIALS**  
**FOR**  
**FISCAL YEAR ENDED JUNE 30, 2013**

**ELECTED OFFICIALS**

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

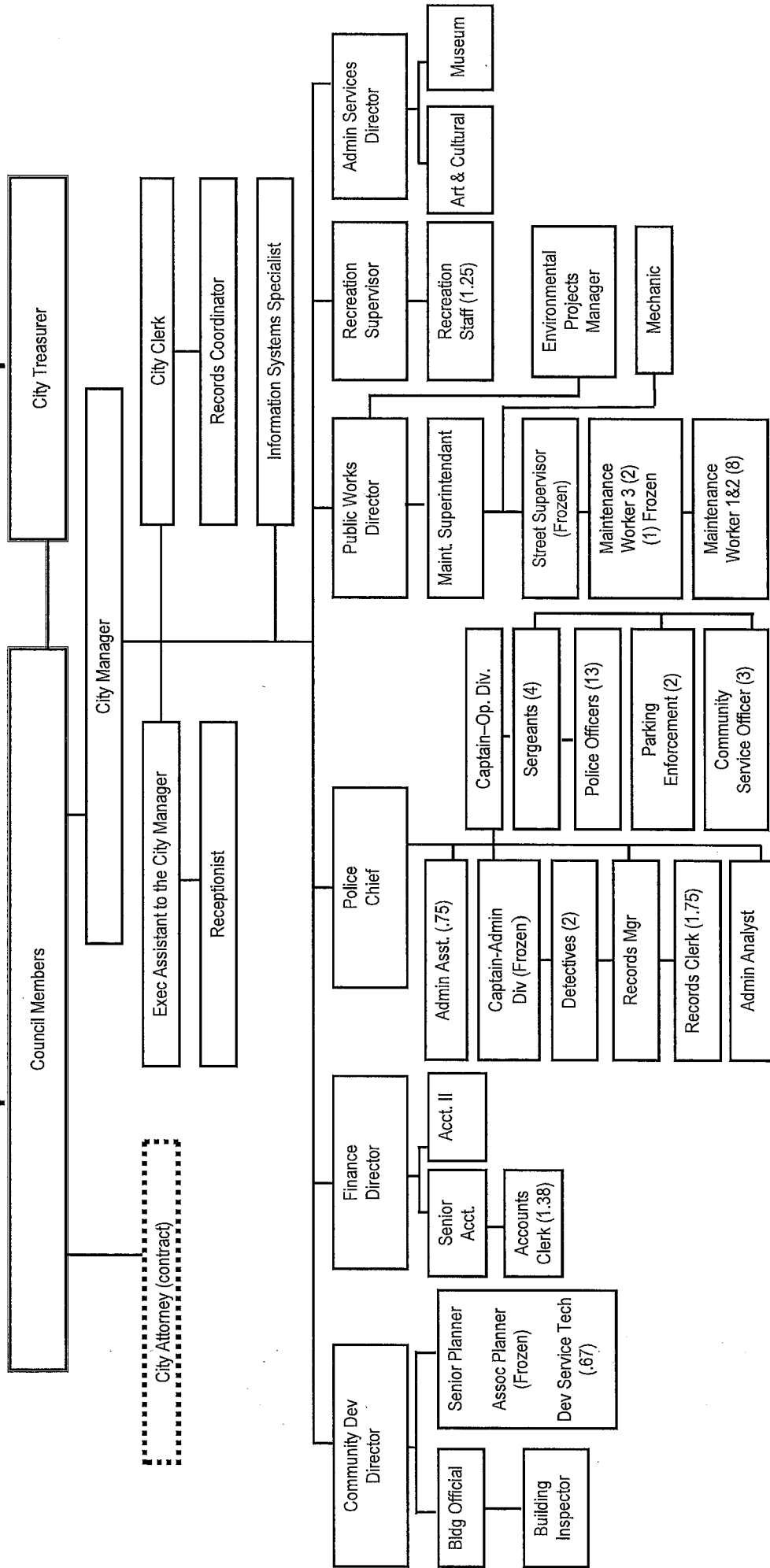
**APPOINTED OFFICIALS**

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

**DEPARTMENT HEADS/ADMINISTRATORS**

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

Citizens of the City of Capitola





Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**City of Capitola  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2012**

Executive Director/CEO

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## **FINANCIAL SECTION**



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ROGERS, ANDERSON, MALODY & SCOTT, LLP  
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

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San Bernardino, CA 92408  
909 889 0871 T  
909 889 5361 F  
ramscca.net

## INDEPENDENT AUDITOR'S REPORT

### PARTNERS

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Kirk A. Franks, CPA  
Matthew B. Wilson, CPA, MSA, CGMA  
Scott W. Manno, CPA, CGMA  
Leena Shanbhag, CPA, MST, CGMA  
Jay H. Zercher, CPA (Partner Emeritus)  
Phillip H. Waller, CPA (Partner Emeritus)

### MANAGERS / STAFF

Nancy O'Rafferty, CPA, MBA  
Bradferd A. Welebir, CPA, MBA  
Jenny Liu, CPA, MST  
Papa Matar Thiaw, CPA, MBA  
Maya S. Ivanova, CPA, MBA  
Peter E. Murray, CPA  
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Charles De Simoni, CPA  
Yiann Fang, CPA  
Daniel T. Turner, CPA, MSA  
Derek J. Brown, CPA, MST  
David D. Henwood, CPA

The Honorable City Council  
City of Capitola, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Capitola, California (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

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

### MEMBERS

American Institute of  
Certified Public Accountants

*PCPS The AICPA Alliance  
for CPA Firms*

*Governmental Audit  
Quality Center*

California Society of  
Certified Public Accountants

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2013, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

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

#### *Other Information*

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

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

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

#### *Implementation of New Pronouncement*

As discussed in Note 1 of the financial statements, the City adopted the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Rogers Anderson Maloney & Scott, LLP*

San Bernardino, CA  
January 14, 2014

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## Management's Discussion and Analysis

As management of the City of Capitola, California, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013. 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 \$21.6 million (*net position*). Of this amount, \$4.9 million (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The total net position increased by \$1,838,264 from FY 11/12. This included a prior period adjustment of \$1,427 related to the RDA dissolution; and a \$1,836,837 increase in net position from governmental activities.
- The City's net capital assets decreased by \$940,510 from the prior year.
- The City's long-term liabilities decreased by \$904,607 from the prior year.
- An extraordinary gain of \$1,118,086 was recognized on the government wide financial statement. This included a \$1,349,000 million insurance settlement, net of \$230,914 in attorney fees.

#### *Fund Highlights*

- The City's governmental funds reported combined fund balances of \$7.9 million, an increase of \$43,042 from the prior year. Of this amount, \$2.0 million is reported as nonspendable, \$1.6 million is assigned, and \$2.8 million is available for spending at the City's discretion. An additional \$1.5 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 \$43,042 increase in the City's governmental funds reported combined fund balances was primarily the net effect of approximately \$1 million in expenditures related to the closure of Pacific Cove Mobile Home Park, and a \$1.1 million extraordinary gain to recognize the net proceeds of an insurance settlement.
- The Unassigned fund balance for the General Fund was \$2.8 million or 25% of the total General Fund operating expenditures.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

### **Government-Wide Financial Statements**

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

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

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

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

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

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

### **Fund Financial Statements**

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

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



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

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

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

The City adopts an annual appropriated budget for all funds. A budgetary comparison statement is provided for each of the City's governmental funds to demonstrate compliance with this budget. This comparison for the General Fund, Federal Home Loan Reuse Fund, and the Capitola Housing Successor are presented in the Required Supplementary Information section of this document. The budgetary comparison statements for 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 20-25 of this report.

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

### **Notes to the Financial Statements**

The Notes to the basic financial statements provide additional information that is not essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 29-64 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 65 of this report.



## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City of Capitola, assets exceeded liabilities by \$21.6 million at the close of the most recent fiscal year.

	Governmental Activities	
	2013	2012
Current and other assets	\$ 17,138,332	\$ 13,643,385
Capital assets	<u>13,367,845</u>	<u>14,308,355</u>
<b>Total Assets</b>	<b><u>\$ 30,506,177</u></b>	<b><u>\$ 27,951,740</u></b>
Other liabilities	3,110,028	1,489,248
Long term liabilities		
Due in one year	663,578	621,475
Due in more than one year	<u>5,116,820</u>	<u>6,063,530</u>
<b>Total Liabilities</b>	<b><u>8,890,426</u></b>	<b><u>8,174,253</u></b>
Net Position:		
Net investment in capital assets	11,520,709	11,918,355
Restricted	5,201,814	3,724,947
Unrestricted	<u>4,893,228</u>	<u>4,134,185</u>
<b>Total Net Position, as restated</b>	<b><u>\$ 21,615,751</u></b>	<b><u>\$ 19,777,487</u></b>

The largest portion of the City's net position, \$11.5 million or 53%, is reflected in its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets were not available for future spending. Although the City of Capitola's investment in capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, \$5.2 million or 24%, represented resources that were subject to external restrictions on how they may be used. The remaining \$4.9 million or 23%, of the City's net position, were "unrestricted," and may be used to meet the government's ongoing obligations to citizens and creditors.

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

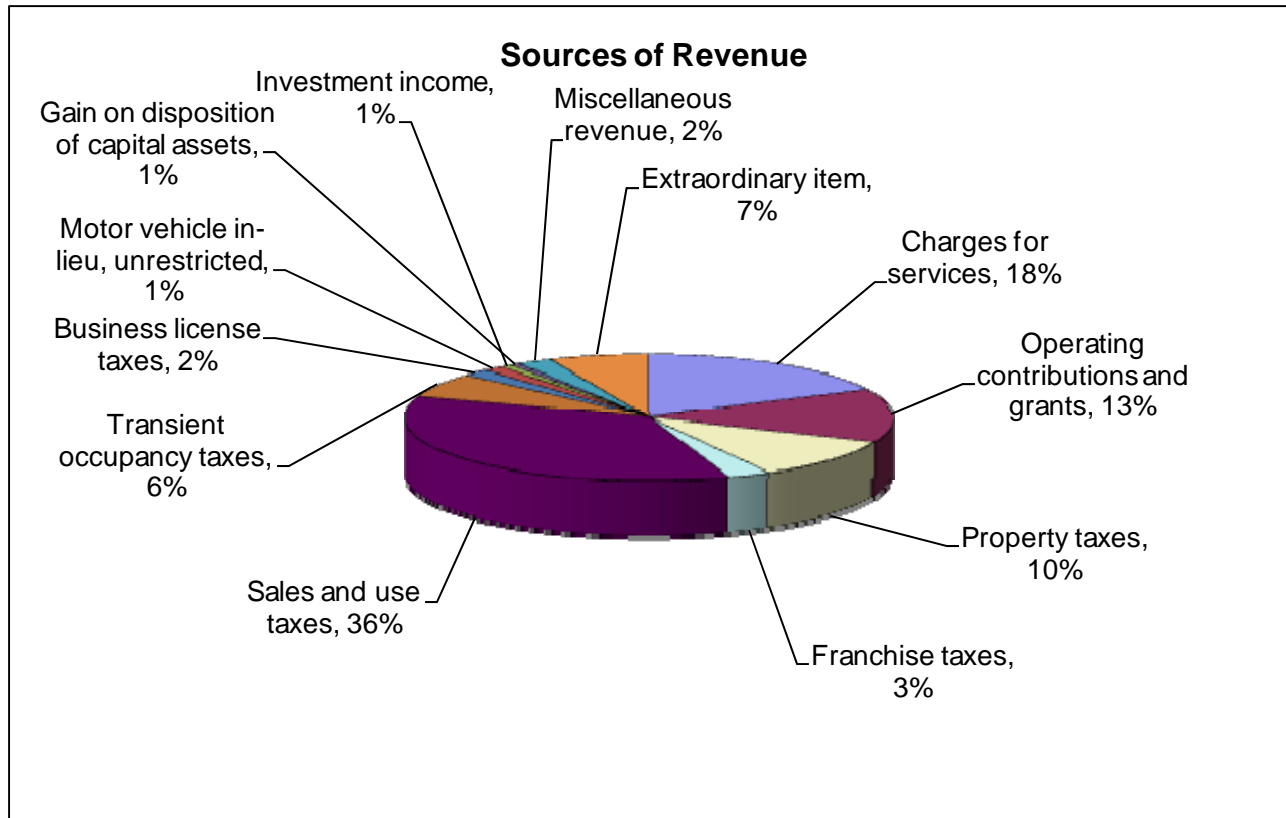
## Governmental Activities

Governmental activities increased the City of Capitola's net position by \$1,836,837. This increase is primarily due to an insurance settlement, the fourth quarter receipt of a new 0.25% sales tax, and increased economic performance. Each fiscal year contains unique grant revenues and extraordinary items; however in FY 12/13, core revenues were trending positive, with the City realizing reductions in salary and contract costs. The FY 12/13 beginning net position was restated to \$19,778,914 due to a prior period adjustment of \$1,427. The Statement of Changes in Net Position is provided below, followed by an explanation of key changes in FY 12/13:

	Governmental Activities	
	2013	2012
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 3,033,589	\$ 3,880,665
Operating contributions and grants	2,291,742	2,815,151
Capital contributions and grants	2,762	-
General revenues:		
Taxes:		
Property taxes	1,778,037	2,993,125
Franchise taxes	478,627	482,782
Sales and use taxes	6,040,542	5,200,303
Transient occupancy taxes	1,074,507	912,851
Business license taxes	291,642	281,336
Motor vehicle in-lieu, unrestricted	240,891	315,480
Investment income	230,166	190,390
Miscellaneous revenue	398,320	309,110
Extraordinary items:		
Disaster recovery	1,118,086	-
Flood disaster loss	-	(622,631)
Gain on dissolution of Redevelopment Agency	-	1,002,594
<b>Total revenues</b>	<b>16,978,911</b>	<b>17,761,156</b>
<b>Expenses</b>		
General government	4,862,155	4,850,957
Public safety	5,410,926	5,490,993
Community development	727,123	3,471,434
Culture and recreation	1,397,858	1,009,568
Transportation	2,456,455	2,556,293
Interest and other charges	287,557	418,775
<b>Total expenses</b>	<b>15,142,074</b>	<b>17,798,020</b>
<b>Change in Net Position</b>	<b>1,836,837</b>	<b>(36,864)</b>
<b>Ending Net Position, as restated</b>	<b>\$ 21,615,751</b>	<b>\$ 19,778,914</b>

## Revenues

As shown in the in the Statement of Changes in Net Position, revenues for FY 12/13 were \$17.0 million. The following graph includes program and general revenues and shows the percentage of governmental revenues by source:



These revenues represent a decrease of approximately of \$782,245 over the prior year. This was primarily the result of the following factors:

- Charges for Services – Reduction of \$847,076 primarily due to increased development and one-time revenues in FY 11/12. In FY 11/12, the City received additional building and planning revenues of \$260,000; and \$297,000 decrease in public art fees, which were largely associated with a major retail development. In FY 12/13, this project was completed and revenues returned to a level that was more consistent with prior years. In FY 11/12, the City also realized approximately \$250,000 in one-time administrative RDA revenues. This additional revenue was not available in FY 12/13. Additional contributing factors include a \$67,000 decrease in recreational fees.
- Grants and Contributions – Reduction of \$523,409 resulting from a \$1.1 million decrease in Community Development Operating Grants and Contributions, net of a deferred revenue adjustment. In FY 11/12, the City received a \$1.2 million grant received in FY 11/12 to fund the Bay Avenue Senior Housing Project, a 109 unit senior low income housing rehabilitation project. In FY 12/13, General Government Operating Grants and Contributions increased by approximately \$500,000. This increase resulted from the net effect of FY 11/12 deferred revenue adjustments associated with the Housing Successor and the RDA dissolution process.

- Property Taxes – Reduction of approximately \$1.2 million in property tax revenues due to the dissolution of the RDA. The General Government property taxes remained relatively constant. Revenues to fund the former RDA’s obligations are now recorded in the Private Purpose Trust Fund.
- Sales Tax Revenues – Increase of approximately \$840,000 resulting from the opening of a major new retail store, \$254,000 from the first quarter of Measure O receipts, and increased economic performance. Measure O is a new 0.25% permanent sales tax that became effective in April of 2013.
- Transient Occupancy Taxes – Increase of approximately \$161,000 due to general economic improvement; and approximately \$42,000 associated with a one-time internal hotel adjustment.
- Extraordinary Items – In FY 12/13, the City received a \$1,349,000 insurance settlement related to the 2011 storm drain failure. Attorney fees of \$230,914 reduced the proceeds to \$1,118,086. In FY 11/12, the City realized a \$1,002,594 gain associated with the RDA dissolution, net of a \$622,631 loss associated with a storm drain failure.

*Cost of Services*

Under GASB 34, program revenues are derived directly from programs or from parties outside the reporting government’s taxpayers or citizenry. These revenues reduce the net cost of the function to be financed from the government’s general revenues. General revenues are all other revenues not categorized as program revenues, and include taxes, unrestricted grants, contributions, investment earnings, and miscellaneous revenues. Total program revenues from governmental activities were \$5.3 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
	<u>                    </u>	<u>                    </u>	<u>                    </u>
General government	\$ 4,862,155	\$ 2,839,815	\$ 2,022,340
Public safety	5,410,926	976,539	4,434,387
Community development	727,123	632,393	94,730
Culture and recreation	1,397,858	684,727	713,131
Transportation	2,456,455	194,619	2,261,836
Interest and other charges	287,557	-	287,557
<b>Totals</b>	<u>\$ 15,142,074</u>	<u>\$ 5,328,093</u>	<u>\$ 9,813,981</u>

A description of each program is listed below:

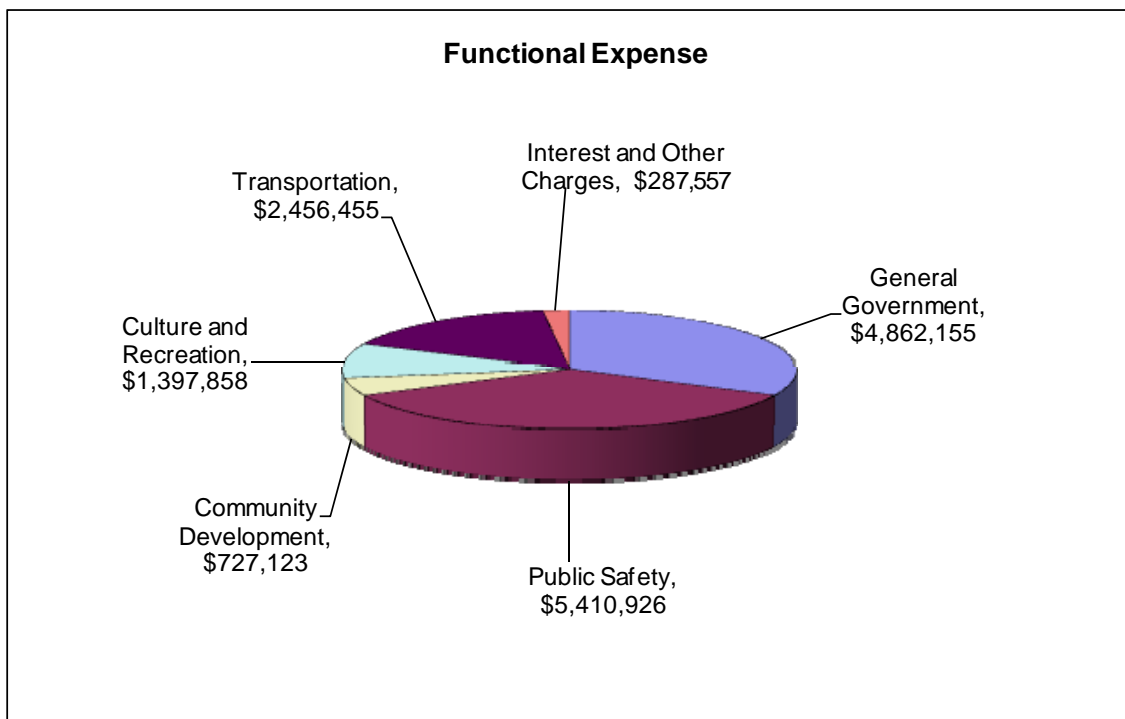
- General Government expenses comprise approximately 32% of all government expenses. This includes City Council, City Manager, City Clerk, City Attorney, Finance, Administrative Services, and Risk Management. These programs are offset by parking meter collections, grants, and administrative support fees.
- Public Safety expenses comprise 36% of all governmental expenses. Revenues from fines, citations, grants, and animal services partially offset the cost of this program.

- Community Development expenses comprise approximately 5% of all governmental expenses. Various building and planning fees, along with grant revenues, assist in funding these program costs.
- Culture and Recreation expenses comprise over 9% of all governmental expenses. These programs are primarily funded through recreational classes and sports fees.
- Transportation/Public Works expenses comprise 16% of all governmental expenses. This includes street, facility, park, and fleet maintenance; and oversight of the Pacific Cove Mobile Home Relocation Plan. Costs are partially offset by motor vehicle fuel taxes and various fees.
- Interest expense comprises 2% of all governmental expenses. This interest expense is used to pay long-term debt obligations.

*Expenses*

As shown in the Statement of Changes in Net Position, expenditures decreased by approximately \$2.7 million. This was primarily the result of \$1.3 million in reduced Community Development grant funded activities in the HOME Grant and Housing Trust Funds. In FY 12/13, most large scale housing subsidies were completed, with expenditures reflecting only ongoing program administration costs. Additional Community Development reductions also occurred as a result of the RDA dissolution. In FY 11/12, the former Low/Moderate Housing Fund expended \$1.3 million in Housing Loan and Subsidies, along with administrative costs. In FY 12/13, the Capitola Housing Successor budget was limited to funding expenses from loan proceeds. These amounts were offset by reduced Transportation spending of \$100,000 related to the Pacific Cove park closure; \$152,520 in decreased interest costs associated with the former RDA; and \$300,000 in increased expenditures for a fee-funded public art project.

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, an increase of \$43,042 in comparison with the prior fiscal year. Approximately \$2.0 million is reported as nonspendable, \$1.6 million is assigned to Emergency Reserves and the Capital Projects Fund; and \$2.8 million is available for spending at the City's discretion. An additional \$1.5 million is restricted for specific purposes, which includes \$414,853 in debt proceeds to continue the Pacific Cove Mobile Home Park project.

### *General Fund*

The General Fund is the chief operating fund of the City of Capitola. At the end of the current fiscal year, the total fund balance was \$5.4 million. This represents an increase of \$860,851 or 18.8% over the prior year. Approximately 52% 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 Note 15.

It should be noted that the presentation of the General Fund in the City's budget document is different than its presentation in the Governmental Fund Financial Statements. This is primarily due 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.

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 Fund	Financial Statements
Beginning Fund Balance, as Restated	\$ 2,534,083	\$ 260,107	\$ 560,942	\$ 1,223,217	\$ 4,578,349
Revenues	\$ 12,944,385	\$ 115,342	\$ -	\$ -	\$ 13,059,727
Expenditures	11,579,843	221,702	90	(402,271)	11,399,364
Net Operating Difference	\$ 1,364,542	\$ (106,360)	\$ (90)	\$ 402,271	\$ 1,660,363
Financing Sources/Uses	\$ (2,289,224)	\$ -	\$ 1,231,500	\$ (859,874)	\$ (1,917,598)
Extraordinary Item	1,118,086	-	-	-	1,118,086
Net Change in Fund Balance	193,404	(106,360)	1,231,410	(457,603)	860,851
Ending Fund Balance	\$ 2,727,487	\$ 153,747	\$ 1,792,352	\$ 765,614	\$ 5,439,200

*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 FY12/13 revenues represent the receipt of principal and interest payments related to the Wharf Road Manor Homeowner’s Association Loan Program.

*Capitola Housing Successor*

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

*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 to fund park closure costs. In FY 12/13, the City spent \$1,006,010 on continued park closure activities, which included the purchase of coaches, professional services, and maintenance. It is anticipated that \$414,853 of the remaining fund balance will be used in FY13/14 to complete the park closure.

## GENERAL FUND BUDGETARY HIGHLIGHTS

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A detailed budgetary comparison schedule for the year ended June 30, 2013 is presented as Required Supplementary Information following the notes to the financial statements. This information can be found on page 66. Key budgetary differences are provided below.

### *Revenues:*

Revenues exceeded the Final Budget by approximately \$217,673. Key factors relating to the increase include: Sales tax receipts of approximately \$130,000 in the final two quarters; and \$110,000 increased TOT tax revenues, increased performance in building licenses and building permits of \$86,787, net of \$103,000 in Intergovernmental Revenues that consisted of carry-forward Police Department grants.

### *Expenses:*

Expenses prior to transfers and the extraordinary item were approximately \$511,078 below the Amended budget. This was primarily the result of the following factors:

- General Government savings of approximately \$149,000: This savings resulted primarily from the carry-forward of an \$89,000 General Plan contract; combined with \$50,000 in net salary and contract savings.
- Public Safety savings of approximately \$248,000: This savings was achieved from \$138,000 in salary savings related to overtime and position vacancies; a \$42,000 grant carry-forward, and \$48,000 in contract savings primarily related to State and County processing fees.
- Community Development and Transportation savings of approximately \$102,000. This was primarily related to \$45,000 in salary savings related to transitions within each department; and \$58,000 contracts for maintenance and repairs; and supplies.

### *Appropriations:*

Variances between the Original and Final budgets are primarily due to the inclusion of continuing appropriations for special projects from the prior year; appropriation for revenues associated with a 0.25% voter-approved sales tax measure; and recognition of an extraordinary item.



*Fund Balance:*

The General Fund Ending Fund Balance was \$5,439,200 as of June 30, 2013. This amount was \$724,761 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	\$	56,177
Due from successor agency		1,968,028
Assigned:		
Emergency reserve		569,706
Unassigned:		
Contingencies		1,222,646
Unassigned		<u>1,622,643</u>
Total fund balance	\$	<u>5,439,200</u>

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The City's value of governmental assets (net of accumulated depreciation) at the end of FY 12/13 was \$13,367,845. 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 6.6% or \$940,510. This decrease includes approximately \$449,000 related to depreciation expense, \$213,000 for the disposal of parking meters that are scheduled to be retrofitted with pay stations; and \$321,000 related to the disposal of City-owned mobile homes in conjunction with the Pacific Cove Mobile Home Park.

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		2,778,269
Equipment		2,688,523
Infrastructure		24,257,833
Construction in progress		724,389
Depreciation		<u>(20,926,078)</u>
Total fixed assets	\$	<u>13,367,845</u>

### Long-Term Debt

The City's long-term debt at the end of FY12/13 was \$5,780,398. This represents a reduction of \$904,607 or 13.5% when compared to the FY 11/12. Significant changes include a \$485,000 payment on the 2007 Pension Obligation Bonds and a \$542,000 payment on the Capital Lease. The capital lease payments include a regular principal payment of \$66,664, and an additional contribution of \$476,177 that was prefunded with a portion of the insurance settlement proceeds. This debt reduction was offset by increases in the Compensated Absences and Net OPEB obligations.

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

#### Governmental Activities

Bonds Payable:	
2007 POB Bonds	\$ 2,890,000
Loans Payable:	
Capital Lease Payable - Pacific Cove	1,847,136
Notes Payable	35,136
Compensated absences	648,413
Net OPEB Obligation	<u>359,713</u>
Total	<u>\$ 5,780,398</u>

### **ECONOMIC FACTORS, NEXT YEAR'S BUDGETS, AND RATES**

On June 13, 2013, the Council adopted the FY 13/14 Budget, with a total appropriation of \$21 million, and a General Fund appropriation of \$13.7 million. Adequate resources were projected to be available to fund the proposed expenditures. The General Fund budget reflects a conservative growth estimate with sales tax revenues anticipated to increase by 2%; prior to the addition of Measure O sales tax receipts. A similar increase was projected for TOT taxes; while property taxes were estimated to be relatively stable. The \$1 million in Measure O sales tax receipts have been appropriated with an equivalent amount of expenditures that are consistent with the ballot's stated priorities. The Measure O priorities include CIP/Street projects, reserves, and public safety initiatives.

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 few years; while also insulating the City from projected rising pension costs.

#### *Prospects for the Future*

Measure O sales tax revenues are projected to fully fund reserves at their increased levels in FY 15/16; while also allowing the City to complete necessary street projects. Current multi-year projections indicate that if operating revenues and expenditures remain relatively constant, the

City would not be impacted by the loss of expiring Measure D sales tax revenues in December of 2017. Additional concerns include the potential loss of the \$250,000 Successor Agency Administrative Allowance in FY 14/15; however due to increased performance in core revenues, no structural action has been taken. The City will continue to monitor financial trends and adjust the two-year budget as needed.

Opportunities for development include converting the vacant Pacific Cove Mobile Home Park to a parking lot that would provide much-needed parking to the Capitola Village and Beach. This \$2.39 million additional parking lot is anticipated to provide traffic calming measures in the summer, as well as facilitate development of a hotel within the Capitola Village. The City is also proposing the placement of a multi-use park on the City-owned McGregor property. This park is anticipated to be funded with proceeds from the insurance settlement and local contributions.

The City has successfully completed the current RDA dissolution and Assembly Bill 1484 (AB 1484) reporting and audit requirements; however there is still some uncertainty regarding whether the City will receive compensation for \$1.9 million in loans made to the former RDA. The City has not incorporated interest revenues into the forecast budgets; however the City is cautiously optimistic about recovering the principal or the related property through the AB 1484 loan reinstatement process, or through legal actions. Additional information can be found in the Transmittal, as well as Note 15.

#### *Local, State, and National Economy*

In 2008, events in the local, state, and national economies led to a significant downturn in financial markets. In FY 11/12, there were beginning signs of economic recovery, with increased sales tax, TOT tax, and an increasing demand for building/planning services. In FY 12/13, this trend continued with Capitola's annual sales tax and transient occupancy tax levels rising by over 11%; increased home sales and prices; and a reduction in unemployment rates. This trend is consistent with the statewide economic conditions and the Conference Board's June 2013 survey, which indicated that national consumer confidence levels were at a five-year high.

#### *Requests for Information*

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

## **BASIC FINANCIAL STATEMENTS**

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**CITY OF CAPITOLA**  
**Statement of Net Position**  
**June 30, 2013**

	Governmental Activities
<b>ASSETS</b>	
Cash and investments	\$ 5,626,509
Accounts receivable, net of allowance for uncollectibles	100,997
Due from other governments	1,715,065
Due from successor agency	1,968,028
Loans receivable	7,543,485
Debt issuance costs	128,071
Prepays	56,177
Capital assets:	
Non-depreciable:	
Land	3,844,909
Construction in progress	724,389
Depreciable:	
Equipment	2,688,523
Buildings and improvements	2,778,269
Infrastructure	24,257,833
Accumulated depreciation	(20,926,078)
Total Assets	30,506,177
<b>LIABILITIES</b>	
Accounts payable	591,341
Accrued liabilities	232,552
Interest payable	87,599
Deposits payable	282,906
Unearned revenue	1,915,630
Noncurrent liabilities:	
Due within one year	663,578
Due in more than one year	5,116,820
Total Liabilities	8,890,426
<b>Net Position</b>	
Net investment in capital assets	11,520,709
Restricted for:	
Public safety	100,622
Transportation	1,513,046
Community development	3,510,779
Culture and recreation	77,367
Unrestricted	4,893,228
Total Net Position	\$ 21,615,751

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

**CITY OF CAPITOLA**  
**Statement of Activities**  
**Year Ended June 30, 2013**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:				
General government	\$ 4,862,155	\$ 947,834	\$ 1,891,981	\$ -
Public safety	5,410,926	731,831	241,946	2,762
Community development	727,123	523,566	108,827	-
Culture and recreation	1,397,858	684,727	-	-
Transportation	2,456,455	145,631	48,988	-
Interest and other charges	287,557	-	-	-
	<u>\$ 15,142,074</u>	<u>\$ 3,033,589</u>	<u>\$ 2,291,742</u>	<u>\$ 2,762</u>
Total Governmental Activities				<u>(9,813,981)</u>
General Revenues:				
Taxes:				
Property taxes				1,778,037
Franchise taxes				478,627
Sales and use taxes				6,040,542
Transient occupancy taxes				1,074,507
Business license taxes				291,642
Motor vehicle in-lieu, unrestricted				240,891
Investment income				131,166
Gain on disposition of capital assets				99,000
Miscellaneous revenue				398,320
Extraordinary Item:				
Disaster recovery				1,118,086
Total General Revenues and Extraordinary Item				11,650,818
Change in Net Position				1,836,837
Net Position, Beginning of Year, as Restated				19,778,914
Net Position, End of Year				\$ 21,615,751

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

## GOVERNMENTAL FUNDS

### Major Governmental Funds

#### GENERAL FUND

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

#### SPECIAL REVENUE FUNDS

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

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

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

#### 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 fund has 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.

#### 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, 2013**

	General	Special Revenue Fund Federal Home Loan Reuse
<b>ASSETS</b>		
Cash and investments	\$ 2,980,846	\$ 23,221
Accounts receivable	41,055	-
Due from other governments	1,682,861	-
Due from other funds (note 3)	36,203	-
Due from successor agency	1,968,028	-
Loans receivable	-	3,750,992
Prepays	56,177	-
	<b>\$ 6,765,170</b>	<b>\$ 3,774,213</b>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Accounts payable	\$ 460,950	\$ -
Accrued liabilities	230,401	-
Deferred revenue	396,547	3,750,992
Due to other funds	-	-
Deposits payable	238,072	-
	<b>1,325,970</b>	<b>3,750,992</b>
Fund balances:		
Nonspendable	2,024,205	-
Restricted	-	23,221
Assigned	569,706	-
Unassigned	2,845,289	-
	<b>5,439,200</b>	<b>23,221</b>
<b>Total Fund Balances</b>	<b>\$ 6,765,170</b>	<b>\$ 3,774,213</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 6,765,170</b>	<b>\$ 3,774,213</b>

Special Revenue Fund	Debt Service Fund	Non-Major Governmental Funds	Totals
Capitola Housing Successor	Pacific Cove Debt Financing		
\$ 80,437	\$ 415,879	\$ 2,126,126	\$ 5,626,509
-	-	59,942	100,997
-	120	32,084	1,715,065
-	-	-	36,203
-	-	-	1,968,028
3,469,017	-	323,476	7,543,485
-	-	-	56,177
<u>\$ 3,549,454</u>	<u>\$ 415,999</u>	<u>\$ 2,541,628</u>	<u>\$ 17,046,464</u>
\$ 240	\$ 1,146	\$ 129,005	\$ 591,341
-	-	2,151	232,552
3,469,017	-	323,476	7,940,032
-	-	36,203	36,203
-	-	44,834	282,906
<u>3,469,257</u>	<u>1,146</u>	<u>535,669</u>	<u>9,083,034</u>
-	-	-	2,024,205
80,197	414,853	978,394	1,496,665
-	-	1,046,245	1,615,951
-	-	(18,680)	2,826,609
<u>80,197</u>	<u>414,853</u>	<u>2,005,959</u>	<u>7,963,430</u>
<u>\$ 3,549,454</u>	<u>\$ 415,999</u>	<u>\$ 2,541,628</u>	<u>\$ 17,046,464</u>

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

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**CITY OF CAPITOLA**  
**Governmental Funds**  
**Reconciliation of the Balance Sheet of**  
**Governmental Funds to the Statement of Net Position**  
**June 30, 2013**

Fund balances of governmental funds	\$	7,963,430
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Amounts reported for governmental activities in the statement of net position are different because:

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

Capital assets		34,293,923
Accumulated depreciation		(20,926,078)

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

Notes payable		(35,136)
Bonds payable		(4,737,136)
Compensated absences		(648,413)
Net OPEB Obligation		(359,713)
Accrued interest payable		(87,599)

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

Long-term receivables		6,024,402
Deferred charges		128,071
		128,071

Net position of governmental activities	\$	21,615,751
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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, 2013**

	General	Special Revenue Fund Federal Home Loan Reuse
<b>REVENUES</b>		
Taxes	\$ 9,371,712	\$ -
Licenses and permits	501,587	-
Fines and forfeitures	688,272	-
Intergovernmental	558,773	-
Charges for services	1,717,547	-
Use of money and property	24,858	15,014
Other revenue	196,978	-
	<u>13,059,727</u>	<u>15,014</u>
<b>EXPENDITURES</b>		
Current:		
General government	2,835,749	-
Public safety	5,248,766	-
Community development	476,854	-
Culture and recreation	905,088	-
Transportation	1,932,907	-
Capital outlay	-	-
Debt service:		
Debt issuance costs	-	-
Principal	-	-
Interest and fiscal charges	-	-
	<u>11,399,364</u>	<u>-</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>1,660,363</u>	<u>15,014</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Proceeds from sale of capital assets	99,000	-
Transfers in	-	-
Transfers out	(2,016,598)	-
	<u>(1,917,598)</u>	<u>-</u>
<b>EXTRAORDINARY ITEM</b>		
Disaster recovery	1,118,086	-
	<u>1,118,086</u>	<u>-</u>
Net Change in Fund Balances	860,851	15,014
Fund Balances, Beginning of Year, as Restated	<u>4,578,349</u>	<u>8,207</u>
Fund Balances, End of Year	<u>\$ 5,439,200</u>	<u>\$ 23,221</u>

Special Revenue Fund	Debt Service Fund	Non-Major Governmental Funds	Totals
Capitola Housing Successor	Pacific Cove Debt Financing		
\$ -	\$ -	\$ 235,663	\$ 9,607,375
-	-	18,704	520,291
-	-	-	688,272
-	-	278,381	837,154
-	-	143,982	1,861,529
82,771	2,263	110,439	235,345
999	-	39,664	237,641
<u>83,770</u>	<u>2,263</u>	<u>826,833</u>	<u>13,987,607</u>
-	1,006,010	23,411	3,865,170
-	-	119,911	5,368,677
5,000	-	230,079	711,933
-	-	213,257	1,118,345
-	-	224,209	2,157,116
-	-	551,206	551,206
-	37,810	-	37,810
-	542,864	488,113	1,030,977
-	134,451	185,966	320,417
<u>5,000</u>	<u>1,721,135</u>	<u>2,036,152</u>	<u>15,161,651</u>
<u>78,770</u>	<u>(1,718,872)</u>	<u>(1,209,319)</u>	<u>(1,174,044)</u>
-	-	-	99,000
-	701,124	1,450,274	2,151,398
-	-	(134,800)	(2,151,398)
-	701,124	1,315,474	99,000
-	-	-	1,118,086
-	-	-	1,118,086
78,770	(1,017,748)	106,155	43,042
1,427	1,432,601	1,899,804	7,920,388
<u>\$ 80,197</u>	<u>\$ 414,853</u>	<u>\$ 2,005,959</u>	<u>\$ 7,963,430</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, 2013**

Net change in fund balances - total governmental funds \$ 43,042

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	306,472
Depreciation	(951,577)
Loss on disposal of assets	(295,405)

Repayment of debt service principal and capital lease liabilities are expenditures in the governmental funds but the repayment reduces long-term liabilities in the statement of net position. 1,030,977

The issuance of long-term debt provides current financial resources to governmental funds. This transaction, however, does not have an effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Long-term debt issuance costs	37,810
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Amortization of issuance costs	(15,190)
Change in compensated absences payable	(57,788)
Change in OPEB	(68,582)
Change in accrued interest expense	32,860

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

Grant revenues	1,774,218
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Change in net position of governmental activities	\$ 1,836,837
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The accompanying notes are an integral part of these financial statements.

**CITY OF CAPITOLA**  
**Fiduciary Funds**  
**Statement of Fiduciary Net Position**  
**June 30, 2013**

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
<b>ASSETS</b>		
Cash and investments	\$ 3,386	\$ 36,237
Accounts receivable	586,012	-
Capital assets:		
Land	1,038,880	-
Building and improvements	<u>311,814</u>	<u>-</u>
 Total Assets	 <u>1,940,092</u>	 <u>\$ 36,237</u>
 <b>LIABILITIES</b>		
Deposits	-	\$ 36,237
Long-term liabilities (note 15):		
Due within one year	250,243	-
Due in more than one year	<u>2,894,124</u>	<u>-</u>
 Total Liabilities	 <u>3,144,367</u>	 <u>\$ 36,237</u>
 <b>NET POSITION (DEFICIT)</b>		
Held in trust for successor agency and other purposes	<u>(1,204,275)</u>	
 Total Net Position (Deficit)	 <u>\$ (1,204,275)</u>	

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



**CITY OF CAPITOLA**  
**Fiduciary Funds**  
**Statement of Changes in Fiduciary Net Position**  
**Year Ended June 30, 2013**

	Private Purpose Trust Fund
<b>ADDITIONS</b>	
RPTTF distributions	\$ 1,120,077
Investment earnings	56
Other revenue	<u>200,415</u>
Total additions	<u>1,320,548</u>
 <b>DEDUCTIONS</b>	
Administrative allowance	250,000
Other payments	339,455
Pass-through valuation	650,070
Debt service:	
Interest	<u>21,243</u>
Total deductions	<u>1,260,768</u>
Change in net position	59,780
Net position (deficit), beginning of the period, as restated	<u>(1,264,055)</u>
Net position (deficit), end of the period	<u><u>\$ (1,204,275)</u></u>

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

**City of Capitola**  
**Index to Notes to Financial Statements**  
**Year Ended June 30, 2013**

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**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Description of Reporting Entity

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

B) Basis of Presentation

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

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

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

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

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

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

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

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

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

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

The City reports the following major governmental funds:

General Fund

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

Federal Home Loan Reuse Fund

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

Capitola Housing Successor Fund

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

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.

Agency Funds

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

Private Purpose Trust Funds

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

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

D) Assets, Liabilities, and Net Position or Equity

**1) Cash and Investments**

Investments are reported in the accompanying balance sheet at fair market value, except for nonparticipating certificates of deposit and investment contracts that would be reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair market value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair market value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

The City pools cash and investments of all funds. Each fund's share in this pool is displayed in the accompanying financial statements as *cash and investments*.

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

**2) Receivables and Payables**

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

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

**3) Property Taxes**

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

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

**3) Property Taxes (continued)**

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

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

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

**4) Capital Assets**

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

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



**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

**4) Capital Assets (continued)**

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

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

**5) Prepaid Items**

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

**6) Deferred 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.

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

**7) Compensated Absences**

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

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

**8) Reclassifications and Eliminations**

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

**9) Use of Estimates**

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

**10) Fund Equity**

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

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

**10) Fund Equity (continued)**

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

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

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

Assigned – Amounts the City intends to use for a specific purpose, but are neither restricted nor committed. Such intent should be expressed by the City Council or its designated officials to assign amounts to be used.

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

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

**11) Implementation of New Pronouncement**

Beginning with the current fiscal year, the City implemented GASB No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."* This statement is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on the government's net position.

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

**11) Implementation of New Pronouncements (continued)**

Deferred outflows of resources are transactions that result in the consumption of net position in one period that are applicable to future periods and are not considered assets as described by the statement. Deferred outflows of resources are required to be presented separately after assets on the statement of net position.

Deferred inflows of resources are transaction that result in the acquisition of net position in one period that are applicable to future periods and are not considered to be liabilities as described by the statement. Deferred outflows of resources are required to be presented separately after liabilities on the statement of net position.

The statement defines net position as the residual of all other elements presented in a statement of financial position. It is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources.

For the period covered by these financial statements the City has no transactions classified as deferred inflows or outflows of resources.

2) CASH AND INVESTMENTS

Cash and investments held by the City at June 30, 2013 are classified in the accompanying financial statement as follows:

Statement of Net Position:	
Cash and investments	\$ 5,626,509
Statement of Fiduciary Net Position:	
Cash and investments	<u>39,623</u>
Total cash and investments	<u><u>\$ 5,666,132</u></u>

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

2) CASH AND INVESTMENTS, (continued)

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

Petty cash	\$	1,450
Demand deposits		2,300,482
Investments		3,364,200
 Total cash and investments	 \$	 5,666,132

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

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

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

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

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

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.

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

2) CASH AND INVESTMENTS, (continued)

Disclosures Relating to Interest Rate Risk, (continued)

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	\$ 3,364,200	\$ -	\$ -	\$ -	\$ 3,364,200
Total	<u>\$ 3,364,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,364,200</u>

Investment with Fair Values Highly Sensitive to Interest Rate Fluctuations

During the fiscal year ended June 30, 2013, 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	\$ 3,364,200	N/A	N/A	\$ -	\$ -	\$ 3,364,200 *
Total	<u>\$ 3,364,200</u>			<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,364,200</u>

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

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

2) CASH AND INVESTMENTS, (continued)

Concentration of Risk

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

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, 2013 the City had deposits with financial institutions in excess of federal depository insurance limits by \$2,753,281 that were held in collateralized accounts.

Investment in State Investment Pool

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

The total LAIF balance at June 30, 2013 was \$21 billion with 2,626 participating agencies. The total Capitola LAIF investment on June 30, 2013 was \$3.5 million or less than 0.02% of the total LAIF funding. The fair value of the City's investment in this pool is also \$3.4 million and is reported in the accompanying financial statements based on the on the City's pro rata share of the fair value provided by LAIF (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded as an amortized cost basis.

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

3) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Due To/From Other Funds

Due to/from other funds at June 30, 2013 is as follows:

Due from other funds	Due to other funds	Amount
General Fund	Non-Major governmental funds	\$ 36,203

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, 2013 are as follows:

		Transfers In		Total
		Pacific Cove Debt Financing	Non-Major Governmental Funds	
Transfers Out	General Fund	\$ 566,324	\$ 1,450,274	\$ 2,016,598
	Non-Major Governmental Funds	134,800	-	134,800
	Total	<u>\$ 701,124</u>	<u>\$ 1,450,274</u>	<u>\$ 2,151,398</u>

Transfers include \$701,124 in debt service payments and an additional principal payment on the Pacific Cove Debt Financing loan. This included \$566,324 from the General Fund, \$84,800 from the Parking Reserves, and \$50,000 from the Affordable Housing Fund. Other General Fund transfers to Non-major Governmental Funds includes \$614,600 to CIP, \$162,800 to Parking Reserves, and \$672,874 to the Pension Obligation Bond.



**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

4) CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013 is as follows:

	Beginning balance	Additions	Deletions	Ending balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 3,844,909	\$ -	\$ -	\$ 3,844,909
Construction in progress	588,903	142,821	(7,335)	724,389
<b>Total capital assets, not being depreciated</b>	<b>4,433,812</b>	<b>142,821</b>	<b>(7,335)</b>	<b>4,569,298</b>
Capital assets, being depreciated:				
Equipment	3,000,750	163,651	(475,878)	2,688,523
Building and improvements	3,100,207	-	(321,938)	2,778,269
Infrastructure	24,250,498	7,335	-	24,257,833
<b>Total capital assets, being depreciated</b>	<b>30,351,455</b>	<b>170,986</b>	<b>(797,816)</b>	<b>29,724,625</b>
Less accumulated depreciation for:				
Equipment	(2,293,084)	(157,376)	430,345	(2,020,115)
Building and improvements	(1,547,780)	(60,702)	72,066	(1,536,416)
Infrastructure	(16,636,048)	(733,499)	-	(17,369,547)
	<u>(20,476,912)</u>	<u>(951,577)</u>	<u>502,411</u>	<u>(20,926,078)</u>
<b>Total capital assets, being depreciated, net</b>	<b>9,874,543</b>	<b>(780,591)</b>	<b>(295,405)</b>	<b>8,798,547</b>
<b>Total governmental activities capital assets, net of accumulated depreciation</b>	<b><u>\$ 14,308,355</u></b>	<b><u>\$ (637,770)</u></b>	<b><u>\$ (302,740)</u></b>	<b><u>\$ 13,367,845</u></b>

**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	\$ 575,210
Public safety	42,249
Cultural and recreation	34,779
Transportation	<u>299,339</u>
<b>Total Depreciation Expense - Governmental Activities</b>	<b><u>\$ 951,577</u></b>

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

5) OTHER ASSETS

Due from Successor Agency

The City provided support services without compensation to the former Redevelopment Agency for the period from July 1, 1997 through June 30, 2001. During this period, the Redevelopment Agency incurred substantial costs for a proposed expansion of the redevelopment area and amendment of the redevelopment plan. The uncompensated administrative support costs incurred by the City were determined to be \$618,028. The City and RDA entered into a Cooperation Agreement for the RDA to repay this amount at a 5% simple interest rate, with interest payments due annually. In June 2006, the City and Agency agreed to amend the interest rate to the greater of the following: a) the interest rate charged by the Public Employees Retirement System for the City's unfunded liability; b) the true interest cost of any obligation bond sold by the City; c) the State of California LAIF rate, or d) 5%. The principal amount of this reimbursement is to be paid as Agency funds become available, but in no event later than twenty-five years from the Agreement date. As of June 30, 2013, the principal owed to the City is \$618,028.

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

Due to the Dissolution of the Agency in January of 2012, the combined loan balances of \$1,968,028 were transferred to the Successor Agency in accordance with AB X1 26 and AB 1484. In FY 12/13, the City did not receive any principal or interest payments on these loans due to conflicting interpretations of the legislation; and the timelines and requirements associated with the loan reinstatement process. Subsequently, the City and the Oversight Board have resolved to transfer the Rispin Property to the City and terminate the \$1.35 million loan. This transfer was not recognized in FY 12/13, due to uncertainties regarding the transaction. Additional information can be found in the Transmittal Letter, and the Successor Agency and Risk and Uncertainties Notes.

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

5) OTHER ASSETS, (continued)

Housing and Community Development Loan Program

The City uses Federal Home Loan Reuse, Affordable Housing and CDBG Program Income funds to provide housing loans to eligible applicants. Such loans are made to low and moderate income households to improve or rehabilitate residences. The City accounts for this program in the Special Revenue Funds. Total loans receivable of \$7.5 million at June 30, 2013 are listed below:

	CDBG Program Income	Federal Home Loan Reuse	Affordable Housing	Capitola Housing Successor	Total
Individual Loans	\$ 154,263	\$ 524,276	\$ -	\$ 774,074	\$ 1,452,613
Bay Avenue Senior Apartments	-	3,019,517	-	1,570,358	4,589,875
Castle Mobile Home Park	-	-	169,213	1,124,585	1,293,798
Wharf Road Manor	-	207,199	-	-	207,199
	<u>\$ 154,263</u>	<u>\$ 3,750,992</u>	<u>\$ 169,213</u>	<u>\$ 3,469,017</u>	<u>\$ 7,543,485</u>

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

6) LONG TERM DEBT

A summary of changes in long-term debt for the fiscal year ended June 30, 2013 was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due Within One Year
2007 POB Bonds	\$ 3,375,000	\$ -	\$ (485,000)	\$ 2,890,000	\$ 515,000
Capital Lease - Cove Financing	2,390,000	-	(542,864)	1,847,136	78,397
Notes Payable	38,249	-	(3,113)	35,136	5,340
Compensated Absences	590,625	361,791	(304,003)	648,413	64,841
Net OPEB Obligation	291,131	68,582	-	359,713	-
Totals	<u>\$ 6,685,005</u>	<u>\$ 430,373</u>	<u>\$ (1,334,980)</u>	<u>\$ 5,780,398</u>	<u>\$ 663,578</u>

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

6) LONG TERM DEBT, (continued)

2007 Pension Obligation Bonds

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

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ 515,000	\$ 188,263	\$ 703,263
2015	545,000	158,213	703,213
2016	575,000	126,360	701,360
2017	610,000	92,704	702,704
2018	645,000	19,382	664,382
Total	<u>\$ 2,890,000</u>	<u>\$ 584,922</u>	<u>\$ 3,474,922</u>

Capital Leases Payable - Pacific Cove Debt Financing

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

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

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

6) LONG TERM DEBT, (continued)

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

Future lease payments under the capital lease as of June 30, 2013 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ 78,397	\$ 52,169	\$ 130,566
2015	73,676	56,890	130,566
2016	76,090	54,476	130,566
2017	78,593	51,983	130,576
2018	81,157	49,409	130,566
2019-2023	447,458	205,372	652,830
2024-2028	525,724	127,106	652,830
2029-2032	486,041	36,211	522,252
	<u>\$ 1,847,136</u>	<u>\$ 633,616</u>	<u>\$ 2,480,752</u>

Note Payable

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

Compensated Absences

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

City employees accumulate earned but unused benefits that can be converted to cash at termination of employment. The non-current portion of these vested benefits, payable in accordance with various collective bargaining agreements, totals \$583,572 as of June 30, 2013.

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

7) FUND BALANCE CLASSIFICATIONS

The details of the fund balances as of June 30, 2013 are presented below:

	General Fund	Federal Home Loan Reuse	Capitola Housing Successor	Pacific Cove Debt Financing	Non-Major Governmental Funds	Total Governmental Funds
Nonspendable:						
Prepays	\$ 56,177	\$ -	\$ -	\$ -	\$ -	\$ 56,177
Due from Successor Agency	1,968,028	-	-	-	-	1,968,028
Restricted for:						
Transportation	-	-	-	414,853	978,394	1,393,247
Public Safety	-	-	-	-	-	-
Community Development	-	23,221	80,197	-	-	103,418
Assigned to:						
Other Capital Projects	-	-	-	-	1,046,245	1,046,245
Emergency Reserve	569,706	-	-	-	-	569,706
Unassigned:						
Contingencies	1,222,646	-	-	-	-	1,222,646
Unassigned	1,622,643	-	-	-	(18,680)	1,603,963
<b>Total</b>	<b>\$ 5,439,200</b>	<b>\$ 23,221</b>	<b>\$ 80,197</b>	<b>\$ 414,853</b>	<b>\$ 2,005,959</b>	<b>\$ 7,963,430</b>

8) OTHER REQUIRED DISCLOSURES

Deficit Fund Balances

The following funds reported deficit fund balances at June 30, 2013:

CDBG Program Income	\$ (13,910)
Home Grant	(4,770)

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

9) RISK MANAGEMENT

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

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

9) RISK MANAGEMENT, (continued)

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.

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.

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

10) JOINT VENTURES, (continued)

**Santa Cruz Consolidated Emergency Communications Center, (continued)**

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

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

Fiscal Year Ending June 30,	Annual Use Payment
2014	\$ 34,299
2015	33,988
2016	34,256
2017	34,450
2018	33,989
2019-2023	170,473
2024-2028	171,099
2029-2034	205,481
Total	\$ 718,035

**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, 2013**

11) CITY'S EMPLOYEES' RETIREMENT PLAN

Plan Description

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

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

Miscellaneous Employees

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

Safety Employees

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

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

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

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

Funding Policy

Active plan members are required to contribute a percentage of their annual covered salary. The City of Capitola actuarially determined FY12/13 member contribution rates for both the Miscellaneous Plan and the Safety Plans are provided in the following table:

	Miscellaneous	
	Classic Plan	PEPRA Plan
Benefit Vesting Schedule	5 Years Service	5 Years Service
Benefit Payment	Monthly for Life	Monthly for Life
Benefit Plan	2.5% at 55	2.0% at 62
Benefit Provision	1 Year Final Compensation	3 Year Final Compensation
Actuarially Required Employee Contribution Rates	8.000%	6.25%
Actuarially Required Employer Contribution Rates	14.921%	6.25%
	Safety	
	Classic Plan	PEPRA Plan
Benefit Vesting Schedule	5 Years Service	5 Years Service
Benefit Payment	Monthly for Life	Monthly for Life
Benefit Plan	3.0% at 50	2.7% at 57
Benefit Provision	1 Year Final Compensation	3 Year Final Compensation
Actuarially Required Employee Contribution Rates	9.000%	11.5%
Actuarially Required Employer Contribution Rates	24.706%	11.5%

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

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

**CITY OF CAPITOLA  
Notes to Financial Statements  
Year Ended June 30, 2013**

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

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

<u>Fiscal Year</u>	<u>Required Contributions</u>	<u>Percentage Contributed</u>
2011	\$ 430,383	100%
2012	542,125	100%
2013	506,191	100%

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

<u>Fiscal Year</u>	<u>Required Contributions</u>	<u>Percentage Contributed</u>
2011	\$ 405,773	100%
2012	478,776	100%
2013	553,407	100%

12) PUBLIC AGENCY RETIREMENT PLAN

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.

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

12) PUBLIC AGENCY RETIREMENT PLAN, (continued)

Contributions

A total annual contribution of 7.5% of covered earnings is contributed to the PARS account for each eligible employee. The City of Capitola contributes 1.3% and the employee contributes 6.2%. During the fiscal year ending June 30, 2013, contributions totaled \$18,970. This included contributions of \$3,238 by the City and \$15,732 by employees. The City acts as administrator with a trustee managing the investments and accounts. Fees are charged by the trustee and are paid from member earnings. Employer liabilities under the Plan are limited to the amount of the current contributions.

The City's contribution for fiscal year 2012-13 differs from the contribution totals provided by PARS in the following table because PARS reports on a calendar year, rather than a fiscal year basis.

Plan Net Position and Changes in Net Position

Balance 1/1/12	\$	65,315
Contributions		18,346
Earnings		908
Subtotal		84,569
Less: Expenses		(4,632)
Disbursements		(19,737)
Balance 12/31/12	\$	60,200

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.

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

13) OTHER POST EMPLOYMENT BENEFITS, (continued)

Funding Policy

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

The City 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" basis. 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 2013 were as follows:

	<b>Total</b>
Annual required contribution	\$ 92,743
Interest on net OPEB obligation	13,101
Adjustments to annual required contribution	(12,009)
Annual OPEB cost (expense)	93,835
Contributions made	(25,253)
Increase in net OPEB obligation	68,582
Net OPEB obligation - beginning of year	291,131
Net OPEB obligation - end of year	\$ 359,713

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

13) OTHER POST EMPLOYMENT BENEFITS, (continued)

For 2013, the City's annual OPEB cost (expense) of \$93,835 for CRHP was greater than the ARC by \$1,092. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 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
6/30/2011	\$ 99,690	24.5%	\$ 224,323
6/30/2012	89,186	25.1%	291,131
6/30/2013	93,835	26.9%	359,713

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2013, 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.

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

13) OTHER POST EMPLOYMENT BENEFITS, (continued)

Actuarial Methods and Assumptions

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

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

Valuation Date	July 1, 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%
Inflation Rate	3.00%

14) COMMITMENTS AND CONTINGENT LIABILITIES

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

15) SUCCESSOR AGENCY TO THE FORMER CAPITOLA REDEVELOPMENT AGENCY

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

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

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

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

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

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

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

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



**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

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

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

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

The Successor Agency, City, and the Oversight Board have 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 \$1.35 million dollars in Successor Agency debt. The Department of Finance requested the Oversight Board reconsider this decision; and the Oversight Board unanimously reaffirmed their property transfer decision in August. The City did not receive a response from the Department of Finance in relation to this action, and the statutory time to deny the action has elapsed. The City's RDA attorney believes this action is effective due timing; however final confirmation may be received when the Successor Agency files a required Long Range Property Management Plan.

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

Capital Assets

The capital assets of the Successor Agency as of June 30, 2013 are as follows:

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

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

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

Long-Term Debt

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

The debt of the Successor Agency as of June 30, 2013 is as follows:

	Beginning Balance	Additions	Reductions	Ending balance	Due Within One Year
Advances Payable	\$ 1,968,028	\$ -	\$ -	\$ 1,968,028	\$ -
Notes Payable	1,000,000	-	(1,000,000)	-	-
RDA Pass-Throughs	1,477,537	-	(301,198) *	1,176,339	250,243
<b>Totals</b>	<b>\$ 4,445,565</b>	<b>\$ -</b>	<b>\$ (1,301,198)</b>	<b>\$ 3,144,367</b>	<b>\$ 250,243</b>

\* Net reductions consist of payments totaling \$951,268 less a \$650,070 adjustment to record full value of remaining debt. See subsequent page for details.

Due to the City

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

Notes Payable

On September 29, 2000, the former Capitola Redevelopment Agency borrowed \$1,000,000 to provide temporary, short-term financing for various capital projects. The loan allowed for the principal to be fully prepaid without premium by the Agency upon a thirty 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 was 4.75% (\$47,500/year) payable semiannually on March 29 and September 29. The Successor Agency, Oversight Board to the Successor Agency, and the California Department of Finance approved early payment of this debt to assist in winding down the affairs of the Successor Agency. This debt was fully paid at June 30, 2013.

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

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

Long-Term Debt, (continued)

Redevelopment Agency Pass-Through Agreements: County Library Building Fund

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

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

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

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

In Fiscal Year 2012-13, the Oversight Board and the Department of Finance approved two payments in excess of the required \$211,720 minimum payment. These payments resulted in an additional reduction in principal balance of \$739,548. The Capitola Branch Library Trust obligation at June 30, 2013 is \$1,176,339.

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

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

Long-Term Debt, (continued)

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

If sufficient funds are available for distribution from the Redevelopment Property Tax Trust Fund in Fiscal Year 2013-14, it is anticipated the Successor Agency will continue to pursue accelerating payments on this debt. The proposed funding plan is provided below; while a schedule detailing the minimum scheduled payments under the original obligation are provided for reference.

	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY 14/15</u>	<u>FY 15/16</u>
Outstanding Liability: July 1	\$ 2,127,607	\$ 1,176,339	\$ 456,339	\$ 169,223
Payment / Planned Payments	<u>951,268</u>	<u>720,000</u>	<u>287,116</u>	<u>169,223</u>
Outstanding Liability: June 30	<u>\$ 1,176,339</u>	<u>\$ 456,339</u>	<u>\$ 169,223</u>	<u>\$ -</u>

Minimum scheduled payments/original obligation:

<u>Fiscal Year</u>	<u>Minimum Scheduled Payment Amount</u>
2013-14	\$ 250,243
2014-15	287,116
2015-16	325,579
2016-17	366,577
2017-18	417,640

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

16) RISKS AND UNCERTAINTIES

Grants

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

City/Successor Agency Obligations

Deductions (expenses) incurred by the Successor Agency for the year ended June 30, 2013 (and subsequent years in which the Successor Agency is in operation) are subject to review by various State agencies and the County in which the Successor Agency resides. If any expenses incurred by the Successor Agency are disallowed by the State agencies or County, the City, acting as the Successor Agency could be liable for the repayment of the disallowed costs from either its own funds or by the State withholding remittances normally paid to the City. Over the last fiscal year, the Successor Agency has been successful in receiving funding for all approved obligations, with the exception of City/RDA loans. The amount, if any, of expenses that may be disallowed by the State agencies or County cannot be determined at this time as to be immaterial or not.

The City and the Successor Agency plan to pursue reinstatement of the \$618,028 Loan and Repayment Agreement through the AB 1484 reinstatement process; or choose to pursue legal action based on two recent Superior Court cases. The Superior Court recently ruled that the DOF was incorrect in denying payment on the Cities of Emeryville and Riverside City/RDA loans. The Court indicated that these obligations were valid if the Oversight Board approved reentering the agreements prior to the passage of AB 1484. These cases could be applicable to the City's Loan and Repayment Agreement because the Capitola Oversight Board chose to reenter the agreement prior to the passage of AB 1484. While the DOF is appealing the court's decision in both the Emeryville and Riverside cases; the Successor Agency and Oversight Board approved the reinstatement of the loan at a reduced interest rate on the most recent Recognized Obligation Payment Schedule (ROPS). This reinstatement has been met with denial from the Department of Finance due to timing; however they have suggested that the Successor Agency reapply for reinstatement within the legislatively determined timeline.

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

17) EXTRAORDINARY ITEM

In March 2011, a pipe failure flooded the Capitola Village, businesses, and residents, as well as the Capitola Police Department. The City recognized over \$1.4 million in extraordinary expenditures over the last two fiscal years for disaster recovery; while also assuming a \$2.39 million loan to implement a relocation plan for residents of the damaged City-owned mobile home park. The damage recovery expenditures were primarily funded through the City's Emergency and Contingency Reserves. Efforts were made to seek reimbursement from the City's insurance company; however the claim was initially denied. In Fiscal Year 2012-13, the City and the insurance company reached a \$1,349,000 settlement agreement. This amount was netted against \$230,914 in related attorney fees, to arrive at the Fiscal 2012-13 extraordinary item of \$1,118,086.

18) PRIOR PERIOD RESTATEMENT

***Special Revenue Fund***

Capitola Housing Successor

Fund balance - beginning, as previously reported	\$ -
Prior period adjustment	<u>1,427</u>
 Fund balance - beginning, as restated	 <u><u>\$ 1,427</u></u>

The fund balance was restated by \$1,427. This balance should have been applied to the Capitola Housing Successor Fund in Fiscal Year 2011-12; however it was recorded in the Private Purpose Trust Fund.

***Fiduciary Fund***

Private Purpose Trust Fund

Net position - beginning, as previously reported	\$ (1,262,628)
Prior period adjustment	<u>(1,427)</u>
 Net position - beginning, as restated	 <u><u>\$ (1,264,055)</u></u>

The fund balance was restated by (\$1,427). This balance should have been applied to the Capitola Housing Successor Fund in Fiscal Year 2011-12; however it was recorded in the Private Purpose Trust Fund.

**CITY OF CAPITOLA**  
**Notes to Financial Statements**  
**Year Ended June 30, 2013**

18) PRIOR PERIOD RESTATEMENT, (continued)

GOVERNMENT WIDE STATEMENTS

Net position - beginning, as previously reported	\$ 19,777,487
Prior period adjustment	<u>1,427</u>
Net position - beginning, as restated	<u>\$ 19,778,914</u>

Net position was restated by \$1,427. This balance should have been applied to the Capitola Housing Successor Fund in Fiscal Year 2011-12; however it was recorded in the Private Purpose Trust Fund.

19) SUBSEQUENT EVENT

On June 18, 2013, the City of Capitola was approved for a \$1,372,500 low-interest loan with the California Infrastructure and Economic Development Bank (IBank). This loan is considered a lease-lease back obligation with the General Fund as the source of repayment; and the City Public Works Corporation Yard serving as the leased asset. The loan term is 20 years at a fixed 2.26% interest rate. The annual loan payments are estimated to be \$89,554. Loan proceeds will be used for the construction of new parking lot in the vacant Pacific Cove Mobile Home Park, which includes construction of a walkway to the adjacent lot, restroom renovations, installation of signage; and the placement of paystations in the two City parking lots. At the time of this document, the IBank is estimating that the final loan documents will be available in February of 2014.

**REQUIRED SUPPLEMENTARY INFORMATION**



**CITY OF CAPITOLA**  
**Schedule of Funding Progress for CRHP**  
**Year Ended June 30, 2013**

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]
07/01/2008	\$ -	\$ 1,043,809	\$ 1,043,809	\$ -	\$ 3,125,748	33.39%
07/01/2011	\$ -	\$ 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, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 8,546,600	\$ 9,069,610	\$ 9,371,712	\$ 302,102
Licenses and permits	456,700	414,800	501,587	86,787
Fines and forfeitures	707,000	707,000	688,272	(18,728)
Intergovernmental	495,700	435,244	558,773	123,529
Charges for services	1,913,500	1,986,800	1,717,547	(269,253)
Use of money and property	13,600	23,800	24,858	1,058
Other revenue	84,400	204,800	196,978	(7,822)
Total revenues	<u>12,217,500</u>	<u>12,842,054</u>	<u>13,059,727</u>	<u>217,673</u>
Expenditures:				
Current:				
General government	2,426,089	2,984,745	2,835,749	148,996
Public safety	5,594,790	5,496,820	5,248,766	248,054
Community development	567,008	507,512	476,854	30,658
Culture and recreation	945,976	917,166	905,088	12,078
Transportation	2,091,328	2,004,199	1,932,907	71,292
Total expenditures	<u>11,625,191</u>	<u>11,910,442</u>	<u>11,399,364</u>	<u>511,078</u>
Excess (deficiency) of revenues over (under) expenditures	<u>592,309</u>	<u>931,612</u>	<u>1,660,363</u>	<u>728,751</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	85,000	103,000	99,000	(4,000)
Transfers out	(848,580)	(2,016,608)	(2,016,598)	10
Total Other Financing Sources (Uses)	<u>(763,580)</u>	<u>(1,913,608)</u>	<u>(1,917,598)</u>	<u>(3,990)</u>
Extraordinary item:				
Disaster recovery	-	1,118,086	1,118,086	-
Net change in fund balance	<u>(171,271)</u>	<u>136,090</u>	<u>860,851</u>	<u>724,761</u>
Fund balance, beginning	<u>4,578,349</u>	<u>4,578,349</u>	<u>4,578,349</u>	<u>-</u>
Fund balance, ending	<u>\$ 4,407,078</u>	<u>\$ 4,714,439</u>	<u>\$ 5,439,200</u>	<u>\$ 724,761</u>

## **SPECIAL REVENUE FUNDS**

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

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

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

**CITY OF CAPITOLA**  
**Federal Home Loan Reuse Fund**  
**Major Special Revenue Fund**  
**Budgetary Comparison Schedule**  
**Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Use of money and property	\$ 12,200	\$ 12,300	\$ 15,014	\$ 2,714
Total revenues	12,200	12,300	15,014	2,714
Expenditures:				
Community development	10,000	5,000	-	5,000
Total expenditures	10,000	5,000	-	5,000
Excess (deficiency) of revenues over (under) expenditures	2,200	7,300	15,014	7,714
Net change in fund balance	2,200	7,300	15,014	7,714
Fund balance, beginning	8,207	8,207	8,207	-
Fund balance, ending	\$ 10,407	\$ 15,507	\$ 23,221	\$ 7,714

**CITY OF CAPITOLA**  
**Capitola Housing Successor**  
**Major Special Revenue Fund**  
**Budgetary Comparison Schedule**  
**Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Use of money and property	\$ -	\$ 82,645	\$ 82,771	\$ 126
Other revenue	-	-	999	999
Total revenues	-	82,645	83,770	1,125
Expenditures:				
Community development	14,500	14,200	5,000	9,200
Total expenditures	14,500	14,200	5,000	9,200
Excess (deficiency) of revenues over (under) expenditures	(14,500)	68,445	78,770	10,325
Net change in fund balance	(14,500)	68,445	78,770	10,325
Fund balance, beginning, as restated	1,427	1,427	1,427	-
Fund balance, ending	\$ (13,073)	\$ 69,872	\$ 80,197	\$ 10,325

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**CITY OF CAPITOLA**  
**Notes to Required Supplementary Information**  
**Year Ended June 30, 2013**

**BUDGETS AND BUDGETARY ACCOUNTING**

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

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

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

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

Budgets were adopted for all governmental funds with the exception of the following Special Revenue Fund: Development Fees Fund.

The excess of expenditures over appropriations in individual funds, as well as the General Fund Departments and their financial statement classifications are provided below:

Sufficient annual revenues in the General Fund and the Supplemental Law Enforcement Funds were used to subsidize excess expenditures within each of the funds. Support for the excess expenditures within the Capitola Village and Wharf BIA Fund was provided from their fund balance; while the excess expenditure within the Home Grant Fund was financed through a temporary loan from the General Fund. It is anticipated that the HOME Grant Fund will receive additional revenues to support grant management expenditures in the next fiscal year.



**CITY OF CAPITOLA**  
**Notes to Required Supplementary Information**  
**Year Ended June 30, 2013**

**BUDGETS AND BUDGETARY ACCOUNTING, continued**

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

DEPARTMENTS	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
General Fund Department:			
City Attorney	\$ 330,272	\$ 352,588	\$ (22,316)
FUNDS			
Non-Major Governmental:			
Supplemental Law Enforcement	119,500	119,911	(411)
Capitola Village and Wharf BIA	70,100	72,151	(2,051)
HOME Grant Fund	3,200	10,000	(6,800)

**SUPPLEMENTARY INFORMATION**

## **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 fund has 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.

**CITY OF CAPITOLA**  
**Pacific Cove Debt Financing Fund**  
**Major Debt Service Fund**  
**Budgetary Comparison Schedule**  
**Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Use of money and property	\$ -	\$ -	\$ 2,263	\$ 2,263
Total revenues	-	-	2,263	2,263
Expenditures:				
Transportation	285,160	1,090,263	1,006,010	84,253
Debt service:				
Debt issuance costs	-	-	37,810	(37,810)
Principal	66,664	566,664	542,864	23,800
Interest and fiscal charges	114,547	134,451	134,451	-
Total expenditures	466,371	1,791,378	1,721,135	70,243
Excess (deficiency) of revenues over (under) expenditures	(466,371)	(1,791,378)	(1,718,872)	72,506
Other financing sources:				
Transfers in	181,211	701,114	701,124	10
Total other financing sources	181,211	701,114	701,124	10
Net change in fund balance	(285,160)	(1,090,264)	(1,017,748)	72,516
Fund balance, beginning	1,432,601	1,432,601	1,432,601	-
Fund balance, ending	\$ 1,147,441	\$ 342,337	\$ 414,853	\$ 72,516

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

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

**CAPITAL PROJECTS FUND**

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

**CITY OF CAPITOLA**  
**Non-Major Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2013**

	SPECIAL REVENUE FUNDS		
	Supplemental Law Enforcement	Gas Tax	Wharf
<b>Assets</b>			
Cash and investments	\$ 101,745	\$ 461	\$ 28,122
Accounts receivable	44,951	-	-
Due from other governments	379	22,107	-
Loans receivable	-	-	-
	\$ 147,075	\$ 22,568	\$ 28,122
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 31,596	\$ 10,582	\$ 906
Accrued liabilities	2,151	-	-
Deferred revenue	-	-	-
Due to other funds	12,706	-	-
Deposits payable	-	-	1,000
	46,453	10,582	1,906
Fund balances:			
Restricted	100,622	11,986	26,216
Assigned	-	-	-
Unassigned	-	-	-
	100,622	11,986	26,216
Total Fund Balances (Deficit)	100,622	11,986	26,216
Total Liabilities and Fund Balances	\$ 147,075	\$ 22,568	\$ 28,122

SPECIAL REVENUE FUNDS

Development Fees	Parking Reserve	Technology Fees	PEG Cable TV Access	Capitola Village and Wharf BIA
\$ -	\$ 75,098	\$ 35,737	\$ 51,151	\$ 1,378
-	-	-	-	3,191
-	-	-	4,574	-
-	-	-	-	-
<u>\$ -</u>	<u>\$ 75,098</u>	<u>\$ 35,737</u>	<u>\$ 55,725</u>	<u>\$ 4,569</u>
\$ -	\$ -	\$ -	\$ 4,574	\$ 2,325
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>4,574</u>	<u>2,325</u>
-	75,098	35,737	51,151	2,244
-	-	-	-	-
-	-	-	-	-
<u>-</u>	<u>75,098</u>	<u>35,737</u>	<u>51,151</u>	<u>2,244</u>
<u>\$ -</u>	<u>\$ 75,098</u>	<u>\$ 35,737</u>	<u>\$ 55,725</u>	<u>\$ 4,569</u>



**CITY OF CAPITOLA**  
**Non-Major Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2013**

	SPECIAL REVENUE FUNDS		
	CDBG	CDBG Program Income	HOME Grant
<b>Assets</b>			
Cash and investments	\$ -	\$ -	\$ -
Accounts receivable	11,800	-	-
Due from other governments	5,024	-	-
Loans receivable	-	154,263	-
	-	154,263	-
<b>Total Assets</b>	<b>\$ 16,824</b>	<b>\$ 154,263</b>	<b>\$ -</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 1,350	\$ 200	\$ -
Accrued liabilities	-	-	-
Deferred revenue	-	154,263	-
Due to other funds	5,017	13,710	4,770
Deposits payable	-	-	-
	-	-	-
<b>Total Liabilities</b>	<b>6,367</b>	<b>168,173</b>	<b>4,770</b>
<b>Fund balances:</b>			
Restricted	10,457	-	-
Assigned	-	-	-
Unassigned	-	(13,910)	(4,770)
	-	(13,910)	(4,770)
<b>Total Fund Balances (Deficit)</b>	<b>10,457</b>	<b>(13,910)</b>	<b>(4,770)</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 16,824</b>	<b>\$ 154,263</b>	<b>\$ -</b>

SPECIAL REVENUE FUNDS		DEBT SERVICE FUND	CAPITAL PROJECTS FUND	Total Non-Major Governmental Funds
Affordable Housing	BEGIN Grant	2007 POB Debt Service	Capital Projects	
\$ 184,049	\$ -	\$ 480,834	\$ 1,167,551	\$ 2,126,126
-	-	-	-	59,942
-	-	-	-	32,084
169,213	-	-	-	323,476
<u>\$ 353,262</u>	<u>\$ -</u>	<u>\$ 480,834</u>	<u>\$ 1,167,551</u>	<u>\$ 2,541,628</u>
\$ -	\$ -	\$ -	\$ 77,472	\$ 129,005
-	-	-	-	2,151
169,213	-	-	-	323,476
-	-	-	-	36,203
-	-	-	43,834	44,834
169,213	-	-	121,306	535,669
184,049	-	480,834	-	978,394
-	-	-	1,046,245	1,046,245
-	-	-	-	(18,680)
184,049	-	480,834	1,046,245	2,005,959
<u>\$ 353,262</u>	<u>\$ -</u>	<u>\$ 480,834</u>	<u>\$ 1,167,551</u>	<u>\$ 2,541,628</u>

**CITY OF CAPITOLA**  
**Non-Major Governmental Funds**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Year Ended June 30, 2013**

	<u>SPECIAL REVENUE FUNDS</u>		
	<u>Supplemental Law Enforcement</u>	<u>Gas Tax</u>	<u>Wharf</u>
Revenues:			
Taxes	\$ -	\$ 235,663	\$ -
Licenses and permits	-	-	-
Intergovernmental	169,554	-	-
Charges for services	-	-	-
Use of money and property	222	32	85,290
Other revenue	-	38,249	-
	<u>169,776</u>	<u>273,944</u>	<u>85,290</u>
Total Revenues			
Expenditures:			
Current:			
General government	-	-	-
Public safety	119,911	-	-
Community development	-	-	-
Culture and recreation	-	-	95,719
Transportation	-	224,209	-
Capital outlay	-	38,249	-
Debt service:			
Principal	-	3,113	-
Interest and fiscal charges	-	-	-
	<u>119,911</u>	<u>265,571</u>	<u>95,719</u>
Total Expenditures			
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>49,865</u>	<u>8,373</u>	<u>(10,429)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	-	-
Transfers out	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)			
Net Change in Fund Balances	49,865	8,373	(10,429)
Fund Balances (Deficit), Beginning of Year	<u>50,757</u>	<u>3,613</u>	<u>36,645</u>
Fund Balances (Deficit), End of Year	<u>\$ 100,622</u>	<u>\$ 11,986</u>	<u>\$ 26,216</u>

SPECIAL REVENUE FUNDS

Development Fees	Parking Reserve	Technology Fees	PEG Cable TV Access	Capitola Village and Wharf BIA
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	18,704	-
-	-	-	-	-
-	-	10,543	-	68,890
-	-	-	153	73
1,415	-	-	-	-
1,415	-	10,543	18,857	68,963
-	-	-	19,268	-
-	-	-	-	-
3,441	-	-	-	72,151
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
3,441	-	-	19,268	72,151
(2,026)	-	10,543	(411)	(3,188)
-	162,800	-	-	-
-	(84,800)	-	-	-
-	78,000	-	-	-
(2,026)	78,000	10,543	(411)	(3,188)
2,026	(2,902)	25,194	51,562	5,432
<u>\$ -</u>	<u>\$ 75,098</u>	<u>\$ 35,737</u>	<u>\$ 51,151</u>	<u>\$ 2,244</u>

**CITY OF CAPITOLA**  
**Non-Major Governmental Funds**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Year Ended June 30, 2013**

	SPECIAL REVENUE FUNDS		
	CDBG	CDBG Program Income	HOME Grant
Revenues:			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental	108,827	-	-
Charges for services	-	-	-
Use of money and property	-	6,969	-
Other revenue	-	-	-
<b>Total Revenues</b>	<b>108,827</b>	<b>6,969</b>	<b>-</b>
Expenditures:			
Current:			
General government	-	-	-
Public safety	-	-	-
Community development	76,816	2,500	10,000
Culture and recreation	-	-	-
Transportation	-	-	-
Capital outlay	-	-	-
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
<b>Total Expenditures</b>	<b>76,816</b>	<b>2,500</b>	<b>10,000</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	32,011	4,469	(10,000)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	-	-
Transfers out	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>32,011</b>	<b>4,469</b>	<b>(10,000)</b>
Fund Balances (Deficit), Beginning of Year	(21,554)	(18,379)	5,230
Fund Balances (Deficit), End of Year	<u>\$ 10,457</u>	<u>\$ (13,910)</u>	<u>\$ (4,770)</u>

SPECIAL REVENUE FUNDS		DEBT SERVICE FUND	CAPITAL PROJECTS FUND	Total Non-Major Governmental Funds
Affordable Housing	BEGIN Grant	2007 POB Debt Service	Capital Projects	
\$ -	\$ -	\$ -	\$ -	\$ 235,663
-	-	-	-	18,704
-	-	-	-	278,381
45,008	-	-	19,541	143,982
17,700	-	-	-	110,439
-	-	-	-	39,664
<u>62,708</u>	<u>-</u>	<u>-</u>	<u>19,541</u>	<u>826,833</u>
-	-	1,501	2,642	23,411
-	-	-	-	119,911
5,000	60,171	-	-	230,079
-	-	-	117,538	213,257
-	-	-	-	224,209
-	-	-	512,957	551,206
-	-	485,000	-	488,113
-	-	185,966	-	185,966
<u>5,000</u>	<u>60,171</u>	<u>672,467</u>	<u>633,137</u>	<u>2,036,152</u>
<u>57,708</u>	<u>(60,171)</u>	<u>(672,467)</u>	<u>(613,596)</u>	<u>(1,209,319)</u>
-	-	672,874	614,600	1,450,274
(50,000)	-	-	-	(134,800)
<u>(50,000)</u>	<u>-</u>	<u>672,874</u>	<u>614,600</u>	<u>1,315,474</u>
7,708	(60,171)	407	1,004	106,155
<u>176,341</u>	<u>60,171</u>	<u>480,427</u>	<u>1,045,241</u>	<u>1,899,804</u>
<u>\$ 184,049</u>	<u>\$ -</u>	<u>\$ 480,834</u>	<u>\$ 1,046,245</u>	<u>\$ 2,005,959</u>

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**CITY OF CAPITOLA**  
**Supplemental Law Enforcement Fund**  
**Non-Major Special Revenue Fund**  
**Budgetary Comparison Schedule**  
**Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Intergovernmental	\$ 74,100	\$ 172,500	\$ 169,554	\$ (2,946)
Use of money and property	-	100	222	122
Total revenues	<u>74,100</u>	<u>172,600</u>	<u>169,776</u>	<u>(2,824)</u>
Expenditures:				
Public safety	72,200	119,500	119,911	(411)
Total expenditures	<u>72,200</u>	<u>119,500</u>	<u>119,911</u>	<u>(411)</u>
Net change in fund balance	1,900	53,100	49,865	(3,235)
Fund balance, beginning	<u>50,757</u>	<u>50,757</u>	<u>50,757</u>	<u>-</u>
Fund balance, ending	<u><u>\$ 52,657</u></u>	<u><u>\$ 103,857</u></u>	<u><u>\$ 100,622</u></u>	<u><u>\$ (3,235)</u></u>



**CITY OF CAPITOLA**  
**Gas Tax Fund**  
**Non-Major Special Revenue Fund**  
**Budgetary Comparison Schedule**  
**Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 271,500	\$ 234,200	\$ 235,663	\$ 1,463
Use of money and property	-	-	32	32
Other revenue	-	37,300	38,249	949
Total revenues	<u>271,500</u>	<u>271,500</u>	<u>273,944</u>	<u>2,444</u>
Expenditures:				
Transportation	258,000	222,000	224,209	(2,209)
Capital outlay	-	38,300	38,249	51
Debt service:				
Principal	6,000	6,000	3,113	2,887
Interest and fiscal charges	3,100	3,100	-	3,100
Total expenditures	<u>267,100</u>	<u>269,400</u>	<u>265,571</u>	<u>3,829</u>
Net change in fund balance	4,400	2,100	8,373	6,273
Fund balance, beginning	<u>3,613</u>	<u>3,613</u>	<u>3,613</u>	<u>-</u>
Fund balance, ending	<u><u>\$ 8,013</u></u>	<u><u>\$ 5,713</u></u>	<u><u>\$ 11,986</u></u>	<u><u>\$ 6,273</u></u>

**CITY OF CAPITOLA  
Wharf Fund  
Non-Major Special Revenue Fund  
Budgetary Comparison Schedule  
Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Use of money and property	\$ 83,700	\$ 82,700	\$ 85,290	\$ 2,590
Total revenues	83,700	82,700	85,290	2,590
Expenditures:				
Culture and recreation	83,700	119,100	95,719	23,381
Total expenditures	83,700	119,100	95,719	23,381
Net change in fund balance	-	(36,400)	(10,429)	25,971
Fund balance, beginning	36,645	36,645	36,645	-
Fund balance, ending	\$ 36,645	\$ 245	\$ 26,216	\$ 25,971

**CITY OF CAPITOLA**  
**Parking Reserve fund**  
**Non-Major Special Revenue Fund**  
**Budgetary Comparison Schedule**  
**Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Capital outlay	-	24,000	-	24,000
Total expenditures	-	24,000	-	24,000
Excess (deficiency) of revenues over (under) expenditures	-	(24,000)	-	24,000
Other financing sources (uses):				
Transfers in	84,800	162,800	162,800	-
Transfers out	(84,800)	(84,800)	(84,800)	-
Total other financing sources (uses)	-	78,000	78,000	-
Net change in fund balance	-	102,000	78,000	24,000
Fund balance, beginning	(2,902)	(2,902)	(2,902)	-
Fund balance (deficit), ending	<u>\$ (2,902)</u>	<u>\$ 99,098</u>	<u>\$ 75,098</u>	<u>\$ 24,000</u>

**CITY OF CAPITOLA**  
**Technology Fees Fund**  
**Non-Major Special Revenue Fund**  
**Budgetary Comparison Schedule**  
**Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Charges for services	\$ 5,900	\$ 8,200	\$ 10,543	\$ 2,343
Total revenues	5,900	8,200	10,543	2,343
Expenditures:				
Community development	5,000	5,000	-	5,000
Total expenditures	5,000	5,000	-	5,000
Net change in fund balance	900	3,200	10,543	7,343
Fund balance, beginning	25,194	25,194	25,194	-
Fund balance, ending	<u>\$ 26,094</u>	<u>\$ 28,394</u>	<u>\$ 35,737</u>	<u>\$ 7,343</u>

**CITY OF CAPITOLA**  
**PEG Cable TV Access Fund**  
**Non-Major Special Revenue Fund**  
**Budgetary Comparison Schedule**  
**Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Licenses and permits	\$ 19,500	\$ 19,100	\$ 18,704	\$ (396)
Use of money and property	600	100	153	53
Total revenues	<u>20,100</u>	<u>19,200</u>	<u>18,857</u>	<u>(343)</u>
Expenditures:				
General government	<u>24,500</u>	<u>22,100</u>	<u>19,268</u>	<u>2,832</u>
Total expenditures	<u>24,500</u>	<u>22,100</u>	<u>19,268</u>	<u>2,832</u>
Net change in fund balance	(4,400)	(2,900)	(411)	2,489
Fund balance, beginning	<u>51,562</u>	<u>51,562</u>	<u>51,562</u>	<u>-</u>
Fund balance, ending	<u><u>\$ 47,162</u></u>	<u><u>\$ 48,662</u></u>	<u><u>\$ 51,151</u></u>	<u><u>\$ 2,489</u></u>

**CITY OF CAPITOLA**  
**Capitola Village and Wharf BIA Fund**  
**Non-Major Special Revenue Fund**  
**Budgetary Comparison Schedule**  
**Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Charges for services	\$ 70,200	\$ 69,420	\$ 68,890	\$ (530)
Use of money and property	100	100	73	(27)
 Total revenues	 70,300	 69,520	 68,963	 (557)
Expenditures:				
Community development	71,600	70,100	72,151	(2,051)
 Total expenditures	 71,600	 70,100	 72,151	 (2,051)
 Net change in fund balance	 (1,300)	 (580)	 (3,188)	 (2,608)
Fund balance, beginning	5,432	5,432	5,432	-
Fund balance, ending	\$ 4,132	\$ 4,852	\$ 2,244	\$ (2,608)

**CITY OF CAPITOLA  
CDBG Fund  
Non-Major Special Revenue Fund  
Budgetary Comparison Schedule  
Year Ended June 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	<u>\$ 143,200</u>	<u>\$ 111,300</u>	<u>\$ 108,827</u>	<u>\$ (2,473)</u>
Total revenues	<u>143,200</u>	<u>111,300</u>	<u>108,827</u>	<u>(2,473)</u>
Expenditures:				
Community development	<u>174,389</u>	<u>143,500</u>	<u>76,816</u>	<u>66,684</u>
Total expenditures	<u>174,389</u>	<u>143,500</u>	<u>76,816</u>	<u>66,684</u>
Net change in fund balance	(31,189)	(32,200)	32,011	64,211
Fund balance (deficit), beginning	<u>(21,554)</u>	<u>(21,554)</u>	<u>(21,554)</u>	<u>-</u>
Fund balance, ending	<u><u>\$ (52,743)</u></u>	<u><u>\$ (53,754)</u></u>	<u><u>\$ 10,457</u></u>	<u><u>\$ 64,211</u></u>

**CITY OF CAPITOLA  
HOME Grant Fund  
Non-Major Special Revenue Fund  
Budgetary Comparison Schedule  
Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Community development	15,000	3,200	10,000	(6,800)
Total expenditures	15,000	3,200	10,000	(6,800)
Net change in fund balance	(15,000)	(3,200)	(10,000)	(6,800)
Fund balance, beginning	5,230	5,230	5,230	-
Fund balance (deficit), ending	\$ (9,770)	\$ 2,030	\$ (4,770)	\$ (6,800)



**CITY OF CAPITOLA**  
**Affordable Housing Fund**  
**Non-Major Special Revenue Fund**  
**Budgetary Comparison Schedule**  
**Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Charges for services	\$ 5,000	\$ 45,000	\$ 45,008	\$ 8
Use of money and property	500	18,200	17,700	(500)
<b>Total revenues</b>	<b>5,500</b>	<b>63,200</b>	<b>62,708</b>	<b>(492)</b>
Expenditures:				
Community development	5,000	5,000	5,000	-
<b>Total expenditures</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>-</b>
Excess (deficiency) of revenues over (under) expenditures	500	58,200	57,708	(492)
Other financing sources (uses):				
Transfers out	(50,000)	(50,000)	(50,000)	-
<b>Total other financing sources (uses)</b>	<b>(50,000)</b>	<b>(50,000)</b>	<b>(50,000)</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>(49,500)</b>	<b>8,200</b>	<b>7,708</b>	<b>(492)</b>
Fund balance, beginning	176,341	176,341	176,341	-
<b>Fund balance, ending</b>	<b>\$ 126,841</b>	<b>\$ 184,541</b>	<b>\$ 184,049</b>	<b>\$ (492)</b>

**CITY OF CAPITOLA  
 BEGIN Grant Fund  
 Non-Major Special Revenue Fund  
 Budgetary Comparison Schedule  
 Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Community development	60,000	60,171	60,171	-
Total expenditures	60,000	60,171	60,171	-
Net change in fund balance	(60,000)	(60,171)	(60,171)	-
Fund balance, beginning	60,171	60,171	60,171	-
Fund balance, ending	\$ 171	\$ -	\$ -	\$ -

**CITY OF CAPITOLA**  
**2007 POB Debt Service Fund**  
**Non-Major Debt Service Fund**  
**Budgetary Comparison Schedule**  
**Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:	\$ -	\$ -	\$ -	\$ -
Expenditures:				
General government	1,501	1,501	1,501	-
Debt service:				
Principal	485,000	485,000	485,000	-
Interest and fiscal charges	188,300	188,300	185,966	2,334
Total expenditures	674,801	674,801	672,467	2,334
Excess (deficiency) of revenues over (under) expenditures	(674,801)	(674,801)	(672,467)	2,334
Other financing sources:				
Transfers in	673,300	671,600	672,874	1,274
Net change in fund balance	(1,501)	(3,201)	407	3,608
Fund balance, beginning	480,427	480,427	480,427	-
Fund balance, ending	\$ 478,926	\$ 477,226	\$ 480,834	\$ 3,608

**CITY OF CAPITOLA**  
**Capital Projects Fund**  
**Non-Major Capital Projects Fund**  
**Budgetary Comparison Schedule**  
**Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Intergovernmental	\$ -	\$ 538,000	\$ -	\$ (538,000)
Charges for services	25,000	25,000	19,541	(5,459)
Total revenues	25,000	563,000	19,541	(543,459)
Expenditures:				
General government	42,200	19,700	2,642	17,058
Culture and recreation	20,000	257,000	117,538	139,462
Capital outlay	22,500	1,179,719	512,957	666,762
Total expenditures	84,700	1,456,419	633,137	823,282
Excess (deficiency) of revenues over (under) expenditures	(59,700)	(893,419)	(613,596)	279,823
Other financing sources (uses):				
Transfers in	22,500	587,100	614,600	27,500
Total other financing sources (uses)	22,500	587,100	614,600	27,500
Net change in fund balance	(37,200)	(306,319)	1,004	307,323
Fund balance, beginning	1,045,241	1,045,241	1,045,241	-
Fund balance, ending	\$ 1,008,041	\$ 738,922	\$ 1,046,245	\$ 307,323

**CITY OF CAPITOLA**  
**Statement of Changes in Fiduciary Assets and Liabilities**  
**Fiduciary Funds - Agency Funds**  
**Year Ended June 30, 2013**

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
<b><u>BROOKVALE ASSESSMENT DISTRICT</u></b>				
<b>Assets</b>				
Cash and investments	\$ 15,883	\$ 61	\$ -	\$ 15,944
Accounts receivable	14	-	14	-
	\$ 15,897	\$ 61	\$ 14	\$ 15,944
Total assets	\$ 15,897	\$ 61	\$ 14	\$ 15,944
<b>Liabilities</b>				
Due to bond holders	\$ 15,897	\$ 47	\$ -	\$ 15,944
	\$ 15,897	\$ 47	\$ -	\$ 15,944
Total liabilities	\$ 15,897	\$ 47	\$ -	\$ 15,944
<b><u>AUTO CENTER ASSESSMENT DISTRICT</u></b>				
<b>Assets</b>				
Cash and investments	\$ 20,215	\$ 78	\$ -	\$ 20,293
Accounts receivable	18	-	18	-
	\$ 20,233	\$ 78	\$ 18	\$ 20,293
Total assets	\$ 20,233	\$ 78	\$ 18	\$ 20,293
<b>Liabilities</b>				
Due to bond holders	\$ 20,233	\$ 60	\$ -	\$ 20,293
	\$ 20,233	\$ 60	\$ -	\$ 20,293
Total liabilities	\$ 20,233	\$ 60	\$ -	\$ 20,293
<b><u>TOTALS - ALL AGENCY FUNDS</u></b>				
<b>Assets</b>				
Cash and investments	\$ 36,098	\$ 139	\$ -	\$ 36,237
Accounts receivable	32	-	32	-
	\$ 36,130	\$ 139	\$ 32	\$ 36,237
Total assets	\$ 36,130	\$ 139	\$ 32	\$ 36,237
<b>Liabilities</b>				
Due to bond holders	\$ 36,130	\$ 107	\$ -	\$ 36,237
	\$ 36,130	\$ 107	\$ -	\$ 36,237
Total liabilities	\$ 36,130	\$ 107	\$ -	\$ 36,237

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Primary government activities										
Invested in Capital Assets, Net of related debt	\$ 15,551	\$ 15,006	\$ 14,572	\$ 15,650	\$ 15,636	\$ 15,659	\$ 15,598	\$ 15,054	\$ 11,918	\$ 11,521
Restricted for										
Debt Service	437	-	-	-	-	-	-	-	-	-
Public Safety	-	-	-	14	4	-	-	10	51	101
Transportation	-	-	42	602	464	73	63	184	2,445	1,513
Community Development	1,742	2,157	3,310	3,633	1,717	1,107	1,317	1,256	1,141	3,511
Culture and Recreation	-	-	-	-	-	-	-	185	88	77
Total Restricted	\$ 2,179	\$ 2,157	\$ 3,352	\$ 4,249	\$ 2,185	\$ 1,180	\$ 1,380	\$ 1,635	\$ 3,725	\$ 5,202
Unrestricted	3,547	1,944	4,732	5,135	3,191	3,435	4,575	3,249	4,134	4,893
Total Primary govt net position	<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>	<u>\$21,616</u>

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

Source: City of Capitola Finance Department

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

	Fiscal Year			
	2004	2005	2006	2007
<b>EXPENSES:</b>				
Primary government activities				
General government	\$ 4,654	\$ 4,206	\$ 3,963	\$ 4,343
Public safety	4,254	4,542	5,350	5,733
Community development	1,052	4,177	1,227	1,550
Culture and recreation	1,385	1,476	1,511	1,596
Transportation	1,432	1,397	1,501	1,697
Interest and other charges	171	171	152	190
Total primary government expenses	\$ 12,948	\$ 15,969	\$ 13,704	\$ 15,109
<b>PROGRAM REVENUES:</b>				
Primary government activities				
Charges for services:				
General government	\$ 1,218	\$ 1,046	\$ 724	\$ 705
Public safety	617	609	556	688
Community development	429	510	1,478	1,469
Culture and recreation	705	769	685	749
Transportation	32	34	11	18
Operating grants and contributions	301	291	812	1,010
Capital grants and contributions	496	324	161	514
Total primary govt program revenues	\$ 3,798	\$ 3,583	\$ 4,427	\$ 5,153
NET PRIMARY GOVT REV/(EXP)	\$ (9,150)	\$ (12,386)	\$ (9,277)	\$ (9,956)
<b>GENERAL REVENUES AND OTHER CHANGES IN NET POSITION:</b>				
Primary government activities				
Taxes:				
Property Taxes	\$ 2,657	\$ 2,903	\$ 3,465	\$ 3,916
Transaction and Use Tax (.25%)	-	209	975	1,048
Sales and Use tax	5,395	5,235	4,132	4,174
Transient occupancy taxes	493	516	543	604
Franchise taxes	364	391	418	438
Business license tax	-	-	303	326
Other taxes	-	-	-	-
Intergovernmental	502	261	1,415	1,421
Investment income	281	510	226	287
Other general revenues	24	191	109	120
Transfers	-	-	-	-
Extraordinary Item	-	-	-	-
Total primary government activities	\$ 9,716	\$ 10,216	\$ 11,586	\$ 12,334
<b>CHANGES IN NET POSITION:</b>				
Total primary government activities	\$ 566	\$ (2,170)	\$ 2,309	\$ 2,378

NOTES: 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	2013	
\$ 4,398	\$ 4,482	\$ 5,103	\$ 5,453	\$ 4,851	\$ 4,862	
5,298	5,927	5,533	5,422	5,491	5,411	
2,193	2,218	2,428	2,068	3,471	727	
1,658	1,035	1,025	995	1,010	1,398	
1,522	2,530	1,932	2,445	2,556	2,456	
589	533	509	448	419	288	
<u>\$ 15,658</u>	<u>\$ 16,725</u>	<u>\$ 16,530</u>	<u>\$ 16,831</u>	<u>\$ 17,798</u>	<u>\$ 15,142</u>	
\$ 794	\$ 658	\$ 806	\$ 759	\$ 1,059	\$ 948	
736	905	1,009	902	759	732	
1,153	1,617	2,266	1,077	1,145	523	
726	709	696	655	751	685	
13	34	53	54	166	145	
1,420	286	1,469	1,040	3,131	2,292	
-	527	388	421	-	3	
<u>\$ 4,842</u>	<u>\$ 4,736</u>	<u>\$ 6,687</u>	<u>\$ 4,908</u>	<u>\$ 7,011</u>	<u>\$ 5,328</u>	
<u>\$ (10,816)</u>	<u>\$ (11,989)</u>	<u>\$ (9,843)</u>	<u>\$ (11,923)</u>	<u>\$ (10,787)</u>	<u>\$ (9,814)</u>	
\$ 4,034	\$ 4,147	\$ 4,066	\$ 4,107	\$ 2,993	\$ 1,778	
1,016	788	928	850	932	1,510	
3,939	2,858	3,289	3,002	3,322	4,531	
644	605	592	602	913	1,074	
437	459	462	477	483	479	
299	278	282	267	281	292	
-	-	-	-	-	-	
1,507	1,417	979	1,323	947	241	
379	394	238	185	190	131	
452	305	287	289	309	497	
-	-	-	-	-	-	
-	-	-	(795)	380	1,118	
<u>\$ 12,707</u>	<u>\$ 11,251</u>	<u>\$ 11,123</u>	<u>\$ 10,307</u>	<u>\$ 10,750</u>	<u>\$ 11,651</u>	
<u>\$ 1,891</u>	<u>\$ (738)</u>	<u>\$ 1,280</u>	<u>\$ (1,616)</u>	<u>\$ (37)</u>	<u>\$ 1,837</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)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013			
<b>GENERAL FUND</b>													
Reserved													
Prepaid	\$ -	\$ 1	\$ -	\$ -	\$ -	\$ 21	\$ 116	Represented below per GASB 54					
Advances	1,968	1,968	1,968	1,968	1,968	1,968	1,968						
Total Reserved	\$ 1,968	\$ 1,969	\$ 1,968	\$ 1,968	\$ 1,968	\$ 1,989	\$ 2,084						
Unreserved													
Designated	\$ 1,421	\$ 2,060	\$ 3,175	\$ 3,467	\$ 3,185	\$ 2,659	\$ 2,928				Pre-GASB 54 balances stated above		
Unrestricted	683	886	1,340	1,342	1,350	1,350	1,350						
Total Unreserved	\$ 2,104	\$ 2,946	\$ 4,515	\$ 4,809	\$ 4,535	\$ 4,009	\$ 4,278						
Fund Balance GASB 54													
Nonspendable								\$ 1,973	\$ 1,970	\$ 2,024			
Restricted								-	-	-			
Committed								-	-	-			
Assigned								-	-	570			
Unassigned								2,786	2,608	2,846			
Total General Fund	\$ 4,072	\$ 4,915	\$ 6,483	\$ 6,777	\$ 6,503	\$ 5,998	\$ 6,362	\$ 4,759	\$ 4,578	\$ 5,440			
<b>ALL OTHER GOVERNMENT FUNDS</b>													
Reserved													
Low income housing	\$ 1,742	\$ 1,655	\$ 1,790	\$ 1,808	\$ -	\$ -	\$ -	Represented below per GASB 54					
Debt service	458	7	38	608	-	-	-						
Total Reserved	\$ 2,200	\$ 1,662	\$ 1,828	\$ 2,416	\$ -	\$ -	\$ -						
Unreserved, reported in:													
Unrestricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				Pre-GASB 54 balances stated above		
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	\$ 1,055	\$ 504	\$ 1,189	\$ 1,378	\$ 5,297	\$ 4,298	\$ 3,728						
Fund Balance GASB 54													
Nonspendable								\$ 109	\$ 586	\$ -			
Restricted								1,705	1,858	1,497			
Committed								-	-	-			
Assigned								1,564	1,045	1,046			
Unassigned								(19)	(148)	(19)			
Total All Other Govt Funds	\$ 3,255	\$ 2,166	\$ 3,017	\$ 3,794	\$ 5,297	\$ 4,298	\$ 3,728	\$ 3,359	\$ 3,341	\$ 2,524			
TOTAL	\$ 7,327	\$ 7,081	\$ 9,500	\$ 10,571	\$ 11,800	\$ 10,296	\$ 10,090	\$ 8,118	\$ 7,919	\$ 7,964			

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

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
<b>REVENUES:</b>						
Taxes	\$ 8,909	\$ 9,253	\$ 11,375	\$ 12,047	\$ 12,008	\$ 10,239
Licenses & permits	746	835	357	255	270	664
Intergovernmental	1,206	918	750	1,225	1,121	1,745
Fines and forfeitures	575	571	512	639	672	702
Charges for services	1,405	1,578	2,092	2,263	2,467	1,744
Use of money and property	440	510	778	971	1,046	812
Other	193	299	86	89	434	178
Total revenues	<u>\$ 13,474</u>	<u>\$ 13,964</u>	<u>\$ 15,950</u>	<u>\$ 17,489</u>	<u>\$ 18,018</u>	<u>\$ 16,084</u>
<b>EXPENSES:</b>						
Current:						
General government	\$ 3,699	\$ 3,437	\$ 3,266	\$ 3,583	\$ 3,672	\$ 3,591
Public safety	4,087	4,726	5,261	5,631	5,246	5,869
Community development	1,075	1,547	1,358	1,831	2,324	2,362
Culture and recreation	1,346	1,446	1,478	1,564	1,630	1,009
Transportation	1,325	1,436	1,493	1,690	1,476	2,575
Capital outlay	1,640	885	413	1,858	1,015	1,224
Subtotal	<u>\$ 13,172</u>	<u>\$ 13,477</u>	<u>\$ 13,269</u>	<u>\$ 16,157</u>	<u>\$ 15,363</u>	<u>\$ 16,630</u>
Debt service:						
Cost of Issuance	\$ -	\$ -	\$ -	\$ -	\$ 125	\$ -
Principal retirement	959	559	91	91	123	499
Interest and agent fees	196	174	171	170	471	529
Subtotal	<u>\$ 1,155</u>	<u>\$ 733</u>	<u>\$ 262</u>	<u>\$ 261</u>	<u>\$ 719</u>	<u>\$ 1,028</u>
Total expenditures	<u>\$ 14,327</u>	<u>\$ 14,210</u>	<u>\$ 13,531</u>	<u>\$ 16,418</u>	<u>\$ 16,082</u>	<u>\$ 17,658</u>
<b>Excess/(deficiency) of revenues over/(under) expenditures</b>	<u>\$ (853)</u>	<u>\$ (246)</u>	<u>\$ 2,419</u>	<u>\$ 1,071</u>	<u>\$ 1,936</u>	<u>\$ (1,574)</u>
<b>OTHER FINANCING SOURCES/(USES):</b>						
Sale of capital assets	\$ 1,239	\$ -	\$ -	\$ -	\$ 166	\$ -
Transfers in	1,624	469	1,053	1,764	2,754	1,775
Transfers out	(1,624)	(469)	(1,053)	(1,764)	(2,754)	(1,775)
Issuance of bonds	-	-	-	-	5,040	-
Payment to bond escrow agent	-	-	-	-	-	-
Total other financing sources/(uses)	<u>\$ 1,239</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,206</u>	<u>\$ -</u>
<b>Special Items</b>						
Flood Disaster loss/recovery	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Prefunding of PERS liability	-	-	-	-	(5,913)	-
Gain/Loss on RDA dissolution	-	-	-	-	-	-
<b>Net change in fund balances</b>	<u>\$ 386</u>	<u>\$ (246)</u>	<u>\$ 2,419</u>	<u>\$ 1,071</u>	<u>\$ 1,229</u>	<u>\$ (1,574)</u>
Beginning fund balance, as restated	\$ 6,941	\$ 7,327	\$ 7,081	\$ 9,500	\$ 10,571	\$ 11,800
Changes in fund balance	386	(246)	2,419	1,071	1,229	(1,574)
Ending fund balance	<u>\$ 7,327</u>	<u>\$ 7,081</u>	<u>\$ 9,500</u>	<u>\$ 10,571</u>	<u>\$ 11,800</u>	<u>\$ 10,226</u>
Debt service as a percentage of noncapital expenditures	8.28%	5.50%	2.01%	1.82%	4.75%	6.25%

NOTES: The City of Capitola implemented GASB 34 for the fiscal year ended June 30, 2003.  
 Debt service as a percentage of noncapital expenditures reflects total governmental fund expenditures less the capital outlay shown separately in the Changes in Fund Balances schedule as capital outlays and any expenditures for capitalized assets contained within the functional expenditure categories. The sum of these is reported as a reconciling item in the reconciliation of the statement of revenues, expenditures, and changes in fund balances of the governmental funds to the statement of activities.

Source: City of Capitola Finance Department

Fiscal Year			
2010	2011	2012	2013
\$ 10,285	\$ 10,335	\$ 9,878	\$ 9,607
609	474	630	520
2,932	2,426	2,755	837
803	702	724	688
1,380	1,278	1,907	1,862
595	492	403	235
163	173	90	238
<u>\$ 16,767</u>	<u>\$ 15,880</u>	<u>\$ 16,387</u>	<u>\$ 13,987</u>

\$ 4,232	\$ 4,483	\$ 4,034	\$ 3,865
5,441	5,468	5,436	5,369
2,338	1,986	3,458	712
986	1,009	1,041	1,118
2,017	2,294	2,204	2,157
847	665	757	551
<u>\$ 15,861</u>	<u>\$ 15,905</u>	<u>\$ 16,930</u>	<u>\$ 13,772</u>

\$ -	\$ -	\$ 43	\$ 38
535	704	673	1,031
507	447	394	320
<u>\$ 1,042</u>	<u>\$ 1,151</u>	<u>\$ 1,110</u>	<u>\$ 1,389</u>
<u>\$ 16,903</u>	<u>\$ 17,056</u>	<u>\$ 18,040</u>	<u>\$ 15,161</u>

<u>\$ (136)</u>	<u>\$ (1,176)</u>	<u>\$ (1,653)</u>	<u>\$ (1,174)</u>
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\$ -	\$ -	\$ 2,390	\$ 99
1,337	1,945	2,272	2,151
(1,337)	(1,945)	(2,272)	(2,151)
-	-	-	-
-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,390</u>	<u>\$ 99</u>

\$ -	\$ (795)	\$ (623)	\$ 1,118
-	-	-	-
-	-	(190)	-

<u>\$ (136)</u>	<u>\$ (1,971)</u>	<u>\$ (76)</u>	<u>\$ 43</u>
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\$ 10,226	\$ 10,090	\$ 7,995	\$ 7,920
(136)	(1,971)	(75)	43
<u>\$ 10,090</u>	<u>\$ 8,119</u>	<u>\$ 7,920</u>	<u>\$ 7,963</u>

6.51%      6.92%      6.45%      9.35%

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

General Revenue By Source

Fiscal Year	Sales Tax Revenue (1)	Property Taxes (2)	Transient Occupancy Tax	Franchise Taxes	Business Licenses	Investment Income	Miscellaneous, Intergovernmental, and Other Revenues	Total General Revenues
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
2013	6,040,542	1,778,037	1,074,507	478,627	291,642	131,166	398,320	10,192,841

NOTES:

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

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

Source: City of Capitola Finance Department

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

City of Capitola

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Fiscal Year	Secured	Unsecured	SBE Nonunitary	Total Assessed Value	% Change
2004	1,210,228	63,451	1,066	1,274,745	n/a
2005	1,280,108	63,427	1,508	1,345,043	5.51%
2006	1,388,112	62,489	1,456	1,452,057	7.96%
2007	1,511,826	68,819	1,330	1,581,975	8.95%
2008	1,624,095	71,157	748	1,696,000	7.21%
2009	1,681,379	73,387	748	1,755,514	3.51%
2010	1,689,396	67,883	889	1,758,168	0.15%
2011	1,701,476	70,118	579	1,772,173	0.80%
2012	1,717,637	66,695	579	1,784,911	0.72%
2013	1,726,023	71,136	83	1,797,242	0.69%

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

Source: HdL Companies, Santa Cruz County Assessor 2012/13 Combined Tax Rolls

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

Category	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Residential	\$ 833,954	\$ 891,359	\$ 982,739	\$ 1,089,341	\$ 1,164,558	\$ 1,212,668	\$ 1,209,657	\$ 1,224,372	\$ 1,241,453	\$ 1,233,173
Commercial	300,850	306,386	315,660	327,341	341,720	350,240	363,033	367,656	369,399	387,425
Industrial	11,102	11,314	11,541	13,881	14,558	14,849	15,146	15,520	14,239	13,869
Institutional	11,143	11,676	11,954	14,582	14,905	13,345	14,748	16,950	14,788	15,078
Miscellaneous	5	5	5	5	5	5	114	5	6	6
Recreational	4,992	5,085	5,069	5,171	6,895	9,946	10,145	10,121	10,197	10,401
Vacant	18,299	20,050	22,906	19,184	34,619	30,120	24,165	13,773	13,303	13,370
SBE Nonunitary	1,066	1,508	1,456	1,330	748	748	889	579	579	83
Cross Reference	29,883	34,233	38,238	42,321	46,835	50,206	52,388	53,079	54,252	52,701
Unsecured	63,451	63,427	62,489	68,819	71,157	73,387	67,883	70,118	66,695	71,136
<b>TOTALS</b>	<b>\$ 1,274,745</b>	<b>\$ 1,345,043</b>	<b>\$ 1,452,057</b>	<b>\$ 1,581,975</b>	<b>\$ 1,696,000</b>	<b>\$ 1,755,514</b>	<b>\$ 1,758,168</b>	<b>\$ 1,772,173</b>	<b>\$ 1,784,911</b>	<b>\$ 1,797,242</b>
Exempt	(1,066)	(1,508)	(1,456)	(1,330)	(748)	(748)	(889)	(579)	(579)	(83)
Total Direct Property Tax Rate	0.19298	0.19007	0.18517	0.18133	0.17950	0.18062	0.18468	0.18456	0.17987	0.18035

NOTES: Exempt values are not included in total.

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

Source: HdL Companies, Santa Cruz County Assessor 2003/04 - 2012/13 Combined Tax Rolls

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>City Direct Property Tax Rates</b>										
Basic Levy <sup>(1)</sup>	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
Redevelopment Rate <sup>(2)</sup>	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	(2)
Total Direct Property Tax Rate <sup>(3)</sup>	0.19298	0.19007	0.18517	0.18133	0.17950	0.18062	0.18468	0.18456	0.17987	0.18035
<b>Overlapping Property Tax Rates <sup>(4)</sup></b>										
Santa Cruz High School	0.03700	0.03300	0.03900	0.01367	0.01924	0.02274	0.02798	0.02336	0.02602	0.02615
Soquel Elementary School	0.02600	0.02900	0.02000	0.02114	0.02772	0.02320	0.02364	0.02435	0.02406	0.02435
Live Oak Elementary School	0.02300	0.04200	0.04300	0.05187	0.04776	0.04842	0.04939	0.05246	0.05295	0.05514
Cabrillo College	0.01900	0.03800	0.03700	0.02670	0.03000	0.03324	0.03598	0.03609	0.03896	0.04048
Total Overlapping Property Tax Rate <sup>(3)</sup>	0.10500	0.14200	0.13900	0.11338	0.12472	0.12760	0.13699	0.13626	0.14199	0.14612
City Share of 1% levy per Proposition 13 <sup>(5)</sup>	0.07471	0.07471	0.07471	0.07471	0.07471	0.07471	0.07471	0.07471	0.07471	0.07471
<b>Total Direct Rate <sup>(3)</sup></b>	<b>0.19298</b>	<b>0.19007</b>	<b>0.18517</b>	<b>0.18133</b>	<b>0.17950</b>	<b>0.18062</b>	<b>0.18468</b>	<b>0.18456</b>	<b>0.17987</b>	<b>0.18035</b>
<b>Total Direct &amp; Overlapping Rate</b>	<b>1.10500</b>	<b>1.14200</b>	<b>1.13900</b>	<b>1.11338</b>	<b>1.12472</b>	<b>1.12760</b>	<b>1.13699</b>	<b>1.13626</b>	<b>1.14199</b>	<b>1.14612</b>

- NOTES:
- (1) In 1978, California voters passed Proposition 13 which set the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of any voter
  - (2) Redevelopment Rate is based on the largest RDA tax rate area and only includes rate(s) from indebtedness adopted prior to 1989 per California State statute. RDA direct and overlapping rates are applied only to the incremental property values. The approval of ABX1 26 eliminated Redevelopment from the State of California for the fiscal year 2012-13
  - (3) Because basic and debt rates vary by tax rate area individual rates cannot be summed. The Total Direct Rate is the weighted average of all individual direct rates applied by the government preparing the statistical section information.
  - (4) Overlapping rates are those of local and county governments that apply to property owners within the City. Not all overlapping rates apply to all city property owners.
  - (5) City's Share of 1% Levy is based on the City's share of the general fund tax rate area with the largest net taxable value within the city. ERAF general fund tax shifts may not be

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

2013-8

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

Taxpayer	2013		2004	
	2013 Net Assessed Valuation	Percent of Total City Net Assessed Valuation	2004 Net Assessed Valuation	Percent of Total City Net Assessed Valuation
Macerich Partnership LP	\$ 61,963,872	3.45%	\$ 59,061,052	4.63%
Macerich Capitola Adjacent LP	25,500,000	1.42%		
Aspromonte Hotels LLC	18,064,732	1.01%		
Ow George Jr Trustees Et al	13,656,353	0.76%	11,877,187	0.93%
Brown Ranch Properties	11,018,631	0.61%	9,398,848	0.74%
Macquarie Capitola Villas Inc	10,126,114	0.56%		
Target Corporation	8,498,000	0.47%		
Melanie Kett Wirtanen Trustee	8,115,441	0.45%		
850 Rosedale LLC	7,911,701	0.44%		
1100 41st Avenue LLC	7,430,140	0.41%		
Baskin Properties LLC			13,453,243	1.06%
Dan Bochner et al			11,232,165	0.88%
Macys West Inc			9,378,475	0.74%
Values Pacific			8,881,824	0.70%
The Salvation Army Corporation			8,677,620	0.68%
Harry L. and Anna Jenkins			8,162,235	0.64%
Redtree Properties LP			6,869,795	0.54%
	<u>\$ 172,284,984</u>	<u>9.59%</u>	<u>\$ 146,992,444</u>	<u>11.53%</u>
Memo: Gross Assessed Value	\$ 1,797,242,490	100.00%	\$ 1,274,744,694	100.00%

Source: HdL Companies, Santa Cruz County Assessor 2012/13 Combined Tax Rolls and the SBE Non Unitary Tax Roll

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

Fiscal Year Ended June 30,	Property Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
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%
2013	899,975	899,975	100%	-	899,975	100%

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

Reduction in property taxes levied from 2011 through 2013 reflects the 2/1/2012 State of California dissolution of Redevelopment Agencies and the associated elimination of tax increment received by the City of Capitola.

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

**2013-10**

CITY OF CAPITOLA, CALIFORNIA  
 Top 25 Sales Tax Taxpayers, as of June 30, 2013  
 Listed alphabetically

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**TOP 25 SALES TAX TAXPAYERS**

AT&T Mobility**	41st Avenue
Bed Bath & Beyond	Clares Street
Beverages & More	41st Avenue
Big 5 Sporting Goods	41st Avenue
Chevron Service Station (AJ's Fuel Market of Capitola) - Bay Ave.	Bay Avenue
Chevron Service Station (Chevron USA) - 41st Ave.	41st Avenue
CVS - combined 41st and Bay Ave.	41st and Bay Avenues
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
Target*	41st Avenue
Toyota of Santa Cruz	Auto Plaza Drive
Trader Joe's	Clares Street
Union 76 Service Station (Capitola 76) - 41st Ave.	41st Avenue
Union 76 Service Station (Gawfco Enterprises) - 41st Ave.	41st Avenue
Verizon Wireless	41st Avenue
Whole Foods	41st Avenue

**NOTES:**

Information presented is as of June, 2013. It is alphabetical and is not indicative of relative nor total sales volume.

\* Indicates new to Top 25

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

Source: California State Board of Equalization

**2013-11**

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 as a % of Total Personal Income	Debt per Capita
	General Obligation Bonds	Lease Revenue Bonds	Other debt			
2004	\$ -	\$ 440,000	\$ 2,642,477	\$ 3,082,477	1.01%	\$ 306
2005	-	-	4,771,059	4,771,059	1.46%	477
2006	-	-	3,558,373	3,558,373	1.02%	359
2007	-	-	3,586,079	3,586,079	0.94%	362
2008	5,040,000	-	3,658,424	8,698,424	2.14%	877
2009	4,670,000	-	275,875	4,945,875	1.19%	495
2010	4,265,000	-	3,749,414	8,014,414	2.00%	795
2011	3,830,000	-	3,543,270	7,373,270	2.23%	723
2012	3,375,000	-	3,310,005	6,685,005	2.02%	670
2013	2,890,000	-	2,890,398	5,780,398	1.73%	579

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

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

Other debt has been restated for years 2004 through 2013 per comment from Government Finance Officers Association (GFOA) and includes as applicable tax anticipation note, county library long term debt, capital leases, net Other Post Employment Benefits (OPEB) obligation, compensated absences as of year end, notes payable, and RDA deferred pass throughs.

Source: City of Capitola Financial Statements

2013-12

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

Fiscal Year Ended June 30	Government/Total Primary Government Activities			Tot. Gov't./ Primary Gov't. Activities	Total Outstanding Debt to Personal Income	Debt per Capita
	General Obligation Bonds	Lease Revenue Bonds	Other debt			
2004	\$ -	\$ 440,000	\$ 2,642,477	\$ 3,082,477	1.01%	\$ 306
2005	-	-	4,771,059	4,771,059	1.46%	477
2006	-	-	3,558,373	3,558,373	1.02%	359
2007	-	-	3,586,079	3,586,079	0.94%	362
2008	5,040,000	-	3,658,424	8,698,424	2.14%	877
2009	4,670,000	-	275,875	4,945,875	1.19%	495
2010	4,265,000	-	3,749,414	8,014,414	2.00%	795
2011	3,830,000	-	3,543,270	7,373,270	2.23%	723
2012	3,375,000	-	3,310,005	6,685,005	2.02%	670
2013	2,890,000	-	2,890,398	5,780,398	1.73%	579

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

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

Other debt has been restated for years 2004 through 2013 per comment from Government Finance Officers Association (GFOA) and includes as applicable tax anticipation note, county library long term debt, capital leases, net Other Post Employment Benefits (OPEB) obligation, compensated absences as of year end, notes payable, and RDA deferred pass throughs.

Source: City of Capitola Financial Statements

**2013-13**

CITY OF CAPITOLA, CALIFORNIA  
 Direct & Overlapping Debt  
 Fiscal Year end  
 June 30, 2013

2012-13 Assessed Valuation		\$ 1,797,242,490	
	% Applicable <sup>(1)</sup>	Total Debt 06/30/2013	City's Share of Debt 6/30/2013
<b>OVERLAPPING TAX AND ASSESSMENT DEBT:</b>			
Cabrillo Joint Community College District	5.431%	\$ 148,995,101	\$ 8,091,924
Santa Cruz City High School District	11.742%	40,371,526	4,740,425
Live Oak School District	7.002%	16,621,079	1,163,808
Soquel Union School District	38.548%	11,440,000	4,409,891
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$ 217,427,706</b>	<b>\$ 18,406,048</b>
<b>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</b>			
Santa Cruz County Certificates of Participation	5.479%	\$ 67,237,262	\$ 3,683,930
Santa Cruz County Office of Education Certificates of Participation	5.479%	10,690,000	585,705
Cabrillo Joint Community College District Certificates of Participation	5.431%	1,480,000	80,379
Live Oak School District Certificates of Participation	7.002%	15,127,892	1,059,255
Soquel Union School District	38.548%	1,930,000	743,976
Santa Cruz City Schools Certificates of Participation	11.742%	6,031,000	708,160
City of Capitola General Fund Obligations	100.000%	1,043,262	1,043,262
City of Capitola Lease Financing	100.000%	1,847,136	1,847,136
City of Capitola Pension Obligation Bond	100.000%	2,890,000	2,890,000
Monterey Bay Unified Air Pollution Control Authority Certificates of Participation	2.040%	1,755,000	35,802
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$ 110,031,552</b>	<b>\$ 12,677,605</b>
<b>TOTAL DIRECT DEBT</b>		<b>\$ 5,780,398</b>	<b>\$ 5,780,398</b>
<b>TOTAL OVERLAPPING</b>		<b>\$ 321,678,860</b>	<b>\$ 25,303,255</b>
<b>COMBINED TOTAL DEBT</b>		<b>\$ 327,459,258</b>	<b>\$ 31,083,653</b> <sup>(2)</sup>

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

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

Ratios to 2011-12 Assessed Valuation	
Total Overlapping Tax and Assessment Debt	1.02%
Ratios to Adjusted Assessed Valuation	
Combined Direct Debt (\$5,780,399)	0.32%
Combined Total Debt	1.73%
STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/13	\$0

Source: MuniServices, LLC, City of Captiola Finance Department

2013-14



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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Assessed Valuation	\$ 1,274,745	\$ 1,345,043	\$ 1,452,057	\$ 1,581,975	\$ 1,696,000	\$ 1,755,514	\$ 1,758,168	\$ 1,772,173	\$ 1,784,911	\$ 1,797,242
RDA Base Valuation	194,534	202,415	202,415	214,599	226,445	234,375	241,401	243,413	238,631	242,272
Adj. assessed valuation	\$ 1,080,211	\$ 1,142,628	\$ 1,249,642	\$ 1,367,376	\$ 1,469,555	\$ 1,521,139	\$ 1,516,767	\$ 1,528,760	\$ 1,546,280	\$ 1,554,970
Debt limit percentage	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Debt limit	162,032	171,394	187,446	205,106	220,433	228,171	227,515	229,314	231,942	233,246
Total net applicable debt										
Gen. obligation bonds	440	-	-	-	5,040	4,670	4,265	3,830	3,375	2,890
Legal debt margin	<u>\$ 161,592</u>	<u>\$ 171,394</u>	<u>\$ 187,446</u>	<u>\$ 205,106</u>	<u>\$ 215,393</u>	<u>\$ 223,501</u>	<u>\$ 223,250</u>	<u>\$ 225,484</u>	<u>\$ 228,567</u>	<u>\$ 230,356</u>
Ratio of Total Net Applicable Debt to Debt Limit	0.27%	0.00%	0.00%	0.00%	2.34%	2.09%	1.91%	1.70%	1.48%	1.25%

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

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

2013-15

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
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
2013	-	-	-	n/a	-	-	-	n/a

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

SOURCE: City of Capitola Finance Department

2013-16

CITY OF CAPITOLA  
 Demographic and Economic Statistics  
 Last Ten Fiscal Years

Calendar Year	Population	Total Personal Income (In Thousands)	Per Capita Personal Income	Median Age	Unemployment Rate
2004	10,084	\$ 305,265	\$ 30,272	38.0	3.8%
2005	10,011	327,558	32,720	38.0	3.4%
2006	9,913	347,750	35,080	37.0	3.5%
2007	9,901	382,055	38,588	37.0	3.1%
2008	9,922	405,993	40,918	37.0	3.2%
2009	9,992	414,240	41,457	38.0	4.1%
2010	10,078	400,794	39,769	41.3	6.4%
2011	10,198	329,905	32,350	38.3	7.3%
2012	9,981	330,271	33,090	42.9	6.9%
2013	9,988	334,029	33,443	41.1	5.5%

NOTES: For calendar year ended during the fiscal year.

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

**2013-17**

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

Employer	Ranking	2013		2006 (1)	
		Number of Employees	% of Total Employment	Number of Employees	% of Total Employment
Target	1	200	2.90%		0.00%
Macys	2	200	2.90%	250	3.73%
Subaru, Toyota, Kia of Santa Cruz	3	177	2.57%		0.00%
Gayles Bakery & Rosticceria	4	159	2.30%		0.00%
Whole Foods Market	5	127	1.84%		0.00%
Shadowbrook Restaurant/aka Culinary Enterprises	6	119	1.72%	135	2.01%
Trader Joe's	7	108	1.57%	100	1.49%
Kohl's	8	102	1.48%		0.00%
Sears	9	100	1.45%		0.00%
Nob Hill Foods	10	96	1.39%		0.00%
Mervyn's LLC <sup>(2)</sup>				230	3.43%
Santa Cruz County Office of Education <sup>(3)</sup>				220	3.28%
Gottschalks Inc. <sup>(4)</sup>				188	2.81%
Sears <sup>(5)</sup>				150	2.24%
Orchard Supply Hardware <sup>(5)</sup>				125	1.87%
Spa Fitness Centers, Inc. <sup>(6)</sup>				125	1.87%
Longs Drug Stores <sup>(7)</sup>				100	1.49%
		1388	20.12%	1623	24.22%
Total City Labor Force		6900	100.00%	6701	100.00%

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

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

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

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

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

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

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

SOURCE: MuniService, LLC, City of Capitola Finance Department

2013-18

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

Function	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General government										
City Manager	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.75	7.65
Finance	5.25	5.25	5.25	5.25	5.38	4.38	4.38	4.38	4.38	4.38
City Attorney	0.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	<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>	<u>13.03</u>
Police										
Chief, Captain, Sgts.	7.00	7.00	7.00	7.00	7.00	6.00	6.00	6.00	6.00	6.00
Officers	13.00	13.00	14.00	15.00	15.00	15.00	15.00	15.50	15.00	15.00
CSOs	2.00	3.00	3.00	3.00	3.00	3.00	2.00	2.00	2.00	3.00
Parking Enforcement	3.00	3.00	3.00	3.00	3.00	3.00	3.00	2.00	3.00	2.00
Administrative	3.25	5.50	5.75	6.50	6.50	6.50	4.75	4.75	3.75	4.25
	<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>	<u>30.25</u>
Public Works										
Streets	8.33	8.33	8.33	8.00	8.33	8.33	7.33	7.33	7.33	5.00
Parks	5.00	5.00	5.00	5.00	5.00	5.00	4.00	4.00	3.00	4.00
Fleet Maintenance	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	<u>14.33</u>	<u>14.33</u>	<u>14.33</u>	<u>14.00</u>	<u>14.33</u>	<u>14.33</u>	<u>12.33</u>	<u>12.33</u>	<u>11.33</u>	<u>10.00</u>
Recreation										
Supervisor	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Other - full year	2.00	2.00	2.00	2.00	2.00	1.50	1.50	1.50	1.50	2.00
	<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>	<u>3.00</u>
Community Development	3.67	4.67	4.67	4.00	4.67	4.67	3.67	3.67	1.67	2.00
Building	2.00	2.00	2.00	2.00	2.00	2.00	1.00	1.50	2.00	2.00
Total City Employees	<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>	<u>60.28</u>

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

SOURCE: City of Capitola Finance Department

2013-19

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

INDICATOR	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<u>Police department</u>										
Adult arrests	852	877	879	1,069	1,000	908	850	731	766	693
Calls for service (in thousands)	22	18	21	22	21	20	20	19	20	16
<u>Public works</u>										
Miles paved	26	26	26	26	26	26	26	26	26	26
<u>New construction</u>										
<u>Commercial units</u>										
Valuation (in millions)	\$ 1	-	\$ 4	\$ 5	\$ 1	\$ 1	\$ 13	-	-	-
<u>Residential units <sup>(1)</sup></u>										
Valuation (in millions)	\$ 3	\$ 4	\$ 6	\$ 6	\$ 11	\$ 20	\$ 2	\$ 1	\$ 3	\$ 3
<u>Recreation Revenue</u>										
(in thousands)										
Classes	\$ 330	\$ 321	\$ 335	\$ 356	\$ 378	\$ 336	\$ 319	\$ 325	\$ 329	\$ 298
Sports fees	79	61	72	82	70	71	59	61	60	53
Junior Guard	142	171	169	184	175	194	214	220	241	240
Camp Capitola	54	71	67	76	80	80	79	102	121	94
Aquatics	24	27	27	23	19	-	-	-	-	-
Net Class Revenue	\$ 629	\$ 651	\$ 670	\$ 721	\$ 722	\$ 681	\$ 671	\$ 708	\$ 751	\$ 685
Jade St. Rental	7	16	16	8	7	4	5	5	6	7
Net Recreation Rev	\$ 636	\$ 667	\$ 686	\$ 729	\$ 729	\$ 685	\$ 676	\$ 713	\$ 757	\$ 692

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

Source: City of Capitola Building Department, Finance Department, Police Department, Public Works Department

2013-20

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

Indicator	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Public works										
Streets (miles)	26	26	26	26	26	26	26	26	26	26
Streetlights	71	71	71	71	71	71	71	71	71	71
Traffic signals	8	8	8	8	8	8	8	8	8	8
Parks and recreation										
Parks	7	7	7	7	7	7	7	7	7	7
Community centers	1	1	1	1	1	1	1	1	1	1
General										
Commercial buildings	2	2	2	2	2	2	2	2	2	2

Source: City of Capitola Public Works Department

**2013-21**