

Comprehensive Annual Financial Report



City of Capitola, California
Fiscal Year Ended June 30, 2018

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CITY OF CAPITOLA, CALIFORNIA

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Prepared by the Capitola Finance Department

**City of Capitola
Comprehensive Annual Financial Report
Year Ended June 30, 2018**

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INTRODUCTORY SECTION

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December 13, 2018

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

SUBJECT: Comprehensive Annual Financial Report - June 30, 2018

The Comprehensive Annual Financial Report (CAFR) for the City of Capitola for the fiscal year ended June 30, 2018, is hereby submitted.

REPORT PURPOSE AND ORGANIZATION

State law requires the accounts and fiscal affairs of all municipal entities be examined annually by an independent certified public accountant. The City's independent auditor, Vavrinek, Trine, Day & Co., LLP has audited the City's financial statements and issued an unmodified opinion that the financial statements for fiscal year ended June 30, 2018, 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, 2018 and included in the financial section of this report in fulfillment of the above requirement.

The independent audit of the financial statements is also typically conducted in conjunction with the federally mandated Single Audit. The standards governing the Single Audit require the independent auditor to report on items beyond fair presentation of the financial statements, including internal controls and compliance with legal requirements involving the administration of federal awards. A Single Audit Report on Federal Award Programs was not required or prepared in FY 2018 because the City had less than \$750,000 in federal grant expenditures. The City's last required Single Audit Report is available for the year ended June 30, 2012.

This report consists of City management's representations concerning the finances of the City of Capitola. Consequently, management assumes full responsibility for completeness, accuracy of data, and fairness of presentation, including all footnotes and disclosures. Management believes the data presented is 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 our knowledge, 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 of about 10,500. 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 sandy 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.

Named the Most Walkable Beach Town in the United States by Elle Décor Magazine and voted as one of the best small coastal towns by Sunset Magazine, Capitola offers fishing and boating services in addition to its beachfront restaurants, shops, and entertainment. Other visitor attractions include the Capitola Historical Museum and Capitola Wharf.

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

Capitola is also fortunate to have outstanding educational opportunities. In addition to having 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 on 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 limited drainage services.

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

Financial data for all funds through which services are provided by the City have been included in this report based on the criteria adopted by the Government Accounting Standards Board (GASB), which is the authoritative body in establishing United States 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 level. Capital projects are budgeted at the individual project level. City Council may appropriate, amend, or transfer funds by an affirmative vote of three or more Council members at any regular or special Council meeting.

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

FACTORS AFFECTING FINANCIAL CONDITION

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

Local Economy

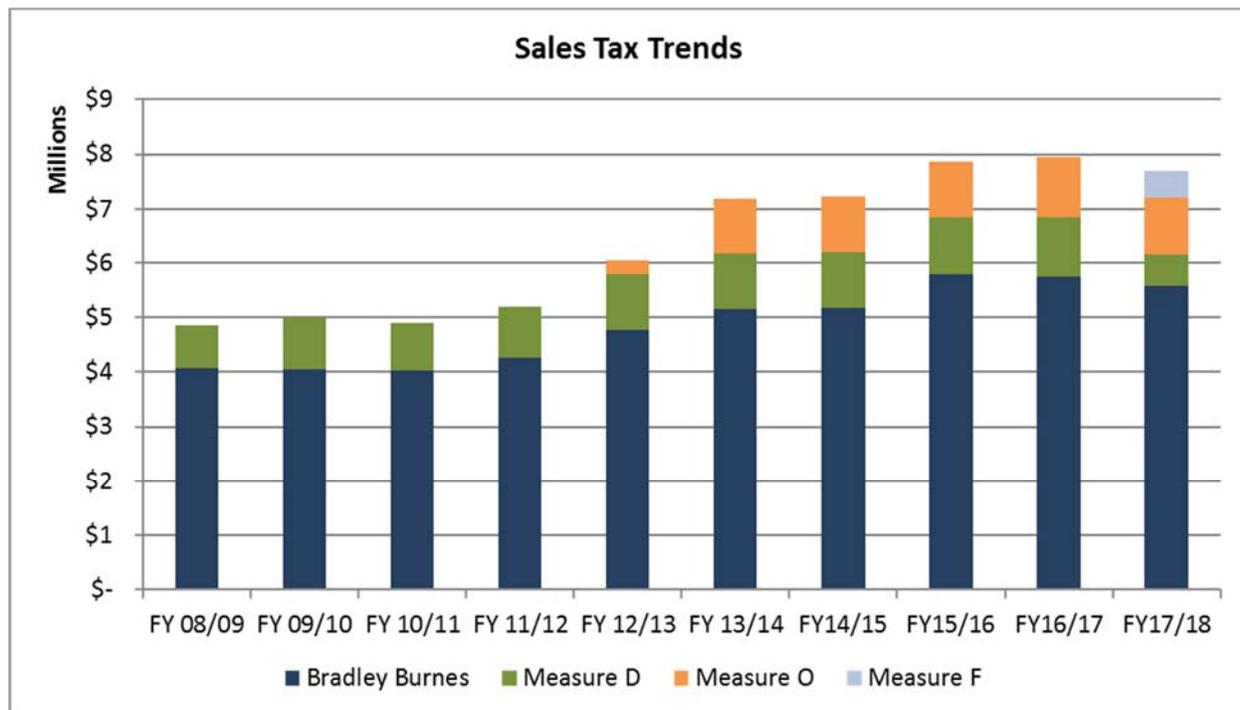
The City of Capitola is beginning to see the local economy level off after several years of growth. The budget for core revenues, such as sales, property, and transient occupancy taxes was increased at mid-year by \$75,000 to reflect increased performance during the first half of the year, however the combined year-end amounts were below the amended budget by \$287,902. It should be noted that the California Department of Tax and Fee Administration (CDTFA) implemented new software in January 2018 and have had issues processing tax returns. As of June 30, 2018, it was estimated that there were approximately 90,000 unprocessed tax returns state wide which

has contributed to the reduced sales tax receipts by the City. First quarter sales tax receipts for FY 2018/19 exceeded the budget by \$258,484 (18%) which is most likely the result of the CDTFA catching up on processing tax returns from prior quarters. The General Funds primary operations resulted in a net decrease in fund balance of \$581,911, however, this was substantially less than the budgeted decrease in fund balance of \$868,509. Attention was paid to the leveling off of key revenue sources in developing the City’s two-year budget plan, with an emphasis on solidifying the City’s fiscal position, planning for the long-term and implementing capital improvements.

The three major sources of General Fund revenue include Sales Tax, Property Tax, and Transient Occupancy Tax (TOT). These three revenues account for approximately 73% of all General Fund Revenues.

Sales tax is the City’s largest source of revenue, accounting for just under 50% of the General Fund Revenues. The City sales tax consists of 1% Bradley Burns, 0.25% Capitola District Tax (Measure F), and a 0.25% Capitola District Tax (Measure O) that became effective in the last quarter of FY 2012/13. In FY 2017/18, the combined sales tax receipts of \$7.69 million were 2.31% less than amended budgetary estimates and \$271,127 lower than the prior year, however, some of the reduction is due to unprocessed sales tax returns previously mentioned.

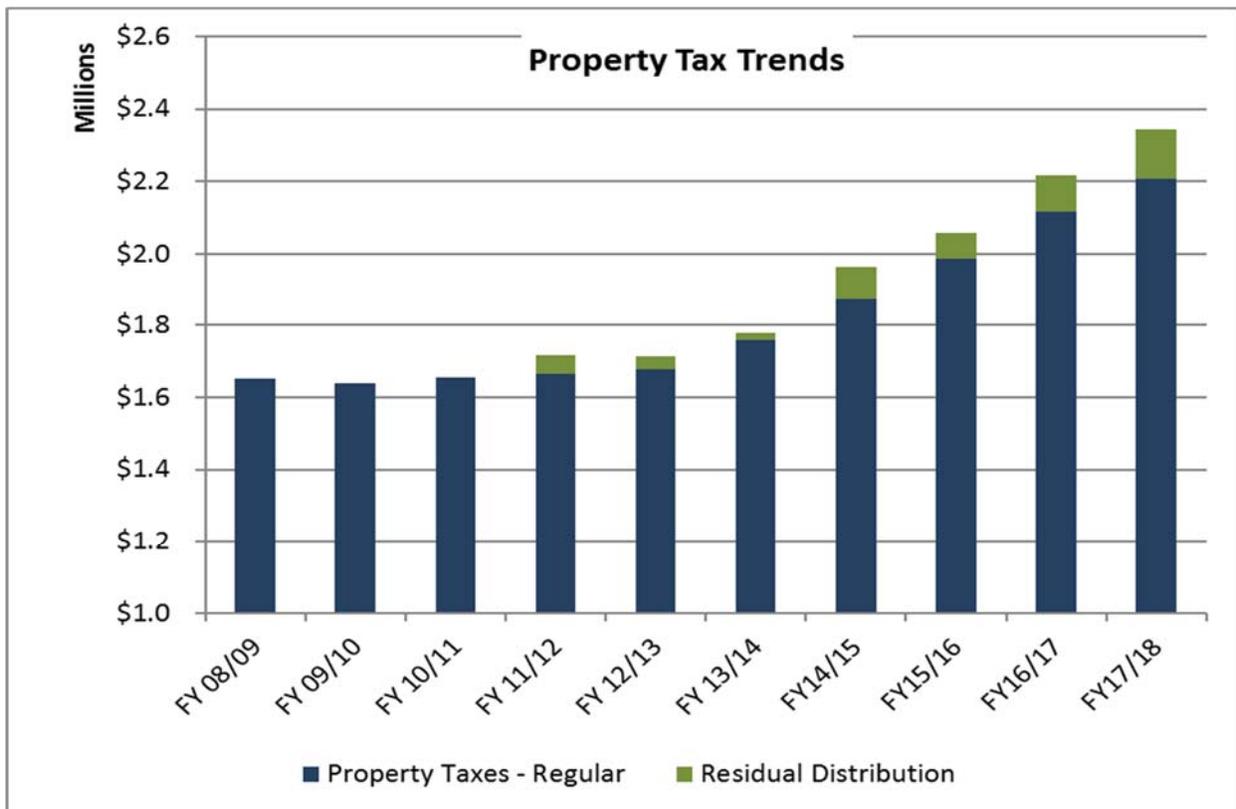
Sales tax receipts are volatile and reflect the current local, state, and national economic condition. Sales Tax collections for the City of Capitola decreased year over year for the first time since FY 2009/10. The graph below shows that sales tax revenues responded to the weakening economy in FY 2008/09 after the closure of two auto dealerships and two major department stores. In FY 2009/10, the economy began to slowly show signs of recovery. The following chart shows these increases as well as demonstrates the proportional share of District and Bradley Burns Sales taxes.



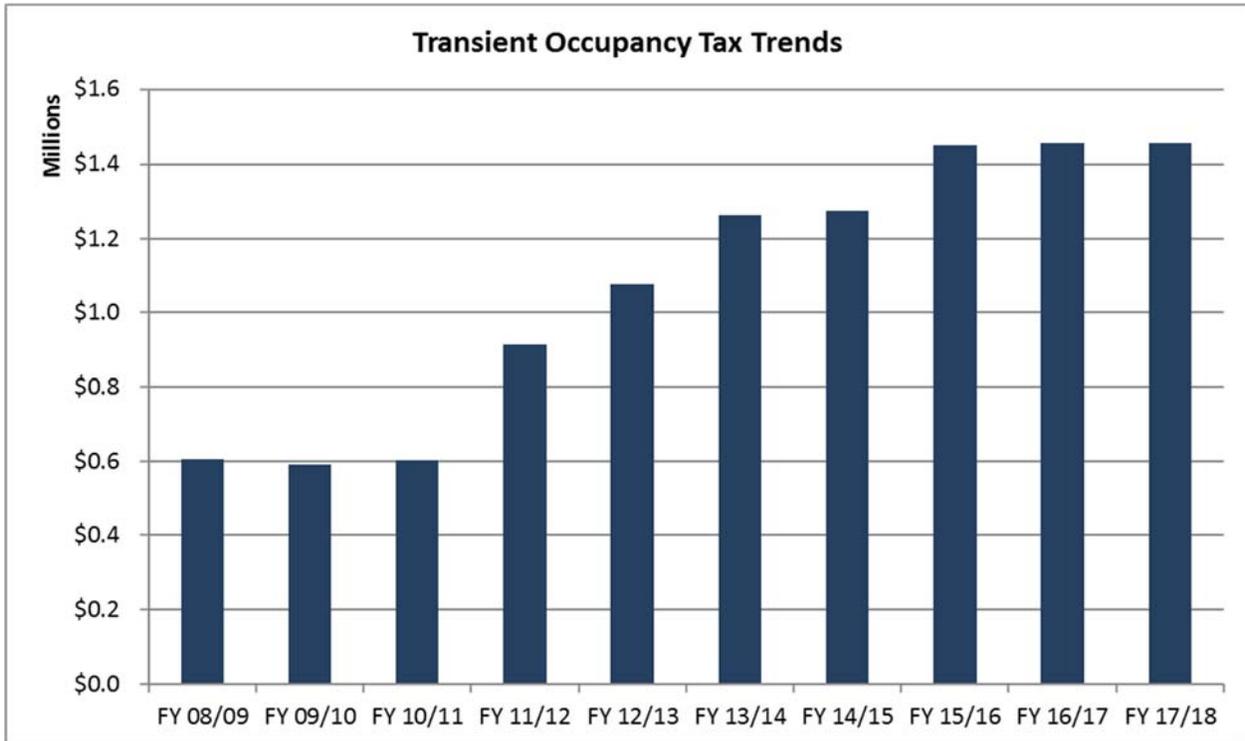
Capitola's second major source of revenue is property tax. In FY 2017/18 the General Fund received \$2.24 million in property tax receipts, prior to inclusion of Documentary Transfer Tax and Residual RDA distributions. This base amount was approximately \$123,444 more than the prior year and was \$34,213 above the final budgeted amount. Over the last three fiscal years the City has experienced approximately 13.8% growth in property tax collections.

Due to the dissolution of the Capitola Redevelopment Agency (RDA), the RDA's tax increment revenues are distributed to the Successor Agency Redevelopment Property Tax Trust Fund (RPTTF) in amounts that are only sufficient to fund obligations approved by the independent Oversight Board. Before the RDA dissolution, the City and RDA received over \$2 million a year. It is anticipated the City will receive residual distributions of RPTTF revenues in FY 2018/19 due to a reduction in required Successor Agency obligations.

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



Transient Occupancy Tax (TOT) represents approximately 10% of General Fund revenues. In FY 2011/12, TOT revenues increased by \$310,000 over the prior year due to increased economic performance and the addition of a new 84-room major hotel. Tourism and Economic growth have remained stable, however TOT decreased slightly in FY 2017/18 following 7 years of growth. The City processed a TOT overpayment claim in FY 2014/15 that reduced year over year TOT performance. TOT collections in FY 2017/18 decreased 0.06% compared to the prior year. The current FY 2018/19 TOT collections continue to remain stable and on budget for the first quarter.



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, with the extension to expire in December of 2017. In 2016, voters passed Measure F to extend the temporary quarter of one percent sales tax for an additional ten years. The City is committed to using this funding source to protect the wharf and beach from storms and rising sea levels, maintain police services, and improve sidewalks, parks, and bike safety. The adopted FY 2018/19 budget continues implementing these commitments as Measure F went into effect on January 1, 2018.

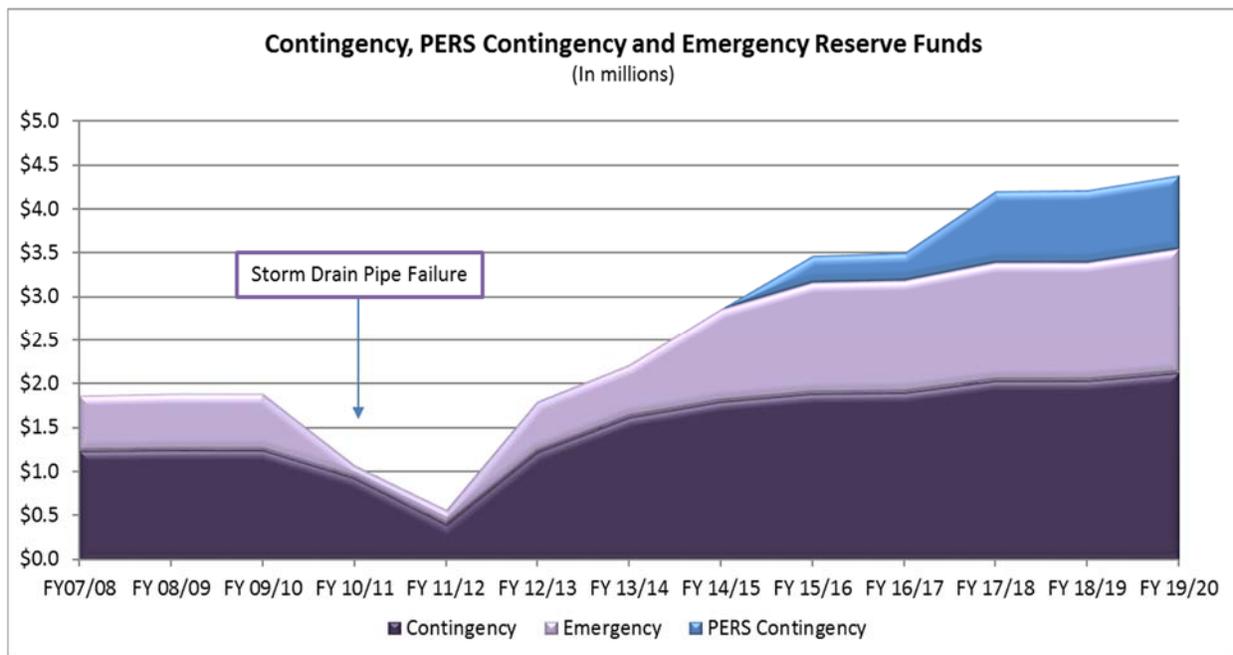
The second District sales tax, Measure O, is a permanent 0.25% sales tax that was approved by voters in November 2012 and went into effect April 1, 2013. Measure O was implemented with the goal of replenishing reserves, funding CIP projects, and providing support for public safety initiatives. The City developed a five-year plan to ensure that Measure O funds were applied to their stated priorities. Each of the district taxes collect approximately \$1.1 million in General Fund revenues annually.

Replenishing and Increasing Reserves

The City has been proactive in rebuilding a stable reserve level. A portion of Measure O revenues were set aside to replenish the Contingency and Emergency Reserve Funds. The City's reserves were depleted in March of 2011 when an underground storm drain failed, which resulted in damage to the Pacific Cove Mobile Home Park, City Hall, and portions of Capitola Village. As a result, the City paid \$1.4 million in flood related costs over a two-year period and assumed a \$2.39 million debt to relocate residents of the City-owned Pacific Cove mobile home park. This incident reduced the City's reserves from \$1.87 million in FY 2009/10 to \$561,000 in FY 2011/12. This incident, along with the economic downturn, emphasized the need to review reserve policy levels to ensure the City was maintaining a sufficient balance to effectively manage unforeseen events.

In FY 2012/13 the City increased the Emergency Reserve funding level from 5% to 10% of operating expenditures and the Contingency Reserve funding level from 10% to 15% to ensure sufficient reserves are available to offset the effects of the next economic downturn and unforeseen emergencies.

In FY 2015/16 the City implemented a PERS Contingency Reserve Fund to ensure future funding availability for potential CalPERS contribution increases. The initial funding came from a \$300,000 transfer from the General Fund. The City invested the funds with Public Agency Retirement Services (PARS) in a moderately conservative trust fund that allows for a higher rate of return. During FY 2017/18, the City put an additional \$500,000 in the PERS trust fund.



Maintain the Facilities Reserve Fund

The City created a Facilities Reserve Fund in FY 2014/15. The purpose of the Facilities Reserve Fund is to create a mechanism to fund future facility maintenance projects. Examples of projects that could be financed through the fund include: replacing roofs, painting exteriors, replacing mechanical/electrical equipment, and maintenance of adjoining parking spaces. The Facilities Reserve Fund ended FY 2017/18 with a cash balance of \$339,870. The FY 2018/19 budget includes an additional \$90,000 transfer into the Facilities Reserve Fund to offset anticipated expenditures of \$90,000.

Funding Other Post-Employment Benefits Obligation (OPEB)

The City created an OPEB trust fund in FY 2013/14. Before prefunding the OPEB Liability, the City historically contributed the Minimum Employer Contribution required under the Public Employees' Medical and Hospital Care Act (PEMHCA). The transition from "pay as you go" financing to full funding, reduced the City's long-term liability from \$1,011,800 to \$657,500. The Unfunded Actuarial Accrued Liability at June 30, 2018 was \$604,437. In the FY 2018/19 Adopted and FY 2019/20 Planned Budgets the City has planned to fully fund the annual actuarially determined contribution amount.

Controlling Personnel Costs

Being a service-oriented organization, personnel costs make up the largest General Fund expenditure. The personnel budget comprises approximately 65% of the General Fund.

In FY 2013/14 all bargaining units agreed to multi-year contracts through June 30, 2018, with a cost sharing of CalPERS contributions, cost of living adjustments (COLA) based on the Consumer Price Index, and Flex Health Care spending increases. All bargaining units, with the exception of the Police Officers Association, agreed to new two-year contracts with similar cost sharing of CalPERS contributions, COLA's, and Flex Health Care spending increases in June 2018. The Police Officers Association agreed to a new three-year contract with similar cost sharing elements in October 2018.

Recent changes in CalPERS' risk pools have had a significant negative impact on the City. These changes will result in average annual increases of 15% in CalPERS costs over the next five years. Understanding that existing employees were already contributing more than the CalPERS-designated "employee share," the City's current labor contracts set future employee CalPERS contribution rates at a fixed percentage of compensation to reduce the impact on employees.

The number of positions city-wide decreased .75 FTE in FY 2018/19, due to a reorganization in multiple departments ultimately reducing staff in the Finance Department. The total city-wide FTE's in FY 2018/19 is 66.50.

Major Initiatives

Seeking Resolution on City / Successor Agency Loans

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

In June 14, 2012, the Successor Agency and City approved exchanging the \$1.35 million Rispin Property Loan for the original subject property. Due to delays in Department of Finance approval, the City formally accepted the Rispin property in October of 2013, after successfully completing a Long-Range Property Management Plan. The City plans to open the park to the public after completing ADA improvements funded by City, grant funds, and RPPTF distributions related to a

Rispin Settlement Agreement. A complete discussion of the related Rispin Settlement Agreement is included in Note 14.

The Successor Agency was able to reinstate the \$618,028 Loan and Cooperative Agreement, with the first payment received in February 2016. The FY 2018/19 adopted budget includes a payment of \$47,363 which will complete the payoff of the loan one year earlier than originally anticipated.

Funding Measure F Commitments

In November 2016 voters of Capitola approved extending an existing quarter of one percent sales tax for an additional ten years. The city has committed this sales tax revenue to protecting the beach and wharf from rising sea levels and storms, supporting bike and pedestrian safety projects, and maintaining police staffing levels.

The FY 2018/19 adopted budget includes the allocation of Measure F funding to continue work on the preliminary design of the Wharf, flume reconstruction and jetty reconstruction. Work began on these projects in FY 2017/18 along with the use of Measure F funds to replace the 20-year-old front end loader for beach maintenance.

New Capitola Branch Library

In 1999 the City of Capitola built a temporary 4,320 square foot library at the corner of Clares Street and Wharf Road. The City's former RDA entered a contract with the County to construct a permanent library and contributed \$2.67 million to a County-held trust fund that would be used to help build the Capitola library. Measure S, which was approved by voters on June 7, 2016, will provide an additional \$10 million which is \$2 million more than originally anticipated. The current project budget is \$15.15 million and is fully funded by the above mentioned former RDA and Measure S funds as well as General Fund transfers and fundraising by the Friends of the Capitola Library. The City broke ground for the new Library on November 9, 2018 and anticipates the project to take 16 – 18 months for completion.

Relevant Financial Policies

Financial Management Policies

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

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

Investment Policy

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

AWARD FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) also awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Capitola's CAFR for the fiscal years ended June 30, 2012 through June 30, 2017. This Certificate of Achievement is a prominent national award recognizing conformance with the highest standards for preparation of State and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

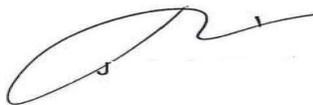
Prior to receiving the GFOA Award, the City received the Certificate for Outstanding Financial Reporting for its Comprehensive Annual Financial Report (CAFR) by the California Society of Municipal Finance Officers (CSMFO). This award was received consistently since FY 1999/00. Once a GFOA Award is received, CSMFO prohibits cities from applying and receiving both awards.

ACKNOWLEDGEMENTS

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

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

Respectfully submitted,



Jamie Goldstein
City Manager

CITY OF CAPITOLA
LIST OF PRINCIPAL OFFICIALS
FOR
FISCAL YEAR ENDED JUNE 30, 2018

ELECTED OFFICIALS

Mayor – Michael Termini
Vice Mayor – Jacques Bertrand
Council Member – Ed Bottorff
Council Member – Stephanie Harlan
Council Member – Kristen Petersen
City Treasurer – Peter Wilk

APPOINTED OFFICIALS

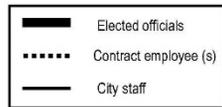
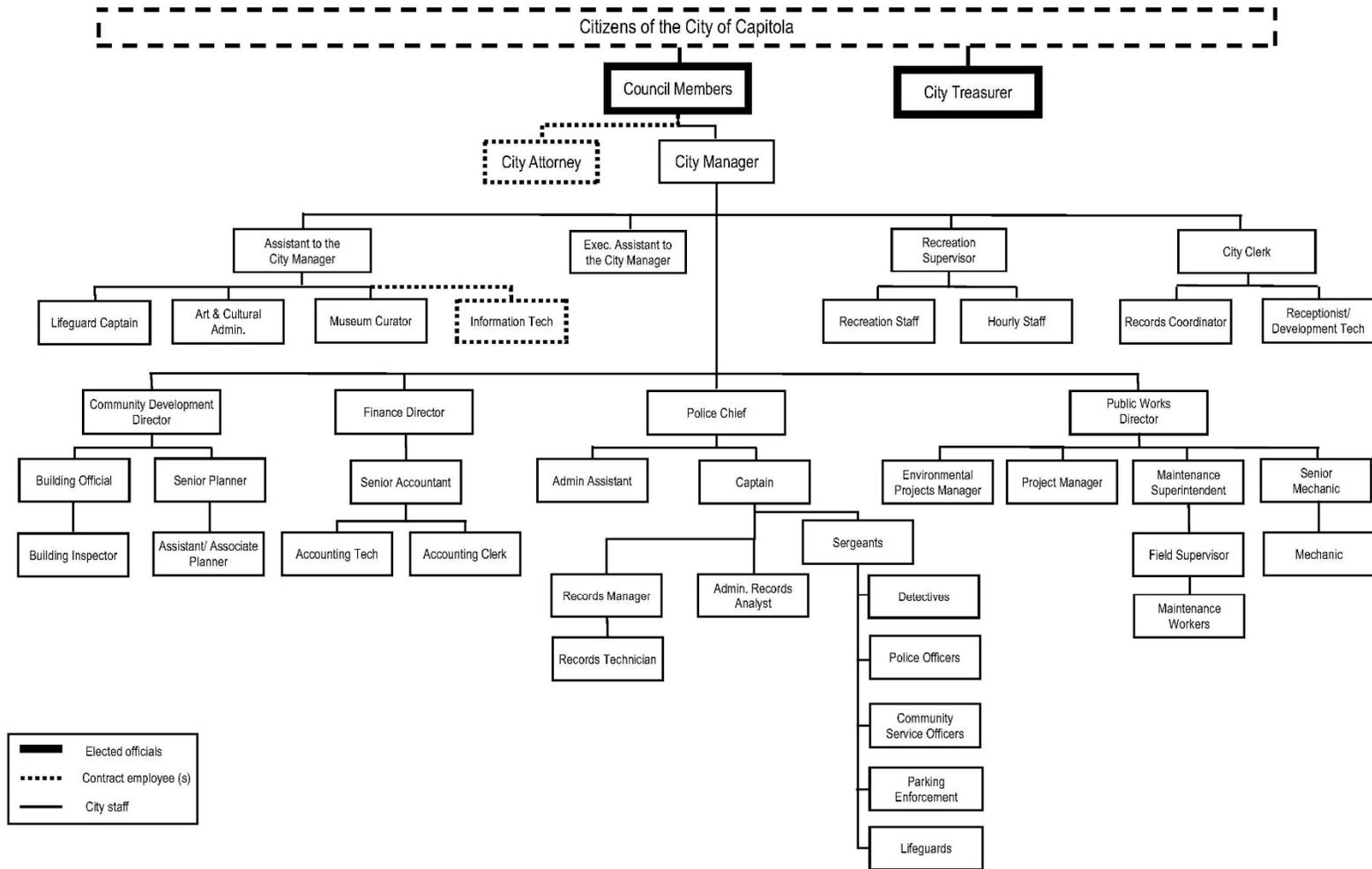
City Manager – Jamie Goldstein
City Attorney – Atchison, Barisone, Condotti & Kovacevich

DEPARTMENT HEADS/ADMINISTRATORS

Assistant to the City Manager – Larry Laurent
Chief of Police – Terry McManus
City Clerk – Linda Fridy
Community Development Director – Katie Herlihy
Finance Director – Jim Malberg
Public Works Director – Steve Jesberg

CITY OF CAPITOLA

ORGANIZATIONAL CHART



CITY OF CAPITOLA

GFOA Awards



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, 2017

Christopher P. Morill

Executive Director/CEO

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FINANCIAL SECTION

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE *difference*

INDEPENDENT AUDITOR'S REPORT

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 (City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2018, and the respective changes in financial position, 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, Schedule of Changes in Net OPEB Liability, Schedule of OPEB Contributions, Schedule of City's Proportionate Share of the Plan's Net Pension Liability and Related Ratios as of the Measurement Date, Schedule of Plan Contributions, Budgetary Comparison Schedules, as noted in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2018, 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.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 6, 2018

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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, 2018. 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

- Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$15.98 million (net position).
- Total net position increased by \$2,480,449 from FY 2016/17.
- The City's net capital assets increased by \$1,137,225 from the prior year.
- The City's long-term liabilities increased by \$2,333,881 from the prior year. This change is mostly due to the increase in net pension liability. See Notes 6 and 10 for details.

Fund Highlights

- The City's governmental funds reported combined fund balances of \$20 million, an increase of \$10 million from the prior year. Of the \$20 million fund balance, \$58,430 is reported as non-spendable, \$2.9 million is assigned and \$5.4 million is unassigned, or available for spending at the City's discretion. An additional \$11.7 million is restricted for specific purposes by their providers through constitutional provisions or by enabling legislation in accordance with generally accepted accounting principles, which is further described in Note 1, Section D10.
- The \$10 million increase in the combined governmental fund balances was primarily the result of the reclassification \$8.7 million of housing related loans from unearned revenue to loans receivable. Additionally, the fund balance in the Library Fund increased by \$1.4 million as the City prepared to begin construction of a new Library.
- The Unassigned fund balance for the General Fund was \$5.4 million, or 41% of General Fund operating expenditures, a decrease of 2% compared to the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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 user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, community development, culture and recreation, and transportation. The City does not have any business-type activities.

The Government-Wide Financial Statements include the City of Capitola (known as the primary government).

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

Fund Financial Statements

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

Governmental Funds are used to account for 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 currently has two major governmental funds: General Fund and the Capital Projects Fund. 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 six 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 and the Capital Projects Fund are presented in the Required Supplementary Information section of this document. The budgetary comparison statements for Non-Major Governmental Funds and Fiduciary Funds are presented in the Supplementary Information Section of this report. All budget amendments require City Council approval for amounts over \$25,000.

The basic governmental fund financial statements can be found on pages 19-23 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 only agency fund is the 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 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 27-65 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 net other postemployment benefits liability and contributions for the Healthcare Plan, the schedule of the City's proportionate share of the plans' net pension liability and related ratios, the schedule of plan contributions, and budget to actual comparisons, as noted in the table of contents.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve as a useful indicator of the City's financial position. For the fiscal year ended June 30, 2018, assets and deferred outflows exceeded liabilities and deferred inflows of resources by \$15.98 million.

	Governmental Activities	
	2018	2017
Current and other assets	\$ 21,626,778	\$ 19,926,121
Capital assets	18,213,187	17,075,962
Total Assets	\$ 39,839,965	\$ 37,002,083
Total Deferred Outflows of Resources	6,287,905	3,616,979
Other liabilities	1,569,269	1,550,297
Long term liabilities		
Due in one year	252,553	852,883
Due in more than one year	25,967,063	23,032,852
Total Liabilities	27,788,885	25,436,032
Total Deferred Inflows of Resources	2,360,561	1,512,367
Net Position:		
Net investment in capital assets	15,772,831	14,457,242
Restricted	11,741,946	9,096,369
Unrestricted	(11,536,353)	(9,882,948)
Total Net Position	\$ 15,978,424	\$ 13,670,663

The largest portion of the City's net position, \$15.77 million, 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 its citizens. Consequently, these assets are 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. An additional portion of the City's net position, \$11.7 million, represented resources that were subject to external restrictions on how they may be used. The remaining (\$11.5) million of the City's net position, were "unrestricted," and may be used to meet the government's ongoing obligations to citizens and creditors. The unrestricted portion of net position is negative due to the City's \$22.4 million net pension liability.

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

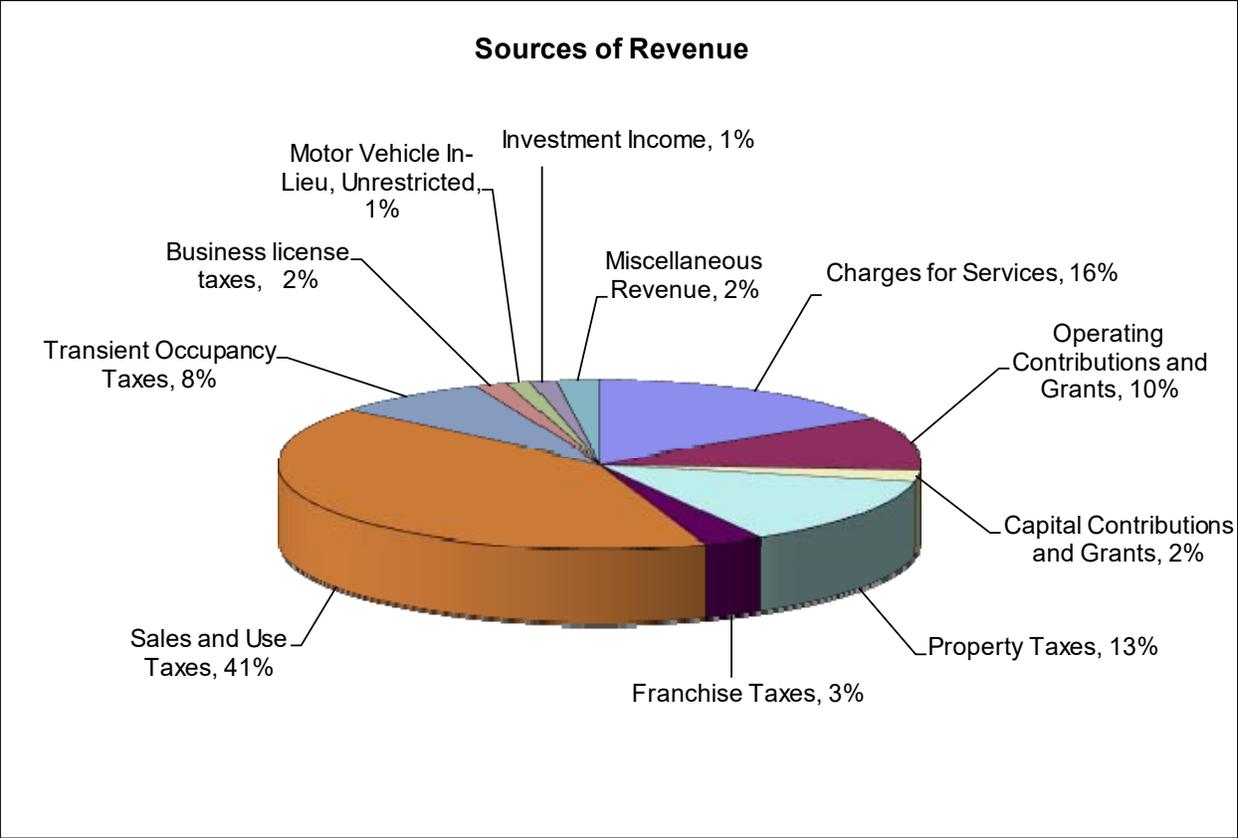
Governmental Activities

Governmental activities increased the City of Capitola's net position by \$2,440,449. The increase is due to decreases of expenses exceeding the decreases of revenues when compared to the prior year. The table below shows the changes between fiscal years 2017 and 2018:

	2018	2017
Revenues		
Program revenues:		
Charges for services	\$ 3,022,549	\$ 2,900,636
Operating grants and contributions	1,832,247	3,329,091
Capital contributions and grants	412,534	146,378
General revenues:		
Taxes:		
Property taxes	2,497,980	2,288,341
Franchise taxes	555,475	534,513
Sales and use taxes	7,687,959	7,959,086
Transient occupancy taxes	1,456,899	1,457,704
Business license taxes	308,236	301,545
Motor vehicle in-lieu, unrestricted	223,319	201,295
Investment income, unrestricted	237,383	264,040
Miscellaneous revenue	406,456	225,230
Total revenues	18,641,037	19,607,859
Expenses		
General government	3,594,141	3,975,030
Public safety	6,822,428	7,461,862
Community development	1,057,049	1,090,291
Culture and recreation	1,227,673	1,301,852
Transportation	3,382,294	3,211,535
Interest and other charges	77,003	119,171
Total expenses	16,160,588	17,159,741
Change in Net Position	2,480,449	2,448,118
Beginning Net Position, Previously Reported	13,670,663	11,222,545
Restatement - Change in Accounting Principle	(172,688)	-
Beginning Net Position, as Restated	13,497,975	11,222,545
Ending Net Position	\$ 15,978,424	\$ 13,670,663

Revenues

As shown in the Statement of Activities, revenues for FY 2017/18 totaled \$18.6 million. The following graph includes program and general revenues and shows the percentage of governmental revenues by source:



Revenues decreased \$966,822, or 4.9%, from the prior year. This was primarily due to the following factors:

- Operating grants and contributions – Decreased \$1,496,844 from the prior year. The decrease was primarily due to recognizing unavailable revenue rather than showing it as a deferred inflow of resources on the statement of net position in the prior year.
- Property taxes – Increased \$209,639 over the prior year. This increase was consistent with property valuation increases provided by the County Auditor Controller.
- Sales and use taxes – Decreased \$271,127 over the prior year primarily due to unprocessed sales tax returns by the California Department of Tax and Fee Administration.
- Capital contributions and grants – Increased \$266,156 compared to last fiscal year due to an increase in public safety related grants.

Cost of Services

Based on generally accepted accounting principles, 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 \$5.27 million.

The table below shows the costs and revenues of each of the City’s programs:

	Total Cost of Services	Program Revenues	Net Cost of Services
General government	\$ 3,594,141	\$ 2,345,258	\$ (1,248,883)
Public safety	6,822,428	1,110,477	(5,711,951)
Community development	1,057,049	1,077,274	20,225
Culture and recreation	1,227,673	635,744	(591,929)
Transportation	3,382,294	98,577	(3,283,717)
Interest and other charges	77,003	-	(77,003)
Totals	\$ 16,160,588	\$ 5,267,330	\$ (10,893,258)

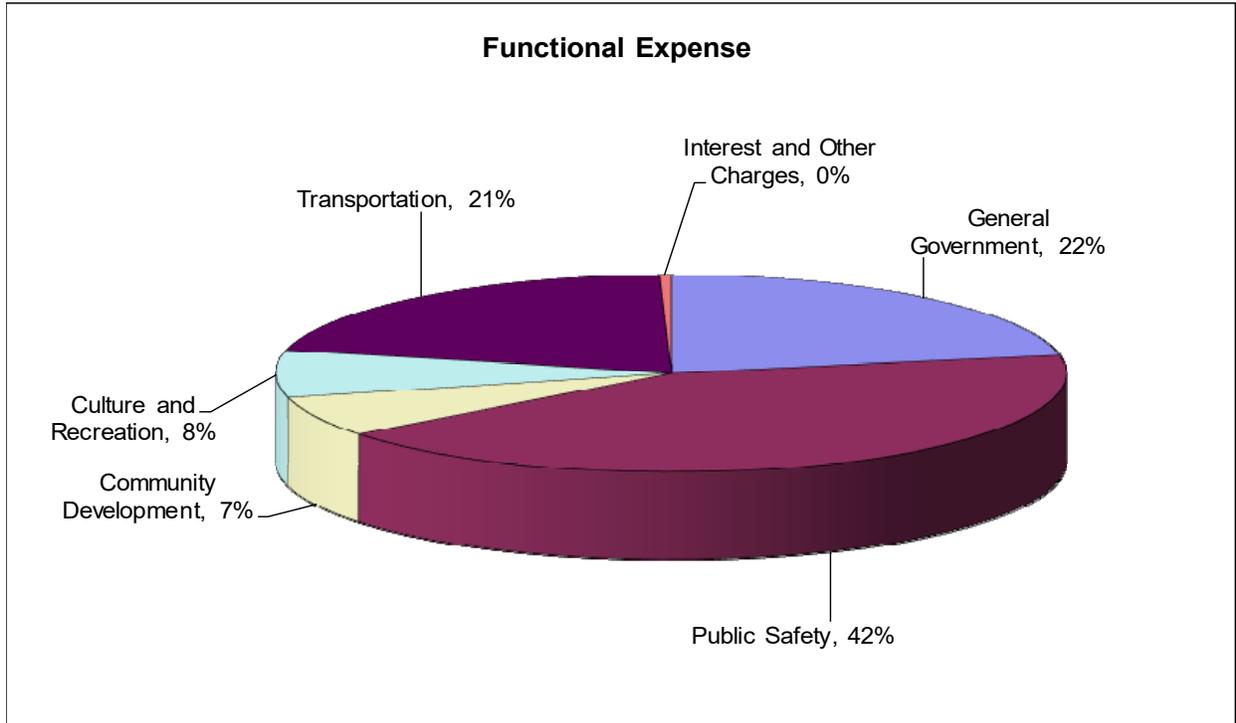
A description of each program is listed below:

- General Government expenses comprise approximately 22% 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 42% of all governmental expenses. Revenues from fines, citations, grants, and animal services partially offset the cost of this program.
- Community Development expenses comprise approximately 7% of all governmental expenses. Various building and planning fees, along with grant revenues, assist in funding these program costs.
- Culture and Recreation expenses comprise 8% of all governmental expenses. These programs are primarily funded through recreational classes and sports fees.
- Transportation/Public Works expenses comprise 21% of all governmental expenses. This includes street, facility, park, and fleet maintenance. Costs are partially offset by motor vehicle fuel taxes and various fees.
- Interest expense comprises less than 1% of all governmental expenses. This interest expense is used to pay long-term debt obligations.

Expenses

As shown in the Statement of Activities, expenses decreased by \$999,153. This was primarily due to decreased expenses in general government and public safety related to vacant positions and contract services.

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 comply 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 \$20 million, an increase of \$1,663,720 compared with the prior year. Of this fund balance, \$58,430 is reported as non-spendable and \$2.9 million is assigned to the following priorities: \$1.3 million is allocated to emergency reserves, \$0.1 million is assigned to debt service and \$1.5 million is allotted to capital projects. An additional \$5.8 million is available for spending at the City's discretion.

General Fund - The General Fund is the chief operating fund of the City of Capitola and had a fund balance of \$6.7 million at year end. This represents a decrease of \$0.6 million, or 2.7%, below the prior year. Approximately 80% was unassigned fund balance, which was available for spending at the City's discretion. Most of the non-spendable fund balance represents the remaining balance of \$47,362 of the Loan and Cooperative Agreement with the Successor Agency that was used to establish the former Redevelopment Agency. Additional information regarding this agreement can be found in Note 14.

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

	City Budget Documents	General Plan / Open Space / Donations	Emergency / Contingency / Facilities Reserve / PERS	Internal Service Funds	Financial Statements
Beginning Fund Balance	\$ 2,648,924	\$ 36,899	\$ 3,828,608	\$ 822,594	\$ 7,337,025
Revenues	15,609,484	98,292	7,670	-	15,715,446
Expenditures	13,284,573	38,378	33,521	503,214	13,859,686
Net Operating Difference	2,324,911	59,914	(25,851)	(503,214)	1,855,760
Financing Sources/Uses	(3,622,550)	(10,120)	810,000	385,000	(2,437,670)
Net Change in Fund Balance	(1,297,639)	49,794	784,149	(118,214)	(581,910)
Ending Fund Balance	\$ 1,351,285	\$ 86,693	\$ 4,612,757	\$ 704,380	\$ 6,755,115

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

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 revenues represent the receipt of principal and interest payments from loan recipients.

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

Capital Projects Fund – This fund is used to account for financial resources to be used for the acquisition or construction of public facilities. The total cost of a capital project is accumulated in a single expenditures account, which accumulates until the project is completed, at which time the fund ceases to exist.

GENERAL FUND BUDGETARY HIGHLIGHTS



A detailed budgetary comparison schedule for the year ended June 30, 2018, is presented as Required Supplementary Information following the notes to the financial statements. This information can be found on page 70. Key budgetary differences are provided below.

Revenues:

Actual revenues were below final budgeted amounts by \$547,344. The shortfall was primarily due to lower sales tax receipts, reduced citation and fine revenues and lower community development and recreation fees received, offset partially by higher property taxes, licenses and permits and other revenues.

Expenses:

Expenses, prior to transfers, were \$350,937 above the final budget total due primarily to capital outlay related expenditures. This was partially offset due to lower than budgeted personnel expenditures due to vacant positions and a reorganization of staff between departments to improve operational efficiency.

Appropriations:

Variances between the Original and Final budgets are primarily due to the inclusion of continuing appropriations for special projects from the prior year, mid-year adjustments to reflect updated revenue and expenditure estimates, and new funding appropriated for additional CIP projects.

Fund Balance:

The General Fund's ending fund balance was \$6,755,114 as of June 30, 2018. This amount was approximately \$286,599 greater than the final budget projection based on the revenue and expenditure information noted above. A breakdown of General Fund fund balance is provided below. 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	\$	11,068
Due from successor agency		47,362
Assigned:		
Emergency reserve		1,277,206
Unassigned:		
Contingencies		3,335,551
Unassigned		<u>2,083,927</u>
Total fund balance	\$	<u><u>6,755,114</u></u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's value of governmental assets (net of accumulated depreciation) at the end of FY 2017/18 was \$18,213,187. This investment in capital assets includes land, building, equipment, vehicles and infrastructure. The infrastructure classification typically includes roads, streets, sidewalks, medians, and bridges. The total increase in the City's investment in capital assets for the current fiscal year was \$1,130,068, or 6.7%. The increase is due to an increase in construction in progress related to the Capitola Library project. Additional information on the City of Capitola's capital assets can be found in Note 4 to the financial statements.

Statement of Net Position		
Asset Type		
Land	\$	4,883,789
Buildings and improvements		2,392,272
Equipment		3,965,265
Infrastructure		29,844,039
Construction in progress		<u>2,391,865</u>
Total fixed assets		43,477,230
Less Depreciation		<u>(25,264,043)</u>
Capital Assets net of Depreciation	\$	<u><u>18,213,187</u></u>

Long-Term Debt

The City's long-term debt at the end of FY 2017/18 was \$3,259,913, a decrease of \$20,625,822 compared to FY 2016/17. The significant change is due to reclassifying the net pension liability as a long-term liability as opposed to long-term debt. An overview of all long-term obligations is presented below while comprehensive information can be found in Note 6.

Loans payable:	
Capital lease payable - Pacific Cove financing	\$ 1,295,592
Capital lease payable - Beach & Village financing	1,144,764
Notes payable	8,895
Compensated absences	<u>810,662</u>
Total long-term debt	<u>\$ 3,259,913</u>

ECONOMIC FACTORS, NEXT YEAR'S BUDGETS AND RATES

On June 28, 2018, the Council adopted the FY 2018/19 Budget with a total appropriation of \$28.4 million and a General Fund appropriation of \$15.9 million. Adequate resources were projected to be available to fund the proposed expenditures. The General Fund budget reflects a conservative growth estimate with projected sales tax revenues level with FY2017/18 receipts, transient occupancy tax revenues up 1.5% and property tax revenues increasing 4.0%. General Fund revenues are budgeted to exceed General Fund expenditures by approximately \$11,000.

The City has negotiated contracts with the Police Officers Association through FY 2020/21 and all remaining bargaining units through FY 2019/20, which include fixed cost of living adjustments (COLA's). The City implemented caps on pension costs prior to the FY 2015/16 budget but modified the cap to ensure employees didn't experience large decreases in net pay due to the projected contribution rate increases. Those caps remain in place under the new contracts.

Prospects for the Future

When the voters of Capitola passed Measure O, a quarter of one percent sales tax for a period of ten years, the City committed to replenishing reserves, maintaining police staffing levels and completing major street improvements during the five-year overlap with Measure D. Measure O sales tax revenues have been utilized to fully fund reserves at the City Council adopted funding levels as well as to increase street projects and maintain police department and public works staffing levels. Measure O expired on December 31, 2017.

In 2016 voters passed Measure F to extend the temporary quarter of one percent sales tax for an additional ten years. The City is committed to using this funding source to protect the wharf and beach from storms and rising sea levels, maintain police services, and improve sidewalks, parks, and bike safety. The adopted FY 2018/19 budget continues implementing these commitments as Measure F went into effect on January 1, 2018.

Opportunities for development include the Capitola Branch Library, Wharf resiliency improvements, flume repair or replacement, jetty improvements, and a roundabout on Bay Avenue. The new Capitola Branch Library began construction in November 2018 while the other projects are still in the planning phase. The funding for the new library comes from several sources, including the recently passed countywide Measure S, the former RDA trust fund held by the County, fundraising, and contributions from the General Fund for the remainder.

The City has successfully completed all current RDA dissolution and Assembly Bill 1484 (AB 1484) reporting and audit requirements and received approval for repayment of the \$618,028 loan made to the former RDA. The final payment will be made during FY 2018/19. Additional information can be found in the transmittal letter, as well as Note 14.

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 2011/12, there were beginning signs of economic recovery, with increased sales tax, TOT tax, and an increasing demand for building/planning services. This trend continued through FY 2016/17, however, Capitola's annual sales tax and transient occupancy tax leveled off in FY 2017/18. Increased home sales and prices have resulted in continued growth in property tax revenue which is consistent with statewide economic conditions.

In early 2017 the CalPERS Board approved a decrease in the discount rate it uses to project future funding needs. The discount rate is the expected rate of return on investments. The decreased discount rate has a major impact to the City's yearly unfunded actuarial liability (UAL) payment.

The City's FY 2018/19 UAL payment is approximately \$1.2 million which is a 25% increase over the prior year. Current projections show the City's UAL increasing to over \$2 million by FY 2021/22. These rising pension costs will likely pose significant challenges in coming fiscal years.

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 please contact the Finance Director at 420 Capitola Avenue, Capitola, California 95010.

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BASIC FINANCIAL STATEMENTS

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CITY OF CAPITOLA
Statement of Net Position
June 30, 2018

	Governmental Activities
ASSETS	
Cash and investments	\$ 10,917,914
Accounts receivable	50,355
Due from other governments	1,899,222
Prepaid items	11,068
Due from successor agency	47,362
Loans receivable, net	8,700,857
Capital assets:	
Non-depreciable:	
Land	4,883,789
Construction in progress	2,391,865
Depreciable:	
Equipment	3,965,265
Buildings and improvements	2,392,272
Infrastructure	29,844,039
Accumulated depreciation	(25,264,043)
Total Assets	39,839,965
DEFERRED OUTFLOWS OF RESOURCES	
Pension related	6,201,815
OPEB related	86,090
Total Deferred Outflows of Resources	6,287,905
LIABILITIES	
Accounts payable	412,432
Accrued liabilities	401,845
Interest payable	33,627
Deposits payable	342,790
Unearned revenue	378,575
Noncurrent liabilities:	
Due within one year	252,553
Due in more than one year	3,007,360
Other postemployment liability	604,437
Pension liability	22,355,266
Total Liabilities	27,788,885
DEFERRED INFLOWS OF RESOURCES	
Pension related	2,360,561
NET POSITION	
Net investment in capital assets	15,772,831
Restricted for:	
Public safety	10,101
Transportation	419,897
Community development	11,190,893
Culture and recreation	121,055
Unrestricted	(11,536,353)
Total Net Position	\$ 15,978,424

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

CITY OF CAPITOLA
Statement of Activities
Year Ended June 30, 2018

	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental Activities
Governmental activities:					
General government	\$ 3,594,141	\$ 1,056,958	\$ 1,288,300	\$ -	\$ (1,248,883)
Public safety	6,822,428	601,387	167,630	341,460	(5,711,951)
Community development	1,057,049	694,892	311,308	71,074	20,225
Culture and recreation	1,227,673	635,744	-	-	(591,929)
Transportation	3,382,294	33,568	65,009	-	(3,283,717)
Interest and other charges	77,003	-	-	-	(77,003)
Total Governmental Activities	\$ 16,160,588	\$ 3,022,549	\$ 1,832,247	\$ 412,534	(10,893,258)
General Revenues:					
Taxes:					
Property taxes					2,497,980
Franchise taxes					555,475
Sales and use taxes					7,687,959
Transient occupancy taxes					1,456,899
Business license taxes					308,236
Motor vehicle in-lieu, unrestricted					223,319
Investment income, unrestricted					237,383
Miscellaneous revenue					406,456
Total General Revenues					13,373,707
Change in Net Position					2,480,449
Net Position - beginning, as previously reported					13,670,663
Implementation of GASB 75					(172,688)
Net Position - beginning, as restated					13,497,975
Net Position, End of Year					\$ 15,978,424

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

GOVERNMENTAL FUNDS

Major Governmental Funds

GENERAL FUND

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

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.

CAPITAL PROJECTS FUND

Capital Projects Fund - Accounts for financial resources segregated for the acquisition of major capital facilities and equipment 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, and Debt Service Funds of the City for the year ended.

**CITY OF CAPITOLA
Governmental Funds
Balance Sheet
June 30, 2018**

	Special Revenue Funds		
	General	Federal Home Loan Reuse	Capitola Housing Successor
ASSETS			
Cash and investments	\$ 6,211,249	\$ 206,675	\$ 181,068
Accounts receivable	48,674	-	-
Due from other governments	1,830,582	980	863
Prepaid items	11,068	-	-
Due from other funds	59,178	-	-
Advances to other funds	47,362	-	-
Loans receivables	-	4,061,843	3,941,976
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 8,208,113</u>	<u>\$ 4,269,498</u>	<u>\$ 4,123,907</u>
LIABILITIES			
Accounts payable	\$ 337,989	-	\$ 4,010
Accrued liabilities	401,845	-	-
Unearned revenue	378,575	-	-
Due to other funds	-	-	-
Deposits payable	334,590	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>1,452,999</u>	<u>-</u>	<u>4,010</u>
FUND BALANCES			
Nonspendable	58,430	-	-
Restricted	-	4,269,498	4,119,897
Assigned	1,277,206	-	-
Unassigned	5,419,478	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>6,755,114</u>	<u>4,269,498</u>	<u>4,119,897</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 8,208,113</u>	<u>\$ 4,269,498</u>	<u>\$ 4,123,907</u>

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

Capital Projects
Fund

Capital Projects	Non-Major Governmental Funds	Totals
\$ 1,518,619	\$ 2,800,303	\$ 10,917,914
-	1,681	50,355
-	66,797	1,899,222
-	-	11,068
-	-	59,178
-	-	47,362
-	697,038	8,700,857
<u>\$ 1,518,619</u>	<u>\$ 3,565,819</u>	<u>\$ 21,685,956</u>
\$ 16,380	\$ 54,053	\$ 412,432
-	-	401,845
-	-	378,575
-	59,178	59,178
7,200	1,000	342,790
<u>23,580</u>	<u>114,231</u>	<u>1,594,820</u>
-	-	58,430
-	3,352,551	11,741,946
1,495,039	138,222	2,910,467
-	(39,185)	5,380,293
<u>1,495,039</u>	<u>3,451,588</u>	<u>20,091,136</u>
<u>\$ 1,518,619</u>	<u>\$ 3,565,819</u>	<u>\$ 21,685,956</u>

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CITY OF CAPITOLA
Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Position
June 30, 2018

Fund balances of governmental funds	\$ 20,091,136
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	43,477,230
Accumulated depreciation	(25,264,043)
Pension related deferred inflows and outflows of resources are not reported in the governmental funds:	
Deferred outflows	6,201,815
Deferred inflows	(2,360,561)
OPEB related deferred inflows and outflows of resources are not reported in the governmental funds:	
Deferred outflows	86,090
Accrued interest payable for the current portion of interest due on long-term debt has not been reported in the governmental funds.	
	(33,627)
Long-term debt has not been included in the governmental fund activity:	
Notes payable	(8,895)
Capital lease financing	(1,295,592)
Lease-back financing	(1,144,764)
Net pension liability	(22,355,266)
Compensated absences	(810,662)
Net OPEB liability	(604,437)
Net position of governmental activities	\$ 15,978,424

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, 2018

	Special Revenue Funds		
	General	Federal Home Loan Reuse	Capitola Housing Successor
REVENUES			
Taxes	\$ 12,198,313	-	-
Licenses and permits	680,141	-	-
Fines and forfeitures	557,617	-	-
Intergovernmental	194,853	90,373	216,135
Charges for services	1,848,673	-	-
Use of money and property	108,005	14,050	3,567
Other revenue	127,844	-	25
Total Revenues	15,715,446	104,423	219,727
EXPENDITURES			
Current:			
General government	2,700,867	-	-
Public safety	6,323,493	-	-
Community development	683,670	3,200	22,619
Culture and recreation	1,093,734	-	-
Transportation	2,558,399	-	-
Capital outlay	499,524	-	-
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total Expenditures	13,859,687	3,200	22,619
Excess (Deficiency) of Revenues over (Under) Expenditures	1,855,759	101,223	197,108
OTHER FINANCING SOURCES (USES)			
Transfers in	35,000	-	-
Transfers out	(2,472,670)	-	-
Total Other Financing Sources (Uses)	(2,437,670)	-	-
Net Change in Fund Balances	(581,911)	101,223	197,108
Fund Balances, Beginning of Year	7,337,025	196,805	196,948
Restatement - Loan receivables	-	3,971,470	3,725,841
Fund Balances, beginning of year, as restated	7,337,025	4,168,275	3,922,789
Fund Balances, End of Year	\$ 6,755,114	\$ 4,269,498	\$ 4,119,897

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

Capital Projects
Fund

Capital Projects	Non-Major Governmental Funds	Totals
-	\$ 217,970	\$ 12,416,283
70,064	16,024	766,229
-	-	557,617
341,460	1,407,309	2,250,130
-	158,266	2,006,939
-	111,761	237,383
274,474	4,113	406,456
<u>685,998</u>	<u>1,915,443</u>	<u>18,641,037</u>
-	122,909	2,823,776
-	9,867	6,333,360
-	257,549	967,038
-	60,339	1,154,073
80,600	212,633	2,851,632
524,222	900,023	1,923,769
-	828,701	828,701
-	94,968	94,968
<u>604,822</u>	<u>2,486,989</u>	<u>16,977,317</u>
<u>81,176</u>	<u>(571,546)</u>	<u>1,663,720</u>
535,320	2,294,350	2,864,670
(174,000)	(218,000)	(2,864,670)
<u>361,320</u>	<u>2,076,350</u>	<u>-</u>
<u>442,496</u>	<u>1,504,804</u>	<u>1,663,720</u>
1,052,543	1,286,478	10,069,799
-	660,306	8,357,617
<u>1,052,543</u>	<u>1,946,784</u>	<u>18,427,416</u>
<u>\$ 1,495,039</u>	<u>\$ 3,451,588</u>	<u>\$ 20,091,136</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, 2018

Net change in fund balances - total governmental funds \$ 1,663,720

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, net of disposals	2,063,233
Depreciation, net of disposals	(926,008)

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.

828,701

Governmental funds report all contributions as expenditures in relation to
Pensions and OPEB, however, in the statement of activities, OPEB
and pension expenses are based on the change in these liabilities.

Change in pension related items	(1,182,823)
Change in OPEB	19,892

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

Change in compensated absences payable	(4,231)
Change in accrued interest expense	17,965

Change in net position of governmental activities	<u>\$ 2,480,449</u>
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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, 2018

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and investments	\$ 395,006	\$ 20,830
Due from others	-	99
Total Assets	<u>395,006</u>	<u>20,929</u>
LIABILITIES		
Deposits	-	20,929
Advances to other funds	47,362	-
Total Liabilities	<u>47,362</u>	<u>\$ 20,929</u>
NET POSITION		
Held in trust for successor agency and other purposes	<u>347,644</u>	
Total Net Position (Deficit)	<u>\$ 347,644</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, 2018

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
RPTTF distributions	<u>\$ 308,375</u>
DEDUCTIONS	
Administrative expenses	30,000
Enforceable obligations	<u>333,090</u>
Total Deductions	<u>363,090</u>
Change in Net Position	(54,715)
Net Position (Deficit), Beginning of Year	<u>402,359</u>
Net Position (Deficit), End of Year	<u><u>\$ 347,644</u></u>

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

**City of Capitola
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Year Ended June 30 2018**

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CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

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 limited 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, 2018

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 which are recorded as revenues if received within 90 days.

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, pension and other postemployment benefits and claims and judgments, are recorded only when payment is due.

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

The City reports the following major governmental funds:

General Fund

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

Federal Home Loan Reuse Fund

The Federal Home Loan Reuse Fund accounts for housing loans due to the City from the recipients of previous HOME Program grants. Receipts in the Home Program Reuse Fund are restricted to affordable housing activities in accordance with the federal HOME program re-use guidelines.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

Capital Projects Fund

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

The City also reports the following:

Agency Funds

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

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.

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position or Equity

1) Cash and Investments

Investments are reported in the accompanying balance sheet at fair value, except for nonparticipating certificates of deposit and investment contracts that would be reported at cost because they are not transferable and they have terms that are not affected by changes in 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 value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position or Equity, (continued)

1) Cash and Investments (continued)

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

2) Receivables and Payables

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

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

3) Property Taxes

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

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

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position or Equity, (continued)

3) Property Taxes (continued)

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

4) Capital Assets

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

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, in accordance with generally accepted accounting principles.

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. Generally accepted accounting principles 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 – 20 years
Infrastructure	15 – 50 years

5) Prepaid Items

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

**D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position or Equity,
(continued)**

6) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position (balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of financial position (balance sheet) will sometimes report a separate section for deferred inflows of resources. This separate financial element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

7) Compensated Absences

In compliance with generally accepted accounting principles, 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, if due and payable, 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 and business-type 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.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

**D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position or Equity,
(continued)**

10) Fund Equity

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

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

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 the City Council passing a resolution. The Committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action it previously employed to commit those amounts.

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

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

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position or Equity, (continued)

11) Pension Plans

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

12) Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as reported by CalPERS. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

E. New Accounting Pronouncements

Effective this fiscal year

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75 – *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). This Statement is effective for fiscal years (FY) beginning after June 15, 2017, or the FY 2017/2018. The City has implemented this Statement as of July 1, 2017.

GASB Statement No. 81 – In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, the Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. The Statement requires a government recognize revenue when the resources become applicable to the reporting period. The Statement is effective for the reporting periods beginning after December 15, 2016. The implementation of this Statement did not have a material effect on the financial statements.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

E. New Accounting Pronouncements (continued)

Effective this Fiscal Year, (continued)

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (pensions and other post-employment benefits [OPEB]). The Statement is effective for the reporting periods beginning after June 15, 2017, or FY 2017/2018 fiscal year. The implementation of this Statement did not have a material effect on the financial statements.

GASB Statement No. 86 – In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources — resources other than the proceeds of refunding debt — are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement is effective for the reporting periods beginning after June 15, 2017, or FY 2017/2018. The implementation of this Statement did not have a material effect on the financial statements.

Effective in Future Fiscal Years

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or the FY 2018/2019. The City is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance related to fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the FY 2019/2020. The City is evaluating the impact of this Statement on the financial statements.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

E. New Accounting Pronouncements (continued)

Effective in Future Fiscal Year, (continued)

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or FY 2020/2021. The City is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 88 – GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve note disclosures related to debt. This Statement requires that all debt disclosures present direct borrowings and direct placements of debt separately from other types of debt. This Statement is effective for reporting periods beginning after June 15, 2018 or FY 2018/2019. The City is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 89 – In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for certain interest costs. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in the financial statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, or FY 2020/2021. The City is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 90 – In August 2018, GASB issued Statement No. 90, *Majority Equity Interest, an amendment of GASB statement No. 14 and No. 61*. The objectives of this Statement is to improve how majority equity interest is reported. The Statement specifies that a majority equity interest in a legally separate organization should be reported as an investment using the equity method if a government's holding of the equity interest meets the definition of an investment and for all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit. The City is evaluating the impact of this Statement on the financial statements.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

2. CASH AND INVESTMENTS

Cash and investments held by the City at June 30, 2018, are classified in the accompanying financial statement as follows:

Statement of Net Position:	
Cash and investments	\$ 10,917,914
Statement of Fiduciary Net Position:	
Cash and investments	<u>415,836</u>
Total cash and investments	<u><u>\$ 11,333,750</u></u>

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

Petty cash	\$ 1,449
Demand deposits	3,603,469
Investments	<u>7,728,832</u>
Total cash and investments	<u><u>\$11,333,750</u></u>

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

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

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	20%	None
Local Agency Investment Fund (LAIF)	N/A	None	\$65,000,000
Authorized by Debt Agreements			
Guaranteed Investment Contracts	15 months	None	None

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

2. CASH AND INVESTMENTS, (continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment is, the greater the sensitivity of its fair value to changes in interest rates. One of the ways that the City manages its exposure to interest rate 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. The City pools its investments in the Local Agency Investment Fund (LAIF). This pool has a weighted average maturity of less than one year.

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. The City's investments in LAIF were not rated as of June 30, 2018.

Concentration of Risk

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

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for 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, 2018, the City had deposits with financial institutions in excess of federal depository insurance limits by \$2,958,463 that were held in collateralized accounts. As of June 30, 2018, the Successor Agency had deposits with financial institutions in excess of federal depository insurance limits by \$145,006 that were held in collateralized accounts.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

2. CASH AND INVESTMENTS, (continued)

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 cities. 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 fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based on the City's pro rata share of the fair value provided by LAIF (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. LAIF is not registered with the SEC.

Fair Value Measurements

Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of quoted prices (unadjusted) for identical assets and liabilities in active markets that a government can access at the measurement date, Level 2 inputs that are observable for an asset or liability, either directly or indirectly, and Level 3 inputs have the lowest priority and consist of unobservable inputs for an asset or liability. The City's investments in Local Agency Investment Fund are not categorized under any level because withdrawals from the pool are based on the amortized cost and not market value.

3. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Due To/From Other Funds

Due to/from other funds at June 30, 2018, is as follows:

Due from other Funds	Due to other Funds	Amount
General Fund	Non-Major governmental funds	\$ 59,178

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.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

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

Interfund Transfers

Interfund transfers for the year ended June 30, 2018, are as follows:

		Transfer In			Total
		General Fund	Capital Projects Fund	Non-Major Governmental Funds	
Transfers Out	General Fund	-	\$ 535,320	\$ 1,937,350	\$ 2,472,670
	Capital Projects Fund	-	-	174,000	174,000
	Non-Major Governmental Funds	35,000	-	125,000	160,000
	Total	<u>\$ 35,000</u>	<u>\$ 535,320</u>	<u>\$ 2,236,350</u>	<u>\$ 2,806,670</u>

The General Fund transferred \$535,320 to the Capital Projects fund for street maintenance projects. The General Fund transferred \$47,800 to the Wharf Fund to replace wharf piers damaged during a storm event. The General Fund transferred \$89,004 to the Beach Village Lot, \$40,066 to the Pacific Cover Debt Financing Fund, and \$187,351 to the 2007 POB Debt Service Fund for debt service payments. The General Fund transferred \$1,505,129 to the Library Capital Projects Fund for design and construction of the new Library, including \$174,000 previously appropriated for other capital projects that was no longer needed as those projects were completed under budget. The Supplemental Law Enforcement Fund transferred \$35,000 to the General Fund to purchase a new police vehicle. Additional transfers to the Pacific Cove Debt Financing Fund for debt service payments originated from the following Non-Major Funds: Parking Reserve for \$100,000, and the Affordable Housing Trust for \$25,000.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018, is as follows:

	Beginning balance	Additions	Deletions	Ending balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 4,883,789	-	-	\$ 4,883,789
Construction in progress	921,817	1,645,764	(175,716)	2,391,865
	<u>5,805,606</u>	<u>1,645,764</u>	<u>(175,716)</u>	<u>7,275,654</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Equipment	3,494,695	552,720	(82,150)	3,965,265
Building and improvements	2,392,272	-	-	2,392,272
Infrastructure	29,721,424	122,615	-	29,844,039
	<u>35,608,391</u>	<u>675,335</u>	<u>(82,150)</u>	<u>36,201,576</u>
Total capital assets, being depreciated				
Less accumulated depreciation for:				
Equipment	(2,636,296)	(280,222)	75,952	(2,840,566)
Building and improvements	(1,499,588)	(48,681)	-	(1,548,269)
Infrastructure	(20,202,151)	(673,057)	-	(20,875,208)
	<u>(24,338,035)</u>	<u>(1,001,960)</u>	<u>75,952</u>	<u>(25,264,043)</u>
Total capital assets, being depreciated, net	<u>11,270,356</u>	<u>(326,625)</u>	<u>(6,198)</u>	<u>10,937,533</u>
Total governmental activities capital assets, net of accumulated depreciation	<u>\$ 17,075,962</u>	<u>\$ 1,319,139</u>	<u>\$ (181,914)</u>	<u>\$ 18,213,187</u>

Depreciation Allocations

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

Governmental Activities:	
General government	\$ 537,359
Public safety	99,803
Cultural and recreation	40,493
Transportation	324,305
Total Depreciation Expense - Governmental Activities	<u>\$ 1,001,960</u>

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

5. OTHER LONGTERM RECEIVABLES

Due from Successor Agency

The City provided unreimbursed support services, valued at \$618,028, to the former Redevelopment Agency (RDA) from July 1, 1997 through June 30, 2001. The City provided substantial support for the proposed expansion of the redevelopment area and amendment of the redevelopment plan.

The City and RDA entered into a Cooperation Agreement for the RDA to repay the City at a 5% simple interest rate, with interest payments due annually. In June 2006, the City and RDA agreed to amend the interest rate to the greater of the following: a) the interest rate charged by the Public Employees Retirement System for the City's unfunded liability; b) the true interest cost of any obligation bond sold by the City; c) the State of California LAIF rate, or d) 5%. The principal amount of the reimbursement was originally to be paid as RDA funds become available, but in no event later than twenty-five years from the Agreement date. As of June 30, 2018, the principal owed to the City is \$47,362.

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 detail of loans receivable of \$8.7 million at June 30, 2018, is listed below:

	CDBG Program Income	Federal Home Loan Reuse	Affordable Housing	Capitola Housing Successor	Total
Individual Loans	\$ 503,825	\$ 503,774	\$ -	\$ 551,396	\$ 1,558,995
Bay Avenue Senior Apartments	-	3,383,633	-	1,741,086	5,124,719
Millennium Housing	-	-	193,213	1,649,494	1,842,707
Wharf Road Manor	-	174,436	-	-	174,436
Totals	\$ 503,825	\$ 4,061,843	\$ 193,213	\$ 3,941,976	\$ 8,700,857

These loans have been reflected in the financial statements as loans receivable.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

6. LONG TERM DEBT

A summary of changes in long-term debt for the fiscal year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2007 POB Bonds	\$ 645,000	\$ -	\$ 645,000	\$ -	\$ -
Capital Lease - Cove Financing	1,415,100	-	119,508	1,295,592	105,963
Beach & Village Lot II Financing	1,203,620	-	58,856	1,144,764	60,187
Note Payable	14,232	-	5,337	8,895	5,337
Compensated Absences	806,431	425,231	421,000	810,662	81,066
Totals	<u>\$4,084,383</u>	<u>\$ 425,231</u>	<u>\$1,249,701</u>	<u>\$3,259,913</u>	<u>\$ 252,553</u>

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 6.01%. 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. During the fiscal year ended June 30, 2018, the City made its last payment for \$645,000.

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, 2018

6. LONG TERM DEBT, (continued)

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

Future lease payments under the capital lease as of June 30, 2018, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	\$ 105,963	\$ 59,103	\$ 165,066
2020	109,435	55,631	165,066
2021	113,021	52,045	165,066
2022	116,724	48,342	165,066
2023	120,548	44,518	165,066
2024-2028	664,637	160,691	825,328
2029	65,264	17,871	83,135
Total	<u>\$ 1,295,592</u>	<u>\$ 438,201</u>	<u>\$ 1,733,793</u>

Capital Leases Payable - Beach & Village Lot II Financing

On March 14, 2014, the City of Capitola executed a \$1,372,500 low-interest loan with the California Infrastructure and Economic Development Bank (IBank). This loan is considered a lease-lease back obligation with the General Fund as the source of repayment; and the City Public Works Corporation Yard serving as the leased asset. The loan term is 20 years at a fixed 2.26% interest rate.

Future lease payments under the capital lease as of June 30, 2018, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	\$ 60,187	\$ 28,626	\$ 88,813
2020	61,547	27,069	88,616
2021	62,938	25,478	88,416
2022	64,360	23,851	88,211
2023	65,815	22,187	88,002
2024-2028	352,069	84,629	436,698
2029-2033	393,693	37,009	430,702
2034	84,155	1,204	85,359
Total	<u>\$ 1,144,764</u>	<u>\$ 250,053</u>	<u>\$ 1,394,817</u>

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

6. LONG TERM DEBT, (continued)

Note Payable

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

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 \$810,662 as of June 30, 2018.

7. FUND BALANCES

The details of the fund balances as of June 30, 2018, are presented below:

	General Fund	Federal Home Loan Reuse	Capitola Housing Successor	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
Nonspendable:						
Prepaid items	\$ 11,068	\$ -	\$ -	\$ -	\$ -	\$ 11,068
Due from successor agency	47,362	-	-	-	-	47,362
Restricted for:						
Public Safety	-	-	-	-	10,101	10,101
Transportation	-	-	-	-	419,897	419,897
Community Development	-	4,269,498	4,119,897	-	2,801,498	11,190,893
Culture and Recreation	-	-	-	-	121,055	121,055
Assigned to:						
Debt Service	-	-	-	-	138,222	138,222
Other Capital Projects	-	-	-	1,495,039	-	1,495,039
Emergency Reserve	1,277,206	-	-	-	-	1,277,206
Unassigned:						
Contingencies	3,335,551	-	-	-	-	3,335,551
Unassigned	2,083,927	-	-	-	(39,185)	2,044,742
Total	\$ 6,755,114	\$ 4,269,498	\$ 4,119,897	\$ 1,495,039	\$ 3,451,588	\$ 20,091,136

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

7. FUND BALANCES, (continued)

Deficit Fund Balances

The following funds reported deficit fund balances at June 30, 2018:

Beach and Village Lot II Debt Financing	\$ (39,185)
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This deficit is expected to be reduced by future revenues or transfers from other funds.

8. RISK MANAGEMENT

The City participates in the Monterey Bay Area Self-Insurance Agency (the 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 Authority's Board of Directors is elected from representatives of the member governments, and controls operations of the fund, including selection of management and approval of operating budgets. It is independent of the individual member influence, except for their representation on the board, and is therefore not a component unit of the City for reporting purposes.

The City is exposed to various risks including worker injuries, tort liability, theft, damage or destruction of assets, errors and omissions, and natural disasters. With respect to risks other than workers' compensation, the City and other pool participants pay an annual premium estimated by the pool administrator to be sufficient to cover all liability claims for which the pool is obligated. If a covered entity's losses exceed its premiums, there is no individual supplemental assessment, and if a covered entity's losses are lower than its assessment, it does not receive a refund. However, annual budget appropriations are experience-based. The pool views its activities in the aggregate and makes overall adjustments to the premiums charged and is therefore intended to be self-sustaining through member contributions (premiums). Risk of loss is retained by the City for general liability claims up to \$10,000 per occurrence. The fund carries excess loss coverage for general liability claims between \$990,000 and \$20,000,000 per insured event and is uninsured for losses in excess of \$20,000,000 per event. Unpaid claims at fiscal year-end, as reported by the fund, were not material. There was no reduction in the City's insurance coverage as compared to the previous fiscal year, nor have there been any losses exceeding coverage during any of the five 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 Authority, Article 20 to pay to the Authority their individual debt service amount and associated expenses, as determined by the Authority. Furthermore, the Member Agencies contribution will be payable from any source of available funds of the Member, including amounts on deposit in the general fund of the Member. Audited financial statements of the Authority can be obtained at 1 Civic Center Drive, Scotts Valley, CA 90566.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

9. JOINT VENTURES

Santa Cruz Consolidated Emergency Communications Center

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

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

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, 2018

10. DEFINED BENEFIT PENSION PLANS

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (the Plan) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. The City sponsors four rate plans (two miscellaneous and two safety). Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS' website, at www.calpers.ca.gov.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans operate under the provisions of the California Public Employees' Retirement Law (PERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by the CalPERS Board of Administration.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

10. DEFINED BENEFIT PENSION PLANS, (continued)

Benefits Provided (continued)

The Plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous	
	Classic	PEPRA
	Prior to January 1, 2013	On or after January 1, 2013
Membership date	January 1, 2013	January 1, 2013
Benefit formula	2.5% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	52-67
Monthly benefits, as a % of eligible compensation	2%-2.5%	1.0%-2.5%
Required employee contribution rates	7.95%	6.25%
Required employer contribution rates	10.11% plus \$501,000 annual lump sum prepayment	6.53%

	Safety	
	Classic	PEPRA
	Prior to January 1, 2013	On or after January 1, 2013
Membership date	January 1, 2013	January 1, 2013
Benefit formula	3.0% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50-57
Monthly benefits, as a % of eligible compensation	3.0%	2.0%-2.7%
Required employee contribution rates	8.99%	11.50%
Required employer contribution rates	19.72% plus \$469,908 annual lump sum prepayment	11.99%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions. Employer Contributions to the Plan for the fiscal year ended June 30, 2018 were \$1,770,027.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

10. DEFINED BENEFIT PENSION PLANS, (continued)

Net pension liability

The City of Capitola's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

Actuarial methods and assumptions used to determine total pension liability

	Miscellaneous	Safety
Valuation Date	June 30, 2016	June 30, 2016
Measurement Date	June 30, 2017	June 30, 2017
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Asset Valuation Method	Actuarial Value of Assets	Actuarial Value of Assets
Actuarial Assumptions		
Discount Rate	7.15%	7.15%
Inflation	2.75%	2.75%
Salary Increases ⁽¹⁾	Varies by Entry Age and Service	Varies by Entry Age and Service
Investment Rate of Return ⁽²⁾	7.15%	7.15%
Mortality Rate Table ⁽³⁾	Derived using CALPERS' membership data for all Funds	Derived using CALPERS' membership data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

⁽¹⁾ Annual increases vary by category, entry age, and duration of service.

⁽²⁾ Net pension plan investment and administrative expenses; includes inflation.

⁽³⁾ The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The 2014 Experience Study report can be obtained at CalPERS' website, at www.calpers.ca.gov.

Change of Assumptions

The Discount rate was reduced from 7.65% to 7.15% in the current fiscal year.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

10. DEFINED BENEFIT PENSION PLANS, (continued)

Discount rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate, and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the PERF asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The following table reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2015.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

10. DEFINED BENEFIT PENSION PLANS, (continued)

Discount rate, (continued)

Asset Class	Current Target Allocation	Real Return Years 1 – 10 ¹	Real Return Years 11+ ²
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
	100.00%		

¹An expected inflation of 2.5% used for this period.

²An expected inflation of 3.0% used for this period.

Pension Plan Fiduciary Net Position

Information about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position are presented in CalPERS' audited financial statements, which are publicly available reports that can be obtained at CalPERS' website, at www.calpers.ca.gov. The plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis used by the pension plan, which is the economic resources measurement focus and the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

10. DEFINED BENEFIT PENSION PLANS, (continued)

Proportionate share of net pension liability

The following table shows the Plans' proportionate share of the net pension liability over the measurement period.

	Plan Total Pension Liability	Increase (Decrease) Plan Fiduciary Net Position	Plan Net Pension Liability
Balance at: 6/30/2017	\$ 70,795,162	\$ 51,359,361	\$ 19,435,801
Balance at: 6/30/2018	78,877,060	56,521,794	22,355,266
Net changes	8,081,898	5,162,433	2,919,465

The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The City's proportion of the net pension liability was determined by CalPERS using the output from the Actuarial Valuation System and the fiduciary net position, as provided in the CalPERS Public Agency Cost-Sharing Allocation Methodology Report, which is a publicly available report that can be obtained at CalPERS' website, at www.calpers.ca.gov. The City's proportionate share of the net pension liability for the Plan as of the June 30, 2017 and 2018 was as follows:

Proportionate Share of NPL - June 30, 2017	0.224611%
Proportionate Share of NPL - June 30, 2018	0.225418%
Change - Increase (Decrease)	0.000807%

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate

The following presents the City's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
Total Plans' Net Pension Liability	\$ 33,302,429	\$ 22,355,266	\$ 13,350,839

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

10. DEFINED BENEFIT PENSION PLANS, (continued)

Recognition of gains and losses

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	5 year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the Public Agency Cost-Sharing Multiple-Employer Plan (PERF C). The EARSL for the Plan is 3.8 years.

Pension expense and deferred outflows and deferred inflows of resources related to pensions

For the year ended June 30, 2018, the City incurred a pension expense of \$2,952,851.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

10. DEFINED BENEFIT PENSION PLANS, (continued)

As of June 30, 2018, the City has deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,770,027	\$ -
Contributions in excess of proportionate share	-	(1,213,780)
Changes in assumptions	3,317,187	(253,764)
Difference in expected and actual experience	133,228	(212,536)
Adjustment due to differences in proportions	245,362	(680,481)
Net differences between projected and actual earnings on plan investments	736,011	-
Total	\$ 6,201,815	\$ (2,360,561)

These amounts above are net of outflows and inflows recognized as of the end of the current fiscal year. Contributions subsequent to the measurement date of \$1,770,027 reported with deferred outflows of resources will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Fiscal Year Ended June 30:	Deferred Outflows/(Inflows) of Resources, Net
2019	\$ 157,651
2020	1,502,484
2021	844,803
2022	(433,711)
	\$ 2,071,227

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

11. 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.

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, 2018, contributions totaled \$26,254. This included contributions of \$4,562 by the City and \$21,692 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 2018 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 1/1/17	\$ 64,723
Contributions	24,084
Earnings	993
Subtotal	89,800
Less: Expenses	(4,754)
Disbursements	(11,860)
Balance 12/31/17	\$ 73,186

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

12. OTHER POST EMPLOYMENT BENEFITS

Plan Description

The City's defined benefit postemployment healthcare plan, (City of Capitola Retiree Healthcare Plan, CRHP), provides medical benefits to eligible retired City employees and spouses. CRHP is an agent multiple-employer plan administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions, as well as other requirements, is established by State statute within the Public Employees' Retirement Law. The CRHP's plan provisions are established and may be amended through negotiation and Memoranda of Understanding between the City Council and the various bargaining units. All contracts with CalPERS are approved through City resolution. CalPERS issues publicly available reports that can be found on the CalPERS' website, at www.calpers.ca.gov.

Employees Covered

As of the June 30, 2018 actuarial valuation, the following current and former employees were covered by the benefit terms under the OPEB Plan:

	Active employees	66
Inactive employees or beneficiaries currently receiving benefits payments	17	83
	83	83

Contributions

The obligation of the City to contribute to the plan is based on an actuarial determined rate. For the fiscal year ended June 30, 2018, the City's cash contributions were \$60,000 in payments to the trust and the estimated implied subsidy was \$26,090 resulting in total payments of \$86,090. The City makes contributions and participates in the California Employers' Retiree Benefit Trust (CERBT) Fund for the purpose of prefunding obligations for past services. Through this plan, the California Public Employees' Retirement System (CalPERS) Board of Administration has the sole and exclusive control and power over the administration and investment of the prefunding plan.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

12. OTHER POST EMPLOYMENT BENEFITS, (continued)

Net OPEB Liability

The City's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017 that was based on the following actuarial methods and assumptions:

Discount Rate	7.00%
Inflation	2.75%
Salary Increases	2.75% per annum, in aggregate
Investment Rate of Return	7.00%
Mortality Rate	Derived using CalPERS' Membership Data for all funds
Healthcare Trend Rate	4.00% per annum

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Large Cap	43%	7.8%
US Small Cap	23%	7.8%
Long-Term Corporate Bonds	12%	5.3%
Long-Term Government Bonds	6%	4.5%
Treasury Inflation Protected Securities	5%	7.8%
US Real Estate	8%	7.8%
All Commodities	3%	7.8%
	<u>100%</u>	

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

12. OTHER POST EMPLOYMENT BENEFITS, (continued)

Discount Rate

The discount rate used to measure the total OPEB Liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that the City contribution will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in Net OPEB Liability

The changes in the net OPEB liability for the City's Plan are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2017	\$ 766,166	\$ 143,387	\$ 622,779
Changes Recognized for year:			
Service Cost	26,537	-	26,537
Interest	51,739	-	51,739
Changes of benefit terms	-	-	-
Difference in expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions	-	81,540	(81,540)
Net investment income	-	15,205	(15,205)
Administrative expenses	-	(127)	127
Benefit payments, including refunds of employee contributions	(26,632)	(26,632)	-
Net changes	51,644	69,986	(18,342)
Balance at June 30, 2018	\$ 817,810	\$ 213,373	\$ 604,437

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

12. OTHER POST EMPLOYMENT BENEFITS, (continued)

Sensitivity of the Net OPEB liability to Changes in the Discount Rate

The following presents the net OPEB liability of the City if it were calculated using a discount rate that is one percentage point lower (6%) or one percentage point higher (8%) than the current rate, for measurement period ended June 30, 2017:

Net OPEB Liability		
Discount Rate - 1% (6%)	Current Discount Rate (7%)	Discount Rate +1% (8%)
\$ 722,056	\$ 604,437	\$ 507,650

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the City if it were calculated using health care cost trend rates that are one percentage point lower or one percentage higher than the current rate, for measurement period ended June 30, 2017:

Net OPEB Liability		
Trend Rate - 1% (3.00%)	Healthcare Cost Trend Rates (4.0%)	Trend Rate +1% (5.00%)
\$ 506,801	\$ 604,437	\$ 718,826

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in the future OPEB expense. For the fiscal year ended June 30, 2018, the City recognized OPEB expense of \$66,198. As of fiscal year, ended June 30, 2018, the City reported deferred outflows of resources related to OPEB in the amount of \$86,090 for its contributions subsequent to the measurement date. This amount will be recognized as an OPEB expense in fiscal year 2019.

13. 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.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

14. 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.

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.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

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

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

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

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

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

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

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.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

14. SUCCESSOR AGENCY TO THE FORMER CAPITOLA REDEVELOPMENT AGENCY, (continued)

The debt of the Successor Agency as of June 30, 2018 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due Within One Year</u>
Advances Payable - Due to the City	\$ 401,191	\$ -	\$(353,829)	\$ 47,362	\$ 47,362

Due to the City

The obligations due to the City represent a loan in the amount of \$47,362 for staff and administrative costs associated with the expansion of the redevelopment area and the amendment of the redevelopment plan.

15. 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, 2018 (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 reinstated the \$618,028 Loan and Repayment Agreement in the 2015/16 Recognized Obligation Payment Schedule (ROPS). This reinstatement was initially denied by the Department of Finance due to timing. The Department of Finance approved the repayment and allowed payments to begin in January 2016. The entire \$618,028 Loan and Repayment Agreement will be completed over five equal payments. At June 30, 2018 the outstanding balance was \$47,362.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2018

16. RESTATEMENTS

Implementation of GASB Statement No. 75

The City adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Other Post-employment Benefits*, as of July 1, 2017. The impact of the implementation on the beginning net position is as follows:

Government-wide Financial Statements	Net Position, Originally Stated, June 30, 2017	Adjustment	Net Position, Restated, June 30, 2017
Net OPEB liability and related deferral	\$ 13,670,663	(172,688)	\$ 13,497,975

Deferred Inflows of Resources related to Loans receivable

The City changed the treatment of its housing loans. The loans were treated as unavailable resources and reported these amounts as deferred inflows of resources of the respective funds that made these loans. The City has changed its treatment of these loans and is now reporting these amounts as restricted fund balances. The change resulted in an increase in the fund balances of the following funds and a reduction of the deferred inflows of resources.

Deferred Inflows Previously Reported On:	Fund Balance, Originally Stated, June 30, 2017	Adjustment	Net Position, Restated, June 30, 2017
Federal Home Loan Reuse Fund	\$ 196,805	\$ 3,971,470	\$ 4,168,275
Capitola Housing Successor Fund	196,948	3,725,841	3,922,789
Non-major Funds	80,829	660,306	741,135
Total	<u>\$ 474,582</u>	<u>\$ 8,357,617</u>	<u>\$ 8,832,199</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF CAPITOLA
Required Supplementary Information
Year Ended June 30, 2018

Schedule of Changes in Net OPEB Liability
Last Ten Years*

	2018
Total OPEB Liability	
Service cost	\$ 26,537
Interest	51,739
Changes of benefit terms	-
Differences between expected and actual experience	-
Change of assumptions	-
Benefit payments, included refunds of employee contributions	(26,632)
Net change in total OPEB liability	51,644
Total OPEB liability - beginning of year	766,166
Total OPEB liability - end of year (a)	\$ 817,810
 Plan Fiduciary Net Position	
Net investment income	\$ 15,205
Contributions	
Employer	81,540
Employer - implicit subsidy	-
Employee	-
Benefit payments, including refunds of employee contributions	(26,632)
Administrative expense	(127)
Other	-
Net change in plan fiduciary net position	69,986
Plan fiduciary net position - beginning of year	143,387
Plan fiduciary net position - end of year (b)	213,373
Net OPEB liability - end of year = (a) - (b)	\$ 604,437
Plan fiduciary net position as a percentage of the total OPEB liability	26.09%
Covered employee payroll	\$5,787,564

* - Fiscal year 2018 was the first year of implementation of the OPEB standards

CITY OF CAPITOLA
Required Supplementary Information
Year Ended June 30, 2018

Schedule of OPEB Contributions
Last Ten Years*

	2018
Actuarially determined contribution	\$ 86,090
Contributions in relation to the actuarially determined contribution	(86,090)
Contribution deficiency (excess)	\$ -
Covered payroll	\$ 5,361,855
Contributions as a percentage of covered employee payroll	1.61%

* - Fiscal year 2018 was the first year of implementation of the OPEB standards

CITY OF CAPITOLA
Required Supplementary Information
Year Ended June 30, 2018

Schedule of City's Proportionate Share of the Plan's Net Pension Liability and Related Ratios
Last 10 Years *

	2015	2016	2017	2018
Proportion of the Collective Net Pension Liability	0.17280%	0.18590%	0.22461%	0.22542%
Proportionate Share of the Collective Net Pension Liability	\$12,221,177	\$15,290,351	\$19,435,801	\$22,355,266
Covered Payroll	\$ 5,315,720	\$ 5,315,720	\$ 5,029,882	\$ 5,787,564
Proportionate Share of the Collective Net Pension Liability as a Percentage of the Employer's Covered Payroll	229.91%	287.64%	386.41%	386.26%
Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	79.82%	78.40%	74.06%	75.39%

* - Fiscal year 2015 was the first year of implementation of the pension standards

CITY OF CAPITOLA
Required Supplementary Information
Year Ended June 30, 2018

Schedule of Pension Contributions
Last 10 Years*

	2015	2016	2017	2018
Contractually Determined Contribution	\$ 902,235	\$ 1,190,602	\$ 1,053,235	\$ 1,770,027
Contributions in Relation to the Contractually Determined Contribution	(902,235)	(1,190,602)	(1,053,235)	(1,770,027)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered-Employee Payroll	\$ 5,315,720	\$ 5,029,882	\$ 5,787,564	\$ 5,361,855
Contributions as a Percentage of Covered-Employee Payroll	16.97%	23.67%	18.20%	33%

* - Fiscal year 2015 was the first year of implementation of the pension standards

CITY OF CAPITOLA
Required Supplementary Information
General Fund
Budgetary Comparison Schedule
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 12,411,214	\$ 12,486,214	\$ 12,198,313	\$ (287,901)
Licenses and permits	611,000	611,000	680,141	69,141
Fines and forfeitures	663,700	663,700	557,617	(106,083)
Intergovernmental	152,850	208,345	194,853	(13,492)
Charges for services	2,134,481	2,134,481	1,848,673	(285,808)
Use of money and property	70,200	95,200	108,005	12,805
Other revenue	63,850	63,850	127,844	63,994
Total revenues	16,107,295	16,262,790	15,715,446	(547,344)
Expenditures:				
Current:				
General government:				
City council	162,596	162,596	150,639	11,957
City manager	830,426	830,426	822,808	7,618
Personnel	326,960	326,960	349,636	(22,676)
City attorney	230,000	230,000	272,869	(42,869)
Finance	881,918	881,918	829,924	51,994
Community grants	275,000	275,000	274,990	10
Public safety	6,386,021	6,328,946	6,323,493	5,453
Community development	794,657	794,657	683,670	110,987
Culture and recreation	1,095,696	1,120,696	1,093,734	26,962
Transportation	2,692,550	2,557,550	2,558,399	(849)
Capital Outlay	-	-	499,524	(499,524)
Total expenditures	13,675,824	13,508,749	13,859,686	(350,937)
Excess (deficiency) of revenues over (under) expenditures	2,431,471	2,754,041	1,855,760	(196,407)
Other financing sources (uses):				
Transfers In	-	-	35,000	35,000
Transfers out	(3,290,550)	(3,622,550)	(2,472,670)	1,149,880
Total Other Financing Sources (Uses)	(3,290,550)	(3,622,550)	(2,437,670)	1,184,880
Net change in fund balance	(859,079)	(868,509)	(581,910)	286,599
Fund balance, beginning of year	7,337,025	7,337,025	7,337,025	-
Fund balance, end of year	\$ 6,477,946	\$ 6,468,516	\$ 6,755,115	\$ 286,599

CITY OF CAPITOLA
Required Supplementary Information
Federal Home Loan Reuse Fund
Budgetary Comparison Schedule
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Intergovernmental	\$ -	\$ -	\$ 90,373	\$ 90,373
Use of money and property	12,300	12,300	14,050	1,750
Total revenues	<u>12,300</u>	<u>12,300</u>	<u>104,423</u>	<u>92,123</u>
Expenditures:				
Current:				
Community development	3,200	3,200	3,200	-
Total expenditures	<u>3,200</u>	<u>3,200</u>	<u>3,200</u>	<u>-</u>
Net change in fund balance	9,100	9,100	101,223	92,123
Fund balance, beginning of year, as restated	<u>4,168,275</u>	<u>4,168,275</u>	<u>4,168,275</u>	<u>-</u>
Fund balance, end of year	<u>\$ 4,177,375</u>	<u>\$ 4,177,375</u>	<u>\$ 4,269,498</u>	<u>\$ 92,123</u>

CITY OF CAPITOLA
Required Supplementary Information
Capitola Housing Successor Fund
Budgetary Comparison Schedule
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Intergovernmental	\$ -	\$ -	\$ 216,135	\$ 216,135
Use of money and property	-	-	3,567	3,567
Other revenue	-	-	25	25
	<u>-</u>	<u>-</u>	<u>219,727</u>	<u>219,727</u>
Total revenues	<u>-</u>	<u>-</u>	<u>219,727</u>	<u>219,727</u>
Expenditures:				
Current:				
Community development	<u>60,000</u>	<u>60,000</u>	<u>22,619</u>	<u>37,381</u>
Total expenditures	<u>60,000</u>	<u>60,000</u>	<u>22,619</u>	<u>37,381</u>
Net change in fund balance	(60,000)	(60,000)	197,108	257,108
Fund balance, beginning of year, as restated	<u>3,922,789</u>	<u>3,922,789</u>	<u>3,922,789</u>	<u>-</u>
Fund balance, end of year	<u>\$ 3,862,789</u>	<u>\$ 3,862,789</u>	<u>\$ 4,119,897</u>	<u>\$ 257,108</u>

CITY OF CAPITOLA
Notes to Required Supplementary Information
Year Ended June 30, 2018

BUDGETS AND BUDGETARY ACCOUNTING

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

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

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

Budgets were adopted for all governmental funds with the exception of the following special revenue fund: CDBG Program Income Fund.

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

Funds	Appropriations	Expenditures	Variance
Major Governmental:			
Capital Projects	\$ 567,200	\$ 604,822	\$ (37,622)
Non-Major Governmental:			
CDBG Fund	100,000	182,371	(82,371)

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

SUPPLEMENTARY INFORMATION

**CITY OF CAPITOLA
Capital Projects Fund
Major Capital Projects Fund
Budgetary Comparison Schedule
Year Ended June 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Licenses and permits	\$ 33,000	\$ 33,000	\$ 70,064	\$ 37,064
Intergovernmental	-	-	341,460	341,460
Other revenue	50,000	50,000	274,474	224,474
Total revenues	83,000	83,000	685,998	602,998
Expenditures:				
General government	30,000	24,000	-	24,000
Transportation	-	-	80,600	(80,600)
Capital outlay	542,200	543,200	524,222	18,978
Total expenditures	572,200	567,200	604,822	(37,622)
Excess (deficiency) of revenues over (under) expenditures	(489,200)	(484,200)	81,176	640,620
Other financing sources (uses):				
Transfers in	467,200	525,200	535,320	10,120
Transfers out	-	(174,000)	(174,000)	-
Total other financing sources (uses)	467,200	351,200	361,320	10,120
Net change in fund balance	(22,000)	(133,000)	442,496	575,496
Fund balance, beginning	1,052,543	1,052,543	1,052,543	-
Fund balance, ending	\$ 1,030,543	\$ 919,543	\$ 1,495,039	\$ 575,496

CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Statements
June 30, 2018

NON-MAJOR FUNDS

SPECIAL REVENUE FUNDS

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

SB1 Road Rehab Fund - This fund accounts for receipts and expenditures received from the passage of Senate Bill 1 – Road Repair and Accountability Act of 2017.

RTC Fund - This Fund accounts for receipts and expenditures of the 2016 Measure D sales tax received from the Santa Cruz County Regional Transportation Commission.

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

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

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

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

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

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

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

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

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

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.

CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Statements
June 30, 2018

NON-MAJOR FUNDS, (continued)

DEBT SERVICE FUNDS

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

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

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

CAPITAL PROJECT FUNDS

Library Fund - This fund accounts for library project financial resources segregated for the acquisition of major capital facilities and equipment by the City.

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CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Balance Sheet
June 30, 2018

	SPECIAL REVENUE FUNDS		
	SB1		Supplemental
	Road Rehab and Maintenance	RTC Streets	Law Enforcement
ASSETS			
Cash and investments	\$ -	\$ 391,048	\$ 10,057
Accounts receivable	-	-	-
Due from other governments	21,538	34,217	44
Loans receivables, net	-	-	-
Total Assets	<u>\$ 21,538</u>	<u>\$ 425,265</u>	<u>\$ 10,101</u>
LIABILITIES			
Accounts payable	\$ -	\$ 7,650	\$ -
Due to other funds	19,993	-	-
Deposits payable	-	-	-
Total Liabilities	<u>19,993</u>	<u>7,650</u>	<u>-</u>
FUND BALANCES			
Restricted	1,545	417,615	10,101
Assigned	-	-	-
Unassigned	-	-	-
Total Fund Balances	<u>1,545</u>	<u>417,615</u>	<u>10,101</u>
Total Liabilities and Fund Balances	<u>\$ 21,538</u>	<u>\$ 425,265</u>	<u>\$ 10,101</u>

SPECIAL REVENUE FUNDS

Gas Tax	Wharf	Parking Reserve	Technology Fees	PEG Cable TV Access Fee	Capitola Village and Wharf BIA	CDBG
\$ 4,033	\$ 46,321	\$ 737	\$ 54,948	\$ 73,691	\$ 21,581	\$ 41,903
-	-	-	142	-	1,539	-
-	123	-	-	4,250	-	-
-	-	-	-	-	-	-
<u>\$ 4,033</u>	<u>\$ 46,444</u>	<u>\$ 737</u>	<u>\$ 55,090</u>	<u>\$ 77,941</u>	<u>\$ 23,120</u>	<u>\$ 41,903</u>
\$ 4,033	\$ 2,330	\$ -	\$ -	\$ -	\$ 879	\$ -
-	-	-	-	-	-	-
-	1,000	-	-	-	-	-
<u>4,033</u>	<u>3,330</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>879</u>	<u>-</u>
-	43,114	737	55,090	77,941	22,241	41,903
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>43,114</u>	<u>737</u>	<u>55,090</u>	<u>77,941</u>	<u>22,241</u>	<u>41,903</u>
<u>\$ 4,033</u>	<u>\$ 46,444</u>	<u>\$ 737</u>	<u>\$ 55,090</u>	<u>\$ 77,941</u>	<u>\$ 23,120</u>	<u>\$ 41,903</u>

CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Balance Sheet (continued)
June 30, 2018

	SPECIAL REVENUE FUNDS		DEBT SERVICE FUNDS
	CDBG Program Income	Affordable Housing	Beach & Village Lot II Debt Financing
ASSETS			
Cash and investments	\$ 29,361	\$ 70,989	\$ -
Accounts receivable	-	-	-
Due from other governments	139	345	-
Loans receivables, net	503,825	193,213	-
Total Assets	<u>\$ 533,325</u>	<u>\$ 264,547</u>	<u>\$ -</u>
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	-	-	39,185
Deposits payable	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>39,185</u>
FUND BALANCES			
Restricted	533,325	264,547	-
Assigned	-	-	-
Unassigned	-	-	(39,185)
Total Fund Balances	<u>533,325</u>	<u>264,547</u>	<u>(39,185)</u>
Total Liabilities and Fund Balances	<u>\$ 533,325</u>	<u>\$ 264,547</u>	<u>\$ -</u>

DEBT SERVICE FUNDS		CAPITAL PROJECTS FUND	
Pacific Cove Debt Financing	2007 POB Debt Service	Library	Non-Major Governmental Funds
\$ 132,892	\$ 4,896	\$ 1,917,846	\$ 2,800,303
-	-	-	1,681
434	-	5,707	66,797
-	-	-	697,038
<u>\$ 133,326</u>	<u>\$ 4,896</u>	<u>\$ 1,923,553</u>	<u>\$ 3,565,819</u>
\$ -	\$ -	\$ 39,161	\$ 54,053
-	-	-	59,178
-	-	-	1,000
-	-	39,161	114,231
-	-	1,884,392	3,352,551
133,326	4,896	-	138,222
-	-	-	(39,185)
<u>133,326</u>	<u>4,896</u>	<u>1,884,392</u>	<u>3,451,588</u>
<u>\$ 133,326</u>	<u>\$ 4,896</u>	<u>\$ 1,923,553</u>	<u>\$ 3,565,819</u>

CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Year Ended June 30, 2018

	SPECIAL REVENUE FUNDS		
	SB1		Supplemental
	Road Rehab and Maintenance	RTC Streets	Law Enforcement
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses & Permits	-	-	-
Intergovernmental	59,545	312,311	100,000
Charges for Services	-	-	-
Use of Money and Property	-	2,652	225
Other Revenue	-	-	-
Total Revenues	<u>59,545</u>	<u>314,963</u>	<u>100,225</u>
EXPENDITURES			
Current:			
General Government	-	108,602	-
Public safety	-	-	9,867
Community development	-	-	-
Culture and recreation	-	-	-
Transportation	-	-	-
Capital outlay	-	-	53,196
Debt service:			
Principal	-	-	-
Interest	-	-	-
Total Expenditures	<u>-</u>	<u>108,602</u>	<u>63,063</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>59,545</u>	<u>206,361</u>	<u>37,162</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	200,000	-
Transfers out	<u>(58,000)</u>	<u>-</u>	<u>(35,000)</u>
Total Other Financing Sources (Uses)	<u>(58,000)</u>	<u>200,000</u>	<u>(35,000)</u>
Net change in fund balances	<u>1,545</u>	<u>406,361</u>	<u>2,162</u>
Fund Balances, beginning of year, as previously reported	-	11,254	7,939
Restatement - Loan receivables	-	-	-
Fund Balances, beginning of year, as restated	<u>-</u>	<u>11,254</u>	<u>7,939</u>
Fund Balances, end of year	<u>\$ 1,545</u>	<u>\$ 417,615</u>	<u>\$ 10,101</u>

SPECIAL REVENUE FUNDS

Gas Tax	Wharf	Parking Reserve	Technology Fees	PEG Cable TV Access Fee	Capitola Village and Wharf BIA	CDBG
\$ 217,970	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	16,024	-	-
-	-	-	-	-	-	71,074
-	-	-	16,223	-	73,298	-
-	94,261	-	-	1,058	517	-
-	-	-	-	-	3,189	-
<u>217,970</u>	<u>94,261</u>	<u>-</u>	<u>16,223</u>	<u>17,082</u>	<u>77,004</u>	<u>71,074</u>
-	-	-	-	14,232	-	-
-	-	-	-	-	-	-
-	-	-	8,567	-	66,611	182,371
-	60,339	-	-	-	-	-
212,633	-	-	-	-	-	-
-	122,617	-	-	-	-	-
5,337	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>217,970</u>	<u>182,956</u>	<u>-</u>	<u>8,567</u>	<u>14,232</u>	<u>66,611</u>	<u>182,371</u>
-	(88,695)	-	7,656	2,850	10,393	(111,297)
-	47,800	100,000	-	-	-	-
-	-	(100,000)	-	-	-	-
-	47,800	-	-	-	-	-
-	(40,895)	-	7,656	2,850	10,393	(111,297)
-	84,009	737	47,434	75,091	11,848	25,664
-	-	-	-	-	-	127,536
-	84,009	737	47,434	75,091	11,848	153,200
<u>\$ -</u>	<u>\$ 43,114</u>	<u>\$ 737</u>	<u>\$ 55,090</u>	<u>\$ 77,941</u>	<u>\$ 22,241</u>	<u>\$ 41,903</u>

CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures (continued)
and Changes in Fund Balances
Year Ended June 30, 2018

	SPECIAL REVENUE FUNDS		DEBT SERVICE FUNDS
	CDBG Program Income	Affordable Housing	Beach & Village Lot II Debt Financing
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses & Permits	-	-	-
Intergovernmental	159,468	4,800	-
Charges for Services	-	68,745	-
Use of Money and Property	404	596	-
Other Revenue	-	924	-
Total Revenues	<u>159,872</u>	<u>75,065</u>	<u>-</u>
EXPENDITURES			
Current:			
General Government	-	-	-
Public safety	-	-	-
Community development	-	-	-
Culture and recreation	-	-	-
Transportation	-	-	-
Capital outlay	-	-	-
Debt service:			
Principal	-	-	58,856
Interest	-	-	30,148
Total Expenditures	<u>-</u>	<u>-</u>	<u>89,004</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>159,872</u>	<u>75,065</u>	<u>(89,004)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	89,004
Transfers out	-	(25,000)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(25,000)</u>	<u>89,004</u>
Net change in fund balances	<u>159,872</u>	<u>50,065</u>	<u>-</u>
Fund Balances, beginning of year, as previously reported	29,096	26,069	(39,185)
Restatement - Loan receivables	344,357	188,413	-
Fund Balances, beginning of year, as restated	<u>373,453</u>	<u>214,482</u>	<u>(39,185)</u>
Fund Balances, end of year	<u>\$ 533,325</u>	<u>\$ 264,547</u>	<u>\$ (39,185)</u>

DEBT SERVICE FUNDS		CAPITAL PROJECTS FUND	Non-Major Governmental Funds
Pacific Cove Debt Financing	2007 POB Debt Service	Library	
\$ -	\$ -	\$ -	\$ 217,970
-	-	-	16,024
-	-	700,111	1,407,309
-	-	-	158,266
1,294	-	10,754	111,761
-	-	-	4,113
<u>1,294</u>	<u>-</u>	<u>710,865</u>	<u>1,915,443</u>
-	75	-	122,909
-	-	-	9,867
-	-	-	257,549
-	-	-	60,339
-	-	-	212,633
-	-	724,210	900,023
119,508	645,000	-	828,701
45,558	19,262	-	94,968
<u>165,066</u>	<u>664,337</u>	<u>724,210</u>	<u>2,486,989</u>
<u>(163,772)</u>	<u>(664,337)</u>	<u>(13,345)</u>	<u>(571,546)</u>
165,066	187,351	1,505,129	2,294,350
-	-	-	(218,000)
<u>165,066</u>	<u>187,351</u>	<u>1,505,129</u>	<u>2,076,350</u>
<u>1,294</u>	<u>(476,986)</u>	<u>1,491,784</u>	<u>1,504,804</u>
132,032	481,882	392,608	1,286,478
-	-	-	660,306
<u>132,032</u>	<u>481,882</u>	<u>392,608</u>	<u>1,946,784</u>
<u>\$ 133,326</u>	<u>\$ 4,896</u>	<u>\$ 1,884,392</u>	<u>\$ 3,451,588</u>

CITY OF CAPITOLA
Senate Bill 1 – Road Rehab Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Intergovernmental	\$ -	\$ 58,532	\$ 59,545	\$ 1,013
Total revenues	-	58,532	59,545	1,013
Other financing sources (uses):				
Transfers out	-	(58,000)	(58,000)	-
Total Other Financing Sources (Uses)	-	(58,000)	(58,000)	-
Net change in fund balance	-	532	1,545	1,013
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ 532	\$ 1,545	\$ 1,013

**CITY OF CAPITOLA
RTC Streets Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Intergovernmental	\$ 285,000	\$ 285,000	\$ 312,311	\$ 27,311
Use of money and property	-	-	2,652	2,652
Total revenues	285,000	285,000	314,963	29,963
Expenditures:				
Current:				
Transportation	485,000	485,000	108,602	(376,398)
Total expenditures	485,000	485,000	108,602	(376,398)
Excess (deficiency) of revenues over (under) expenditures	(200,000)	(200,000)	206,361	406,361
Other financing sources (uses):				
Transfers In	200,000	200,000	200,000	-
Total Other Financing Sources (Uses)	200,000	200,000	200,000	-
Net change in fund balance	-	-	406,361	406,361
Fund balance, beginning of year	11,254	11,254	11,254	-
Fund balance, end of year	\$ 11,254	\$ 11,254	\$ 417,615	\$ 406,361

CITY OF CAPITOLA
Supplemental Law Enforcement Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 100,000	\$ -
Use of money and property	400	400	225	(175)
Total revenues	<u>100,400</u>	<u>100,400</u>	<u>100,225</u>	<u>(175)</u>
Expenditures:				
Current:				
Public safety	48,000	48,000	9,867	38,133
Capital Outlay	18,000	73,000	53,196	19,804
Total expenditures	<u>66,000</u>	<u>121,000</u>	<u>63,063</u>	<u>57,937</u>
Excess (deficiency) of revenues over (under) expenditures	<u>34,400</u>	<u>(20,600)</u>	<u>37,162</u>	<u>(58,112)</u>
Other financing sources (uses):				
Transfers out	(35,000)	(35,000)	(35,000)	-
Total Other Financing Sources (Uses)	<u>(35,000)</u>	<u>(35,000)</u>	<u>(35,000)</u>	<u>-</u>
Net change in fund balance	(600)	(55,600)	2,162	(58,112)
Fund balance, beginning of year	<u>7,939</u>	<u>7,939</u>	<u>7,939</u>	<u>-</u>
Fund balance, end of year	<u>\$ 7,339</u>	<u>\$ (47,661)</u>	<u>\$ 10,101</u>	<u>\$ (58,112)</u>

CITY OF CAPITOLA
Gas Tax Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 289,421	\$ 230,889	\$ 217,970	\$ (12,919)
Total revenues	289,421	230,889	217,970	(12,919)
Expenditures:				
Current:				
Transportation	214,000	214,000	212,633	1,367
Debt service:				
Principal	5,400	5,400	5,337	63
Total expenditures	219,400	219,400	217,970	1,430
Net change in fund balance	70,021	11,489	-	(11,489)
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	<u>\$ 70,021</u>	<u>\$ 11,489</u>	<u>\$ -</u>	<u>\$ (11,489)</u>

**CITY OF CAPITOLA
Wharf Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Use of money and property	\$ 85,700	\$ 85,700	\$ 94,261	\$ 8,561
Total revenues	85,700	85,700	94,261	8,561
Expenditures:				
Current:				
Culture and recreation	95,600	95,600	60,339	35,261
Capital Outlay	126,300	126,300	122,617	3,683
Total expenditures	221,900	221,900	182,956	38,944
Excess (deficiency) of revenues over (under) expenditures	(136,200)	(136,200)	(88,695)	(30,383)
Other financing sources (uses):				
Transfers In	47,800	47,800	47,800	-
Total Other Financing Sources (Uses)	47,800	47,800	47,800	-
Net change in fund balance	(88,400)	(88,400)	(40,895)	(30,383)
Fund balance, beginning of year	84,009	84,009	84,009	-
Fund balance, end of year	<u>\$ (4,391)</u>	<u>\$ (4,391)</u>	<u>\$ 43,114</u>	<u>\$ (30,383)</u>

**CITY OF CAPITOLA
Parking Reserve Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Other financing sources (uses):				
Transfers In	\$ 100,000	\$ 100,000	\$ 100,000	\$ -
Transfers out	(100,000)	(100,000)	(100,000)	-
Total Other Financing Sources (Uses)	-	-	-	-
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	737	737	737	-
Fund balance, end of year	<u>\$ 737</u>	<u>\$ 737</u>	<u>\$ 737</u>	<u>\$ -</u>

**CITY OF CAPITOLA
Technology Fees Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Charges for services	\$ 11,000	\$ 11,000	\$ 16,223	\$ 5,223
Total revenues	11,000	11,000	16,223	5,223
Expenditures:				
Current:				
Community development	15,000	15,000	8,567	6,433
Total expenditures	15,000	15,000	8,567	6,433
Excess (deficiency) of revenues over (under) expenditures	(4,000)	(4,000)	7,656	11,656
Net change in fund balance	(4,000)	(4,000)	7,656	11,656
Fund balance, beginning of year	47,434	47,434	47,434	-
Fund balance, end of year	<u>\$ 43,434</u>	<u>\$ 43,434</u>	<u>\$ 55,090</u>	<u>\$ 11,656</u>

CITY OF CAPITOLA
PEG Cable TV Access Fee Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Licenses and permits	\$ 16,000	\$ 16,000	\$ 16,024	\$ 24
Use of money and property	100	100	1,058	958
Total revenues	16,100	16,100	17,082	982
Expenditures:				
Current:				
General government:				
City manager	7,500	7,500	14,232	(6,732)
Capital Outlay	7,500	7,500	-	7,500
Total expenditures	15,000	15,000	14,232	768
Net change in fund balance	1,100	1,100	2,850	1,750
Fund balance, beginning of year	75,091	75,091	75,091	-
Fund balance, end of year	<u>\$ 76,191</u>	<u>\$ 76,191</u>	<u>\$ 77,941</u>	<u>\$ 1,750</u>

CITY OF CAPITOLA
Capitola Village and Wharf BIA Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Charges for services	\$ 73,000	\$ 73,000	\$ 73,298	\$ 298
Use of money and property	100	100	517	417
Other revenue	-	-	3,189	3,189
Total revenues	<u>73,100</u>	<u>73,100</u>	<u>77,004</u>	<u>3,904</u>
Expenditures:				
Current:				
Community development	<u>74,750</u>	<u>74,750</u>	<u>66,611</u>	<u>8,139</u>
Total expenditures	<u>74,750</u>	<u>74,750</u>	<u>66,611</u>	<u>8,139</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,650)</u>	<u>(1,650)</u>	<u>10,393</u>	<u>12,043</u>
Net change in fund balance	(1,650)	(1,650)	10,393	12,043
Fund balance, beginning of year	<u>11,848</u>	<u>11,848</u>	<u>11,848</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 10,198</u></u>	<u><u>\$ 10,198</u></u>	<u><u>\$ 22,241</u></u>	<u><u>\$ 12,043</u></u>

**CITY OF CAPITOLA
CDBG Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 71,074	\$ (28,926)
Total revenues	100,000	100,000	71,074	(28,926)
Expenditures:				
Current:				
Community development	100,000	100,000	182,371	(82,371)
Total expenditures	100,000	100,000	182,371	(82,371)
Excess (deficiency) of revenues over (under) expenditures	-	-	(111,297)	(111,297)
Net change in fund balance	-	-	(111,297)	(111,297)
Fund balance, beginning of year, as restated	153,200	153,200	153,200	-
Fund balance, end of year	<u>\$ 153,200</u>	<u>\$ 153,200</u>	<u>\$ 41,903</u>	<u>\$ (111,297)</u>

CITY OF CAPITOLA
Affordable Housing Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Intergovernmental	\$ -	\$ -	\$ 4,800	\$ 4,800
Charges for services	25,000	25,000	68,745	43,745
Use of money and property	-	-	596	596
Other revenue	-	-	924	924
Total revenues	<u>25,000</u>	<u>25,000</u>	<u>75,065</u>	<u>50,065</u>
Other financing sources (uses):				
Transfers out	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>
Net change in fund balance	-	-	50,065	50,065
Fund balance, beginning of year, as restated	<u>214,482</u>	<u>214,482</u>	<u>214,482</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 214,482</u></u>	<u><u>\$ 214,482</u></u>	<u><u>\$ 264,547</u></u>	<u><u>\$ 50,065</u></u>

CITY OF CAPITOLA
Beach & Village Lot II Debt Financing Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Debt service expenditures:				
Principal	\$ 58,856	\$ 58,856	\$ 58,856	\$ -
Interest	30,148	30,148	30,148	-
Total expenditures	<u>89,004</u>	<u>89,004</u>	<u>89,004</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(89,004)</u>	<u>(89,004)</u>	<u>(89,004)</u>	<u>-</u>
Other financing sources (uses):				
Transfers In	<u>89,004</u>	<u>89,004</u>	<u>89,004</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>89,004</u>	<u>89,004</u>	<u>89,004</u>	<u>-</u>
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	<u>(39,185)</u>	<u>(39,185)</u>	<u>(39,185)</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ (39,185)</u></u>	<u><u>\$ (39,185)</u></u>	<u><u>\$ (39,185)</u></u>	<u><u>\$ -</u></u>

**CITY OF CAPITOLA
Pacific Cove Debt Financing Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Use of money and property	\$ -	\$ -	\$ 1,294	\$ 1,294
Total revenues	-	-	1,294	1,294
Debt service expenditures:				
Principal	115,469	115,469	119,508	(4,039)
Interest	49,597	49,597	45,558	4,039
Total expenditures	165,066	165,066	165,066	-
Excess (deficiency) of revenues over (under) expenditures	(165,066)	(165,066)	(163,772)	1,294
Other financing sources (uses):				
Transfers In	165,066	165,066	165,066	-
Total Other Financing Sources (Uses)	165,066	165,066	165,066	-
Net change in fund balance	-	-	1,294	1,294
Fund balance, beginning of year	132,032	132,032	132,032	-
Fund balance, end of year	<u>\$ 132,032</u>	<u>\$ 132,032</u>	<u>\$ 133,326</u>	<u>\$ 1,294</u>

**CITY OF CAPITOLA
2007 POB Debt Service Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Expenditures:				
Current:				
General government:				
City council	\$ 4,500	\$ 4,500	\$ 75	\$ (4,425)
Debt service:				
Principal	645,000	645,000	645,000	-
Interest	19,382	19,382	19,262	(120)
Total expenditures	<u>668,882</u>	<u>668,882</u>	<u>664,337</u>	<u>(4,545)</u>
Other financing sources (uses):				
Transfers In	<u>187,351</u>	<u>187,351</u>	<u>187,351</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>187,351</u>	<u>187,351</u>	<u>187,351</u>	<u>-</u>
Net change in fund balance	(481,531)	(481,531)	(476,986)	4,545
Fund balance, beginning of year	<u>481,882</u>	<u>481,882</u>	<u>481,882</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 351</u></u>	<u><u>\$ 351</u></u>	<u><u>\$ 4,896</u></u>	<u><u>\$ 4,545</u></u>

CITY OF CAPITOLA
Library Capital Projects Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Intergovernmental	\$ 9,777,300	\$ 9,777,300	\$ 700,111	\$ (9,077,189)
Use of money and property	-	-	10,754	10,754
Total revenues	<u>9,777,300</u>	<u>9,777,300</u>	<u>710,865</u>	<u>(9,066,435)</u>
Expenditures:				
Capital Outlay	<u>10,776,429</u>	<u>10,221,429</u>	<u>724,210</u>	<u>9,497,219</u>
Total expenditures	<u>10,776,429</u>	<u>10,221,429</u>	<u>724,210</u>	<u>9,497,219</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(999,129)</u>	<u>(444,129)</u>	<u>(13,345)</u>	<u>430,784</u>
Other financing sources (uses):				
Transfers In	<u>999,129</u>	<u>1,505,129</u>	<u>1,505,129</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>999,129</u>	<u>1,505,129</u>	<u>1,505,129</u>	<u>-</u>
Net change in fund balance	-	1,061,000	1,491,784	430,784
Fund balance, beginning of year	<u>392,608</u>	<u>392,608</u>	<u>392,608</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 392,608</u></u>	<u><u>\$ 1,453,608</u></u>	<u><u>\$ 1,884,392</u></u>	<u><u>\$ 430,784</u></u>

CITY OF CAPITOLA
Statement of Changes in Fiduciary Assets and Liabilities
Fiduciary Funds – Agency Funds
Year Ended June 30, 2018

AUTO CENTER ASSESSMENT DISTRICT	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018
Assets				
Cash and investments	\$ 20,634	\$ 196	\$ -	\$ 20,830
Due from other governments	-	99	-	99
Total assets	<u>\$ 20,634</u>	<u>\$ 295</u>	<u>\$ -</u>	<u>\$ 20,929</u>
Liabilities				
Deposits	<u>\$ 20,634</u>	<u>\$ 295</u>	<u>\$ -</u>	<u>\$ 20,929</u>
Total liabilities	<u>\$ 20,634</u>	<u>\$ 295</u>	<u>\$ -</u>	<u>\$ 20,929</u>

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CITY OF CAPITOLA
Comprehensive Annual Financial Report
Statistical Section (Unaudited)
Table of Contents
Fiscal Year Ended June 30, 2018

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

Financial Trends

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

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Revenue Capacity

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

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CITY OF CAPITOLA
Comprehensive Annual Financial Report
Statistical Section (Unaudited)
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Fiscal Year Ended June 30, 2018

Debt Capacity

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

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Ratios of General Bonded Debt Outstanding	118
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Demographic and Economic Information

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

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Full-time and Part-time City Employees by Function	124

Operating Information

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

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Unless otherwise noted, the source of the information noted in the tables below were from the prior year's City's Comprehensive Annual Financial Reports.

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

	2009	2010	2011	2012	2013	2014	2015*	2016	2017	2018
Primary government activities Net Investment in Capital Assets	\$ 15,659	\$ 15,598	\$ 15,054	\$ 11,918	\$ 11,521	\$ 12,751	\$ 11,604	\$ 13,154	\$ 14,457	\$ 15,773
Restricted for										
Public Safety			10	51	101	119	101	98	8	10
Transportation	73	63	184	2,445	1,513	416	393	113	119	420
Community Development	1,107	1,317	1,256	1,141	3,511	3,852	6,357	6,599	8,811	11,191
Culture and Recreation	-	-	185	88	77	116	141	143	159	121
Total Restricted	1,180	1,380	1,635	3,725	5,202	4,503	6,992	6,953	9,097	11,742
Unrestricted	3,435	4,575	3,249	4,134	4,893	5,957	(9,381)	(8,884)	(9,883)	(11,536)
Total Primary govt net position	<u>\$ 20,274</u>	<u>\$ 21,553</u>	<u>\$ 19,938</u>	<u>\$ 19,777</u>	<u>\$ 21,616</u>	<u>\$ 23,211</u>	<u>\$ 9,215</u>	<u>\$ 11,223</u>	<u>\$ 13,671</u>	<u>\$ 15,978</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.

*Fiscal year 2014-2015 reflects the first year of the implementation of GASB Statement Nos. 68 and 71, which resulted in a prior period restatement of (\$15,436,035) to the Governmental Activities.

Source: City of Capitola Finance Department

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

	Fiscal Year				
	2009	2010	2011	2012	2013
EXPENSES:					
Primary government activities					
General government	\$ 4,482	\$ 5,103	\$ 5,453	\$ 4,851	\$ 4,862
Public safety	5,927	5,533	5,422	5,491	5,411
Community development	2,218	2,428	2,068	3,471	727
Culture and recreation	1,035	1,025	995	1,010	1,398
Transportation	2,530	1,932	2,445	2,556	2,456
Interest and other charges	533	509	448	419	288
Total primary government expenses	16,725	16,530	16,831	17,798	15,142
PROGRAM REVENUES:					
Primary government activities					
Charges for services:					
General government	658	806	759	1,059	948
Public safety	905	1,009	902	759	732
Community development	1,617	2,266	1,077	1,145	523
Culture and recreation	709	696	655	751	685
Transportation	34	53	54	166	145
Operating grants and contributions	286	1,469	1,040	3,131	2,292
Capital grants and contributions	527	388	421	-	3
Total primary govt program revenues	4,736	6,687	4,908	7,011	5,328
NET PRIMARY GOVT REV/(EXP)	(11,989)	(9,843)	(11,923)	(10,787)	(9,814)
GENERAL REVENUES AND OTHER					
CHANGES IN NET POSITION:					
Primary government activities					
Taxes:					
Property Taxes	4,147	4,066	4,107	2,993	1,778
Transaction and Use Tax (.25%)	788	928	850	932	1,510
Sales and Use tax	2,858	3,289	3,002	3,322	4,531
Transient occupancy taxes	605	592	602	913	1,074
Franchise taxes	459	462	477	483	479
Business license tax	278	282	267	281	292
Other taxes					
Intergovernmental	1,417	979	1,323	947	241
Investment income	394	238	185	190	131
Other general revenues	305	287	289	309	497
Transfers					
Extraordinary Item	-	-	(795)	380	1,118
Total primary government activities	11,251	11,123	10,307	10,750	11,651
CHANGES IN NET POSITION:					
Total primary government activities	\$ (738)	\$ 1,280	\$ (1,616)	\$ (37)	\$ 1,837

* Fiscal year 2014-15 reflects the first year of the implementation of GASB Statement Nos. 68 and 71, which resulted in a prior restatement of (\$15,436,035) to the Governmental Activities. GASB 75 restatement was reflected in 2018 for \$172,688

Source: City of Capitola Finance Department

		Fiscal Year							
		2014	2015*	2016	2017	2018			
\$	3,403	\$	3,582	\$	3,557	\$	3,975	\$	3,594
	5,412		6,181		6,211		7,462		6,822
	741		809		1,076		1,090		1,057
	970		974		1,150		1,302		1,228
	3,070		2,866		3,218		3,212		3,382
	211		217		158		119		77
	<u>13,807</u>		<u>14,629</u>		<u>15,370</u>		<u>17,160</u>		<u>16,161</u>
	1,109		1,012		970		911		1,057
	782		806		701		597		601
	683		633		727		637		695
	749		765		751		640		636
	131		120		112		116		34
	313		657		400		3,329		1,832
	15		12		511		146		413
	<u>3,782</u>		<u>4,005</u>		<u>4,172</u>		<u>6,376</u>		<u>5,267</u>
	<u>(10,025)</u>		<u>(10,624)</u>		<u>(11,198)</u>		<u>(10,784)</u>		<u>(10,893)</u>
	1,849		2,041		2,194		2,288		2,498
	-		-		-		-		-
	2,036		7,330		7,860		7,959		7,688
	1,263		1,276		1,452		1,458		1,457
	497		508		524		535		555
	287		284		298		302		308
	327		265		226		201		223
	107		119		227		264		237
	238		242		424		225		406
	<u>-</u>		<u>-</u>		<u>-</u>		<u>-</u>		<u>-</u>
	<u>6,604</u>		<u>12,065</u>		<u>13,205</u>		<u>13,232</u>		<u>13,374</u>
\$	<u>(3,421)</u>	\$	<u>1,441</u>	\$	<u>2,007</u>	\$	<u>2,448</u>	\$	<u>2,480</u>

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

	Fiscal Year					
	2009 ⁽¹⁾	2010 ⁽¹⁾	2011 ⁽²⁾	2012 ⁽²⁾	2013 ⁽²⁾	2014 ⁽²⁾
GENERAL FUND						
Reserved						
Prepaid	\$ 21	\$ 116	\$ -	\$ -	\$ -	\$ -
Advances	1,968	1,968	-	-	-	-
Total Reserved	1,989	2,084	-	-	-	-
Unreserved						
Designated	2,659	2,928	-	-	-	-
Unrestricted	1,350	1,350	-	-	-	-
Total Unreserved	4,009	4,278	-	-	-	-
Fund Balance GASB 54						
Nonspendable	-	-	1,973	1,970	2,024	620
Assigned	-	-	-	-	570	584
Unassigned	-	-	2,786	2,608	2,846	3,686
Total General Fund	5,998	6,362	4,759	4,578	5,440	4,890
ALL OTHER GOVERNMENT FUNDS						
Unreserved, reported in:						
Special revenue funds	2,976	1,643	-	-	-	-
Capital project funds	1,322	627	-	-	-	-
Debt service funds	-	1,458	-	-	-	-
Total Unreserved	4,298	3,728	-	-	-	-
Fund Balance GASB 54						
Nonspendable	-	-	109	586	-	-
Restricted	-	-	1,705	1,858	1,497	1,043
Assigned	-	-	1,564	1,045	1,046	1,764
Unassigned	-	-	(19)	(148)	(19)	(2)
Total All Other Govt Funds	4,298	3,728	3,359	3,341	2,524	2,805
TOTAL	\$ 10,296	\$ 10,090	\$ 8,118	\$ 7,919	\$ 7,964	\$ 7,695

(1) Data prior to GASB 54 implementation

(2) Data incorporating GASB 54 implementation

Source: City of Capitola Finance Department

Fiscal Year			
2015 ⁽²⁾	2016 ⁽²⁾	2017 ⁽²⁾	2018 ⁽²⁾
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
618	524	426	58
1,049	1,262	1,277	1,277
4,338	4,899	5,645	5,419
<u>6,005</u>	<u>6,685</u>	<u>7,348</u>	<u>6,755</u>
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
985	736	834	11,742
2,457	2,745	1,927	1,633
(41)	(215)	(39)	(39)
<u>3,401</u>	<u>3,266</u>	<u>2,722</u>	<u>13,336</u>
<u>\$ 9,406</u>	<u>\$ 9,951</u>	<u>\$ 10,070</u>	<u>\$ 20,091</u>

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				
	2009	2010	2011	2012	2013
REVENUES:					
Taxes	\$10,239	\$10,285	\$10,335	\$ 9,878	\$ 9,607
Licenses & permits	664	609	474	630	520
Intergovernmental	1,745	2,932	2,426	2,755	837
Fines and forfeitures	702	803	702	724	688
Charges for services	1,744	1,380	1,278	1,907	1,862
Use of money and property	812	595	492	403	235
Other	178	163	173	90	238
Total revenues	<u>16,084</u>	<u>16,767</u>	<u>15,880</u>	<u>16,387</u>	<u>13,987</u>
EXPENSES:					
Current:					
General government	3,591	4,232	4,483	4,034	3,865
Public safety	5,869	5,441	5,468	5,436	5,369
Community development	2,362	2,338	1,986	3,458	712
Culture and recreation	1,009	986	1,009	1,041	1,118
Transportation	2,575	2,017	2,294	2,204	2,157
Capital outlay	1,224	847	665	757	551
Subtotal	<u>16,630</u>	<u>15,861</u>	<u>15,905</u>	<u>16,930</u>	<u>13,772</u>
Debt service:					
Debt issuance costs	-	-	-	43	38
Principal retirement	499	535	704	673	1,031
Interest and agent fees	529	507	447	394	320
Subtotal	<u>1,028</u>	<u>1,042</u>	<u>1,151</u>	<u>1,110</u>	<u>1,389</u>
Total expenditures	<u>17,658</u>	<u>16,903</u>	<u>17,056</u>	<u>18,040</u>	<u>15,161</u>
Excess/(deficiency) of revenues over/(under) expenditures	<u>(1,574)</u>	<u>(136)</u>	<u>(1,176)</u>	<u>(1,653)</u>	<u>(1,174)</u>
OTHER FINANCING SOURCES/(USES):					
Sale of capital assets	-	-	-	2,390	99
Transfers in	1,775	1,337	1,945	2,272	2,151
Transfers out	(1,775)	(1,337)	(1,945)	(2,272)	(2,151)
Issuance of bonds	-	-	-	-	-
Total other financing sources/(uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,390</u>	<u>99</u>
Special Items					
Flood Disaster loss/recovery	-	-	(795)	(623)	1,118
Gain/Loss on RDA dissolution	-	-	-	(190)	-
Net change in fund balances	<u>(1,574)</u>	<u>(136)</u>	<u>(1,971)</u>	<u>(76)</u>	<u>43</u>
Beginning fund balance, as restated	10,729	9,155	9,019	7,995	7,920
Changes in fund balance	(1,574)	(136)	(1,971)	(75)	43
Ending fund balance	<u>\$ 9,155</u>	<u>\$ 9,019</u>	<u>\$ 7,048</u>	<u>\$ 7,920</u>	<u>\$ 7,963</u>
Debt Service as a percentage of non-capital expenditures					
Total Expenditures	\$17,658	\$16,903	\$17,056	\$18,040	\$15,161
Capitalized Portion of Capital Outlay	1,220	888	430	824	306
Total Non-Capitalized Expenditures	16,438	16,015	16,626	17,216	14,855
Debt service: Principal & Interest	1,028	1,042	1,151	1,110	1,389
Debt service as a percentage of noncapital expenditures	6.25%	6.51%	6.92%	6.45%	9.35%

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

Fiscal Year				
2014	2015	2016	2017	2018
\$11,112	\$11,416	\$12,250	\$12,436	\$12,416
703	629	671	626	766
637	757	656	560	558
731	671	787	1,475	2,250
2,053	2,078	2,165	1,970	2,007
219	228	324	376	237
128	132	328	114	406
<u>15,583</u>	<u>15,911</u>	<u>17,181</u>	<u>17,557</u>	<u>18,641</u>
2,749	2,443	2,712	3,153	2,824
5,838	5,917	6,134	6,495	6,333
722	823	1,005	976	967
966	978	1,039	1,137	1,154
2,782	2,577	2,744	2,637	2,852
3,328	535	2,074	2,113	1,924
<u>16,385</u>	<u>13,273</u>	<u>15,708</u>	<u>16,511</u>	<u>16,054</u>
12	-	-	-	-
616	699	764	788	829
210	229	163	139	95
<u>838</u>	<u>928</u>	<u>927</u>	<u>927</u>	<u>924</u>
<u>17,223</u>	<u>14,201</u>	<u>16,635</u>	<u>17,438</u>	<u>16,977</u>
<u>(1,640)</u>	<u>1,710</u>	<u>546</u>	<u>119</u>	<u>1,664</u>
-	-	-	-	-
1,861	2,091	2,784	1,815	2,865
(1,861)	(2,091)	(2,784)	(1,815)	(2,865)
1,372	-	-	-	-
<u>1,372</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-
(268)	1,710	546	119	1,664
<u>7,963</u>	<u>7,695</u>	<u>9,405</u>	<u>9,951</u>	<u>10,070</u>
<u>(268)</u>	<u>1,710</u>	<u>546</u>	<u>119</u>	<u>1,664</u>
<u>\$ 7,695</u>	<u>\$ 9,405</u>	<u>\$ 9,951</u>	<u>\$10,070</u>	<u>\$11,734</u>
\$17,223	\$14,201	\$16,635	\$17,438	\$16,977
3,809	(153)	2,079	2,231	2,063
<u>13,414</u>	<u>14,354</u>	<u>14,556</u>	<u>15,207</u>	<u>14,914</u>
838	928	927	927	924
6.25%	6.47%	6.37%	6.10%	6.19%

Source: City of Capitola Finance Department

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
2009	\$ 4,859,096	\$ 4,147,459	\$ 605,365	\$ 459,042	\$ 277,959	\$ 394,135	\$ 507,957	\$ 11,251,013
2010	4,993,844	4,065,897	591,925	461,937	281,739	237,926	489,162	11,122,430
2011	4,890,518	4,107,291	601,726	477,084	266,948	185,346	573,436	11,102,349
2012	5,200,303	2,993,125	912,851	482,782	281,336	190,390	309,110	10,369,897
2013	6,040,542	1,778,037	1,074,507	478,627	291,642	131,166	398,320	10,192,841
2014	7,179,727	1,849,375	1,263,175	496,759	286,638	107,218	564,801	11,747,693
2015	7,330,443	2,041,248	1,275,716	507,517	284,474	118,770	506,803	12,064,971
2016	7,859,511	2,193,588	1,451,512	524,214	298,020	227,142	650,656	13,204,643
2017	7,959,086	2,288,341	1,457,704	534,513	301,545	264,040	426,525	13,231,754
2018	7,687,959	2,721,299	1,456,899	555,475	308,236	237,383	406,456	13,373,707

NOTES:

⁽¹⁾ A 0.25% District Transactions and Use Tax took effect April 1, 2005 and in 2008 was extended through December 2017. An additional 0.25% Permanent Retail Transactions & Use Tax took effect April 1, 2013, bringing the local tax rate to 0.50%.

⁽²⁾ As of 2006, Property Taxes In Lieu of Vehicle License Fees were included as part of Property Tax distributions by the State of California. Dissolution of California Redevelopment Agencies in February 2012 lowered agency property tax receipts by the size of the previous redevelopment tax increment.

Source: City of Capitola Finance Department

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

City of Capitola					
Fiscal Year	Secured	Unsecured	SBE Nonunitary	Total Assessed Value	% Change
2009	\$ 1,681,379	\$ 73,387	\$ 748	\$ 1,755,514	3.51%
2010	1,689,396	67,883	889	1,758,168	0.15%
2011	1,701,476	70,118	579	1,772,173	0.80%
2012	1,717,637	66,695	579	1,784,911	0.72%
2013	1,726,023	71,136	83	1,797,242	0.69%
2014	1,784,629	75,387	84	1,860,100	3.50%
2015	1,906,637	81,887	84	1,988,608	6.91%
2016	2,026,035	76,862	83	2,102,980	5.75%
2017	2,156,464	77,622	84	2,234,170	6.24%
2018	2,294,174	84,389	84	2,378,647	6.47%

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

Source: HdL Companies, Santa Cruz County Assessor 2017-18 Combined Tax Rolls

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

Category	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Residential	\$ 1,212,668	\$ 1,209,657	\$ 1,224,372	\$ 1,241,453	\$ 1,233,173	\$ 1,289,844	\$ 1,413,964	\$ 1,515,227	\$ 1,590,959	\$ 1,681,534
Commercial	350,240	363,033	367,656	369,399	387,425	384,916	379,721	392,427	439,224	476,377
Industrial	14,849	15,146	15,520	14,239	13,869	14,079	14,130	14,437	14,612	19,124
Institutional	13,345	14,748	16,950	14,788	15,078	14,662	14,716	15,134	15,966	15,054
Miscellaneous	5	114	5	6	6	6	6	6	6	267
Recreational	9,946	10,145	10,121	10,197	10,401	10,609	8,844	9,705	9,791	9,996
Vacant	30,120	24,165	13,773	13,303	13,370	13,823	14,934	15,263	16,274	15,393
SBE Nonunitary	748	889	579	579	83	84	84	83	84	84
Cross Reference	50,206	52,388	53,079	54,252	52,701	56,690	60,322	63,836	69,632	76,429
Unsecured	73,387	67,883	70,118	66,695	71,136	75,387	81,887	76,862	77,622	84,389
TOTALS	\$ 1,755,514	\$ 1,758,168	\$ 1,772,173	\$ 1,784,911	\$ 1,797,242	\$ 1,860,100	\$ 1,988,608	\$ 2,102,980	\$ 2,234,170	\$ 2,378,648
Exempt	(748)	(889)	(579)	(579)	(83)	(84)	(84)	(83)	(84)	(84)
Total Direct Property Tax Rate	0.18062	0.18468	0.18456	0.17987	0.18035	0.05510	0.05461	0.05456	0.05452	0.05452

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 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 2008-09 - 2017-18 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									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
City Direct Property Tax Rates										
Basic Levy ⁽¹⁾	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
Redevelopment Rate ⁽²⁾	1.00000	1.00000	1.00000	1.00000	(2)	n/a	n/a	n/a	n/a	n/a
Total Direct Property Tax Rate ⁽³⁾	0.18062	0.18468	0.18456	0.17987	0.18035	0.05510	0.05461	0.05456	0.05452	0.05452
Overlapping Property Tax Rates ⁽⁴⁾										
Santa Cruz High School	0.02274	0.02798	0.02336	0.02602	0.02615	0.02333	0.02087	0.01961	0.01848	0.04461
Soquel Elementary School	0.02320	0.02364	0.02435	0.02406	0.02435	0.02238	0.02045	0.01846	0.01811	0.04539
Live Oak Elementary School	0.04842	0.04939	0.05246	0.05295	0.05514	0.05383	0.05279	0.04600	0.03574	0.01988
Cabrillo College	0.03324	0.03598	0.03609	0.03896	0.04048	0.04047	0.03694	0.03669	0.03260	0.02425
Total Overlapping Property Tax Rate ⁽³⁾	0.12760	0.13699	0.13626	0.14199	0.14612	0.14001	0.13105	0.12076	0.10493	0.13413
City Share of 1% levy per Proposition 13 ⁽⁵⁾	0.07471	0.07471	0.07471	0.07471	0.07471	0.07471	0.07471	0.07471	0.07471	0.07471
Total Direct Rate ⁽³⁾	0.18062	0.18468	0.18456	0.17987	0.18035	0.05510	0.05461	0.05456	0.05452	0.05452
Total Direct & Overlapping Rate	1.12760	1.13699	1.13626	1.14199	1.14612	1.14001	1.13105	1.12076	1.10493	1.13413

NOTES:

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

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

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

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

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

SOURCE: HdL Companies, Santa Cruz County Assessors Office

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

Taxpayer	2017-18			2008-09		
	2018 Net Assessed Valuation	Rank	Percent of Total City Net Assessed Valuation	2008 Net Assessed Valuation	Rank	Percent of Total City Net Assessed Valuation
MGP XI Capitola LLC	\$ 93,614,423	1	3.94%			
Santa Cruz Seaside Company	30,943,466	2	1.30%			
Seritage SRC Finance LLC	29,862,440	3	1.26%			
Aspromonte Hotels LLC	23,237,688	4	0.98%			
Target Corporation	15,915,568	5	0.67%			
George Ow Jr. Trustees	14,779,751	6	0.62%	\$ 13,350,016	3	0.76%
Brown Ranch Properties	11,784,348	7	0.50%	10,412,269	6	0.59%
Blai LP	11,111,823	8	0.47%			
Loma Vista Estates Owners Assoc. Inc.	10,158,128	9	0.43%			
Melanie Kett Wirtanen Trustee	8,782,558	10	0.37%			
Macerich Partnership LP				65,878,888	1	3.75%
Baskin Properties LLC				14,834,099	2	0.85%
KLA Capitola LLC				10,950,322	5	0.62%
Values Pacific				9,791,397	7	0.56%
Macys West Inc				8,835,290	8	0.50%
Harry L. and Anna Jenkins				12,157,936	4	0.69%
Douglas Doods				7,532,644	9	0.43%
Sea Ridge LP				7,263,250	10	0.41%
	<u>\$ 250,190,193</u>		<u>10.52%</u>	<u>\$ 161,006,111</u>		<u>9.17%</u>
Memo: Gross Assessed Value	\$ 2,378,647,521		100.00%	\$ 1,755,514,283		100.00%

Source: HdL Companies, Santa Cruz County Assessor 2008-09 & 2017-18 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
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	899,974	899,974	100%	-	899,974	100%
2014	927,676	927,676	100%	-	927,676	100%
2015	1,060,919	1,060,919	100%	-	1,060,919	100%
2016	1,104,034	1,104,034	100%	-	1,104,034	100%
2017	1,203,689	1,203,689	100%	-	1,203,689	100%
2018	1,331,609	1,331,609	100%	-	1,331,609	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 2017 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.

CITY OF CAPITOLA, CALIFORNIA
Top 25 Sales Tax Taxpayers
Listed alphabetically

TOP 25 SALES TAX TAXPAYERS

As of June 30, 2018

AJ'S FUEL MARKET OF CAPITOLA
BED BATH & BEYOND
BEVERAGES & MORE
CHEVRON SERVICE STATIONS
CVS/PHARMACY
GAYLES BAKERY & ROSTICCERIA
HOUTAN PETROLEUM
KOHL'S DEPARTMENT STORES
MACY'S DEPARTMENT STORE
NOB HILL GENERAL STORES
ONEILL SURF SHOP
ORCHARD SUPPLY HARDWARE
RITE AID DRUG STORES
ROSS STORES
SANTA CRUZ MAZDA DEALER
SEARS ROEBUCK & COMPANY
SHADOWBROOK
SIERRA UTILITY SALES
TARGET
TOYOTA OF SANTA CRUZ
TRADER JOE'S
ULTA BEAUTY
VERIZON WIRELESS
WHOLE FOODS MARKET
ZELDA'S

NOTES:

The list is in alphabetical order and is not indicative of relative nor total sales volume.

Source: MuniServices

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

Government/Total Primary Government Activities							
Fiscal Year Ended June 30	General Obligation Bonds	Lease Revenue Bonds	Other debt	Tot. Gov't./ Primary Gov't. Activities	Debt as a % of Taxable Assessed Property Value	Debt as a % of Total Personal Income	Debt per Capita
2009	\$ 4,670,000	\$ -	\$ 2,892,819	\$ 7,562,819	0.43%	1.83%	757
2010	4,265,000	-	2,848,029	7,113,029	0.40%	1.77%	706
2011	3,830,000	-	2,667,940	6,497,940	0.37%	1.97%	637
2012	3,375,000	-	2,428,249	5,803,249	0.33%	1.76%	581
2013	2,890,000	-	1,882,272	4,772,272	0.27%	1.43%	478
2014	2,375,000	-	3,153,788	5,528,788	0.30%	1.55%	545
2015	1,830,000	-	3,000,243	4,830,243	0.24%	1.32%	483
2016	1,255,000	-	2,811,059	4,066,059	0.19%	1.07%	401
2017	645,000	-	2,632,952	3,277,952	0.15%	0.84%	323
2018	-	-	2,449,251	2,449,251	0.10%	0.58%	232

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

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

Other debt includes tax anticipation notes, county library long term debt, capital leases, notes payable, and RDA deferred pass throughs. Compensated absences, OPEB liability and net pension liability amounts are no longer included per GASB implementation guidelines.

Source: City of Capitola Financial Statements

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			
	General Obligation Bonds	Debt as a % of Taxable Assessed Property Value	Debt as a % of Total Personal Income	Debt per Capita
2009	4,670,000	0.28%	1.13%	467
2010	4,265,000	0.24%	1.06%	423
2011	3,830,000	0.22%	1.16%	376
2012	3,375,000	0.19%	1.02%	338
2013	2,890,000	0.16%	0.87%	289
2014	2,375,000	0.13%	0.67%	234
2015	1,830,000	0.10%	0.50%	183
2016	1,255,000	0.06%	0.33%	124
2017	645,000	0.03%	0.17%	63
2018	-	0.00%	0.00%	-

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.

Source: City of Capitola Financial Statements

CITY OF CAPITOLA, CALIFORNIA
 Direct and Overlapping Debt
 Fiscal Year ended June 30, 2017

2017-18 Assessed Valuation			\$	2,378,693,820
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable ⁽¹⁾</u>	<u>Total Debt 6/30/2018</u>		<u>City's Share of Debt 6/30/2018</u>
Cabrillo Joint Community College District	5.474%	\$ 106,580,565	\$	5,834,220
Santa Cruz City High School District	11.856%	85,598,970		10,148,614
Live Oak School District	6.914%	11,118,000		768,699
Soquel Union School District	39.203%	50,165,000		19,666,185
Santa Cruz Libraries Facilities Community Facilities District	6.078%	21,170,000		1,286,713
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		<u>\$ 274,632,535</u>	\$	<u>37,704,431</u>
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>				
<u>Overlapping General Fund Debt:</u>				
Santa Cruz County Certificates of Participation	5.514%	\$ 71,964,078	\$	3,968,099
Santa Cruz County Office of Education Certificates of Participation	5.514%	8,862,102		488,656
Santa Cruz City High School District Certificates of Participation	11.856%	2,784,697		330,154
Live Oak School District Certificates of Participation	6.914%	12,513,973		865,216
Santa Cruz City Schools Certificates of Participation	11.856%	3,460,000		410,218
City of Capitola General Fund Obligations	100.000%	2,504,945		2,504,945
City of Capitola Lease Financing	100.000%	379,730		379,730
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		<u>\$ 102,469,525</u>	\$	<u>8,947,018</u>
TOTAL DIRECT DEBT			\$	2,884,675
TOTAL OVERLAPPING DEBT			\$	<u>43,766,774</u>
COMBINED TOTAL DEBT			\$	<u>46,651,449</u> ⁽²⁾
<u>RATIOS TO 2016-17 ASSESSED VALUATION:</u>				
Total Overlapping Tax and Assessment Debt				1.59%
Total Direct Debt				0.12%
Combined Total Debt				1.96%

(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.

Source: MuniServices, LLC, City of Capitola Finance Department

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

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Assessed Valuation	\$ 1,755,514	\$ 1,758,168	\$ 1,772,173	\$ 1,784,911	\$ 1,797,242	\$ 1,860,100	\$ 1,988,608	\$ 2,102,980	\$ 2,234,170	\$ 2,378,648
RDA Base Valuation	234,375	241,401	243,413	238,631	242,272	246,771	256,500	264,195	272,121	280,284
Adj. assessed valuation	1,521,139	1,516,767	1,528,760	1,546,280	1,554,970	1,613,329	1,732,108	1,838,785	1,962,049	2,098,364
Debt limit percentage	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Debt limit	228,171	227,515	229,314	231,942	233,246	241,999	259,816	275,818	294,307	314,755
Total net applicable debt										
Gen. obligation bonds	4,670	4,265	3,830	3,375	2,890	2,375	1,830	1,255	645	-
Legal debt margin	<u>\$ 223,501</u>	<u>\$ 223,250</u>	<u>\$ 225,484</u>	<u>\$ 228,567</u>	<u>\$ 230,356</u>	<u>\$ 239,624</u>	<u>\$ 257,986</u>	<u>\$ 274,563</u>	<u>\$ 293,662</u>	<u>\$ 314,755</u>
Ratio of Total Net Applicable Debt to Debt Limit	2.09%	1.91%	1.70%	1.48%	1.25%	0.99%	0.71%	0.46%	0.22%	0.00%

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

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

Fiscal Year Ended June 30,	Other Revenue Bonds				Tax Allocation Bonds			
	Available Revenue	Debt Service		Coverage	Tax Increment	Debt Service		Coverage
		Principal	Interest			Principal	Interest	
				n/a				n/a
2009	\$ -	\$ -	\$ -	n/a	\$ -	\$ -	\$ -	n/a
2010	-	-	-	n/a	-	-	-	n/a
2012	-	-	-	n/a	-	-	-	n/a
2013	-	-	-	n/a	-	-	-	n/a
2014	-	-	-	n/a	-	-	-	n/a
2015	-	-	-	n/a	-	-	-	n/a
2016	-	-	-	n/a	-	-	-	n/a
2017	-	-	-	n/a	-	-	-	n/a
2018	-	-	-	n/a	-	-	-	n/a

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

SOURCE: City of Capitola Finance Department

CITY OF CAPITOLA
 Demographic and Economic Statistics
 Last Ten Fiscal Years

<u>Calendar Year</u>	<u>Population</u>	<u>Total Personal Income (In Thousands)</u>	<u>Per Capita Personal Income</u>	<u>Median Age</u>	<u>Unemployment Rate</u>
2008	9,992	\$ 414,240	\$ 41,457	38.0	4.1%
2009	10,078	400,794	39,769	41.3	6.4%
2010	10,198	329,905	32,350	38.3	7.3%
2011	9,981	330,271	33,090	42.9	6.9%
2012	9,988	334,029	33,443	41.1	5.5%
2013	10,136	357,112	35,232	40.9	5.0%
2014	10,004	364,656	36,451	41.5	7.0%
2015	10,150	381,027	37,540	43.3	6.0%
2016	10,162	390,369	38,414	42.8	5.5%
2017	10,563	421,494	39,902	42.6	3.3%

NOTES: Figures have been realigned to correctly reflect the calendar years as presented. Calendar year 2018 is not complete as of June 30, 2018, therefore years 2008-2017 are shown.

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

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

Employer	2017-18			2008-09		
	Ranking	Number of Employees	% of Total Employment	Ranking	Number of Employees	% of Total Employment
Subaru, Toyota, Kia of Santa Cruz	1	205	3.60%	2	150	12.74%
Target*	2	173	3.04%			
Gayle's Bakery and Rosticceria	3	161	2.82%	3	145	12.32%
Whole Foods Market	4	144	2.53%			
Shadowbrook	5	140	2.46%	9	90	7.65%
Pacific Coast Manor*	6	115	2.02%			
City of Capitola**	7	115	2.02%			
Macy's	8	111	1.95%	4	145	12.32%
Trader Joe's	9	106	1.86%	8	96	8.16%
Kohls	10	103	1.81%			
Bay Federal				1	167	14.19%
Sears				10	75	6.37%
Orchard Supply Hardware				6	100	8.50%
Gottschalks				7	100	8.50%
Longs Drug Stores (2 locations)				5	109	9.26%
Total top 10 Employers		1,373	24.09%		1,177	100.00%
Total City Labor Force		5,700	100.00%		Not available	

*Includes full-time and part-time employees

**Includes full-time and seasonal employees

SOURCE: MuniServices, LLC and FY 2008-09 CAFR

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

Function	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General government										
City Manager	7.50	7.50	7.50	7.75	7.65	7.65	7.65	7.65	6.50	6.50
Finance	4.38	4.38	4.38	4.38	4.38	4.50	4.50	4.50	4.50	3.75
City Attorney	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	<u>12.88</u>	<u>12.88</u>	<u>12.88</u>	<u>13.13</u>	<u>13.03</u>	<u>13.15</u>	<u>13.15</u>	<u>13.15</u>	<u>12.00</u>	<u>11.25</u>
Police										
Chief, Captain, Sgts.	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Officers	15.00	15.00	15.50	15.00	15.00	15.00	15.00	16.00	16.00	16.00
CSOs	3.00	2.00	2.00	2.00	3.00	3.00	2.00	2.00	2.00	2.00
Parking Enforcement	3.00	3.00	2.00	3.00	2.00	3.00	3.00	3.00	3.00	3.00
Administrative	6.5	4.75	4.75	3.75	4.25	4.65	4.65	4.65	4.50	4.50
	<u>33.50</u>	<u>30.75</u>	<u>30.25</u>	<u>29.75</u>	<u>30.25</u>	<u>31.65</u>	<u>30.65</u>	<u>31.65</u>	<u>31.50</u>	<u>31.50</u>
Public Works										
Streets	8.33	7.33	7.33	7.33	7.33	8.00	9.00	9.00	11.00	12.00
Parks	5.00	4.00	4.00	3.00	4.00	4.00	4.00	4.00	4.00	3.00
Fleet Maintenance	1.00	1.00	1.00	1.00	1.00	1.00	1.50	1.25	1.00	1.00
	<u>14.33</u>	<u>12.33</u>	<u>12.33</u>	<u>11.33</u>	<u>12.33</u>	<u>13.00</u>	<u>14.50</u>	<u>14.25</u>	<u>16.00</u>	<u>16.00</u>
Recreation										
Supervisor	1.00	1.00	1.00	1.00	1.00	1.00	2.00	2.00	2.50	2.50
Other - full year	1.50	1.50	1.50	1.50	2.00	2.00	2.25	2.75	1.25	1.25
	<u>2.50</u>	<u>2.50</u>	<u>2.50</u>	<u>2.50</u>	<u>3.00</u>	<u>3.00</u>	<u>4.25</u>	<u>4.75</u>	<u>3.75</u>	<u>3.75</u>
Community Development	4.67	3.67	3.67	1.67	2.00	2.50	3.00	3.50	3.50	3.50
Building	2.00	1.00	1.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Total City Employees	<u><u>69.88</u></u>	<u><u>63.13</u></u>	<u><u>63.13</u></u>	<u><u>60.38</u></u>	<u><u>62.61</u></u>	<u><u>65.30</u></u>	<u><u>67.55</u></u>	<u><u>69.30</u></u>	<u><u>68.75</u></u>	<u><u>68.00</u></u>

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

SOURCE: City of Capitola Finance Department

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

INDICATOR	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<u>Police department</u>										
Adult arrests	908	850	731	766	693	856	956	904	939	692
Calls for service (thousands)	20	20	19	20	16	20	18	17	20	19
<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 (millions)	\$ 1	\$ 13	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4	\$ 5	\$ 2
<u>Residential units ⁽¹⁾</u>										
Valuation (millions)	\$ 20	\$ 2	\$ 1	\$ 3	\$ 3	\$ 3	\$ 1	\$ 1	\$ 3	\$ 4
<u>Recreation Revenue (thousands)</u>										
Classes	\$ 336	\$ 319	\$ 325	\$ 329	\$ 298	\$ 338	\$ 282	\$ 275	\$ 260	\$ 240
Sports fees	71	59	61	60	53	41	32	19	21	24
Junior Guard	194	214	220	241	240	268	312	328	258	238
Camp Capitola	80	79	102	121	94	103	139	129	100	96
Aquatics	-	-	-	-	-	-	-	-	-	-
Net Class Revenue	\$ 681	\$ 671	\$ 708	\$ 751	\$ 685	\$ 750	\$ 765	\$ 751	\$ 639	\$ 598
Jade St. Rental	4	5	5	6	7	5	7	7	6	8
Net Recreation Rev	<u>\$ 685</u>	<u>\$ 676</u>	<u>\$ 713</u>	<u>\$ 757</u>	<u>\$ 692</u>	<u>\$ 755</u>	<u>\$ 772</u>	<u>\$ 758</u>	<u>\$ 645</u>	<u>\$ 606</u>

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

Source: City of Capitola Building, Finance, Police, and Public Works Departments

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

Indicator	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
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	8	8	8	8	8	8
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