

CITY OF CAPITOLA, CALIFORNIA

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**City Of Capitola
Comprehensive Annual Financial Report
Year Ended June 30, 2016**

TABLE OF CONTENTS

	<u>Page</u>
<u>INTRODUCTORY SECTION:</u>	
Letter of Transmittal	i
List of Principal Officials	xii
Organizational Chart	xiii
Awards for Financial Reporting	xiv
<u>FINANCIAL SECTION:</u>	
Independent Auditor's Report	1
Management's Discussion & Analysis	4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	18
Statement of Activities	19
Fund Financial Statements:	
Balance Sheet – Governmental Funds	20
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position.....	22
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	23
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	25
Statement of Fiduciary Net Position	26
Statement of Changes in Fiduciary Net Position	27
Index to Notes to Financial Statements	28
Notes to Financial Statements	29
Required Supplementary Information:	
Schedule of Funding Progress for Capitola Retiree Healthcare Plan	69
Schedule of City's Proportionate Share of the Plan's Net Pension Liability and Related Ratios as of the Measurement Date.....	70
Schedule of Plan Contributions	71
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual:	
General Fund	72
Federal Home Loan Reuse Fund	73
Capitola Housing Successor Fund	74
Notes to Required Supplementary Information.....	75

City Of Capitola
Comprehensive Annual Financial Report
Year Ended June 30, 2016

TABLE OF CONTENTS – Continued

	<u>Page</u>
Supplementary Information:	
Budgeted Other Major Funds:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances –	
Budget and Actual:	
Capital Projects Fund	76
Non-Major Governmental Funds:	
Combining Balance Sheet	77
Combining Statement of Revenues, Expenditures, and Changes in	
Fund Balances	81
Budgeted Non-major Funds:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances –	
Budget and Actual:	
Supplemental Law Enforcement Fund	85
Gas Tax Fund	86
Wharf Fund	87
Parking Reserve Fund	88
Technology Fees Fund	89
PEG Cable TV Access Fund	90
Capitola Village and Wharf BIA Fund	91
CDBG Fund	92
Affordable Housing Fund	93
Beach & Village Lot II Debt Financing Fund	94
Pacific Cove Debt Financing Fund	95
2007 POB Debt Service Fund	96
Library Capital Projects Fund	97
Agency Funds:	
Statement of Changes in Fiduciary Assets and Liabilities	98

City Of Capitola
Comprehensive Annual Financial Report
Year Ended June 30, 2016

TABLE OF CONTENTS – Continued

	<u>Page</u>
<u>STATISTICAL SECTION</u>	
CAFR Statistical Section - Table of Contents.....	99
Financial Trends Information:	
Net Position by Component	101
Changes in Net Position	102
Fund Balances of Government Funds	104
Change in Fund Balances of Governmental Funds	105
General Revenues by Source	107
Revenue Capacity Information:	
Net Taxable Assessed Value History.....	108
Assessed Value of Taxable Property	109
Direct and Overlapping Property Tax Rates	110
Top Ten Property Taxpayers	111
Property Tax Levies and Collections	112
Top 25 Sales Tax Taxpayers	113
Debt Capacity Information	
Ratios of Outstanding Debt by Type	114
Ratios of General Bonded Debt Outstanding	115
Direct and Overlapping Debt.....	116
Legal Debt Margin Information.....	117
Pledged - Revenue Coverage.....	118
Demographic and Economic Information:	
Demographic and Economic Statistics	119
Principal Employers - Top Ten.....	120
Full-Time and Part-Time City Employees by Function	121
Operating Information:	
Operating Indicators by Function	122
Capital Asset Statistics by Function.....	123

INTRODUCTORY SECTION

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December 5, 2016

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

SUBJECT: Comprehensive Annual Financial Report - June 30, 2016

The Comprehensive Annual Financial Report (CAFR) for the City of Capitola for the fiscal year ended June 30, 2016, is hereby submitted.

REPORT PURPOSE AND ORGANIZATION

State law requires that the accounts and fiscal affairs of all municipal entities be examined annually by an independent certified public accountant. The City's independent auditor, Rogers, Anderson, Malody, and Scott, LLP has audited the City's financial statements and issued an unqualified opinion that financial statements for fiscal year ended June 30, 2016, 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, 2016, 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 2015/16 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 are accurate in all material respects and that they are presented in a manner designed to fairly set forth the financial position and results of operations of the City. To provide a reasonable basis for making these representations, City management has established a comprehensive framework of internal controls designed both to protect the City's assets from loss, theft, or misuse and to compile sufficiently reliable information for the preparation of the City's financial statements in conformity with generally accepted accounting principles. Because the cost of internal controls should not exceed their benefits, the City's internal controls have been designed to provide reasonable rather than absolute assurance that the financial statements are free of material misstatements. The audit provides users with reasonable

assurance that the information presented is free from material misstatements. As management, we assert that to the best of 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 10,150. 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.

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 Macy's, Sears, Kohl's, CVS, Orchard Supply, Ross, Target, 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 and Opal Cliffs Schools within its City limits, both Cabrillo Community College and the University of California, Santa Cruz, are within eight miles of the City. According to the U.S. Census Bureau's 2010 data, 95% of Capitola residents are high school graduates and 41% possess a Bachelor's Degree or higher level degree.

Form of Government

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

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

City Services

The City provides police protection, street, park and facilities maintenance, recreation, building, planning, zoning, administrative, and financial services for Capitola. Independent special districts provide fire protection, water, sewer, and 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 U.S. Generally Accepted Accounting Procedures (GAAP) for local governments.

Budgetary Policy and Control

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

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

The Successor Agency's two-year budget is incorporated into the City's budget process; however, all obligations are subject to 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

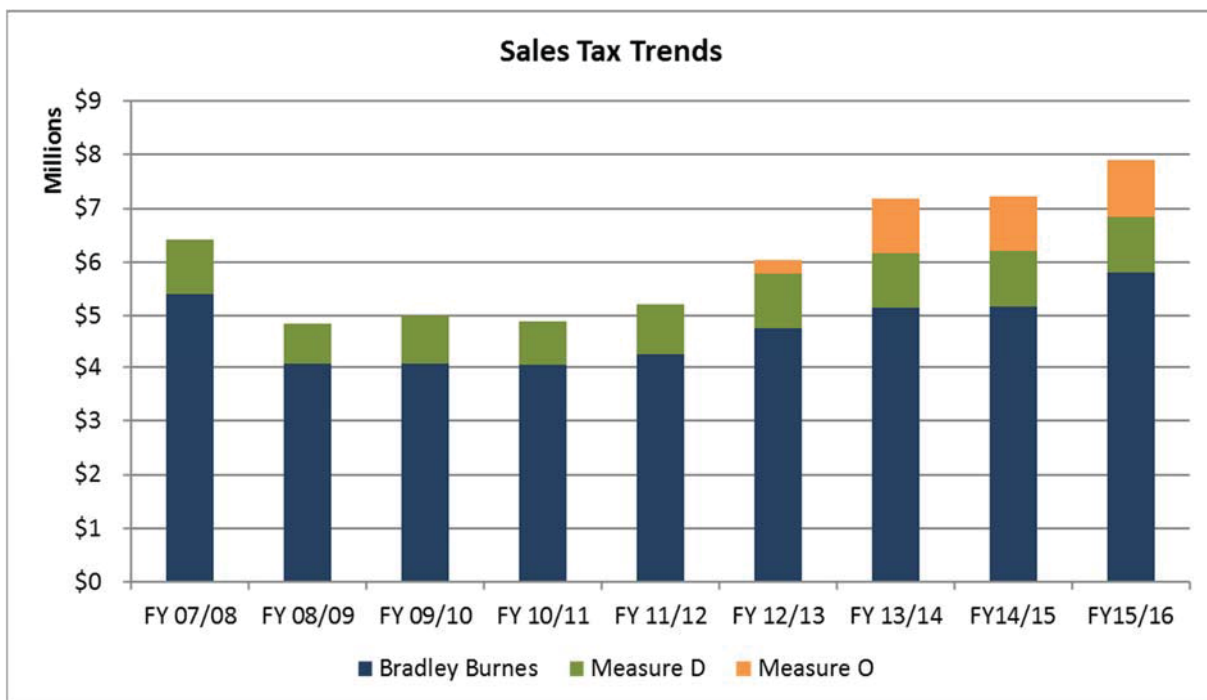
The City of Capitola continues to experience positive local growth. The budget for core revenues, such as sales, property, and transient occupancy taxes were increased at mid-year by \$136,650 to reflect increased performance, with the combined year-end amounts relatively consistent with the amended budget. This increased performance, combined with salary and contract savings resulted in a net surplus in the General Fund's primary operations of \$679,435 after reserve contributions and CIP transfers. Cautious optimism was reflected in developing the City's two-year budget plan, with an emphasis on

solidifying the City's fiscal position, planning for the long-term and implementing capital improvements. All core FY 2016/17 revenues are performing relatively consistent with the budget.

The three major sources of General Fund revenue include Sales Tax, Property Tax, and Transient Occupancy Tax (TOT). These three revenues account for over 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 D), and a 0.25% Capitola District Tax (Measure O) that became effective in the last quarter of FY 2012/13. In FY 2015/16, the combined sales tax receipts of \$7.9 million were 1.15% more than amended budgetary estimates, and \$561,121 higher than the prior year.

Sales tax receipts are volatile and reflect the current local, state, and national economic condition. Sales Tax collections for the City of Capitola continue to increase year over year since the low in FY 2008/09, as a result of increased spending and inflation. When comparing FY2015/16 sales tax to FY 2007/08, accounting for inflation, the City experienced a slight increase in collections. 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 and also demonstrates the proportional share of District and Bradley Burns Sales taxes. FY 2015/16 Bradley Burns includes a one-time payment of approximately \$312,000 for the final true-up to the State of California Triple Flip program.



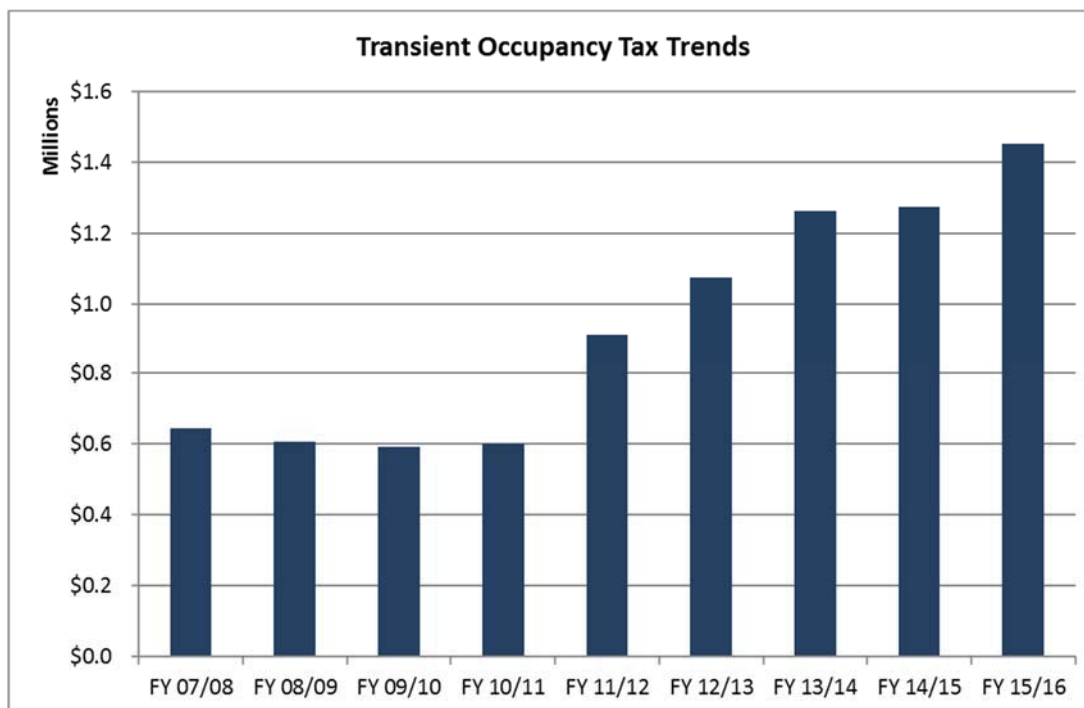
Capitola's second major source of revenue is property tax. In FY 2015/16 the General Fund received \$1.98 million in property tax receipts, prior to inclusion of Documentary Transfer Tax and Residual RDA distributions. This base amount was approximately \$113,627 more than the prior year, and was \$4,797 above the final budgeted amount. Over the last two fiscal years the City has experienced over 6% 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 Private Purpose Trust Fund 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 2016/17 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 continued to improve, increasing TOT collections over the last five years. The City processed a TOT overpayment claim in FY 2014/15 that reduced year over year TOT performance. TOT collections in FY 2015/16 increased 13.78% compared to the prior year. The current FY 2016/17 TOT collections continue to remain strong and over 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 an extension to expire in December of 2017. The City currently has placed Measure F on the November 2016 ballot to extend the Measure D 0.25% District Tax for an additional 10 years. Measure F would help fund repairs to the wharf, beach, jetty, flume, improve bike and pedestrian safety and also maintain Police Department staffing levels.

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.

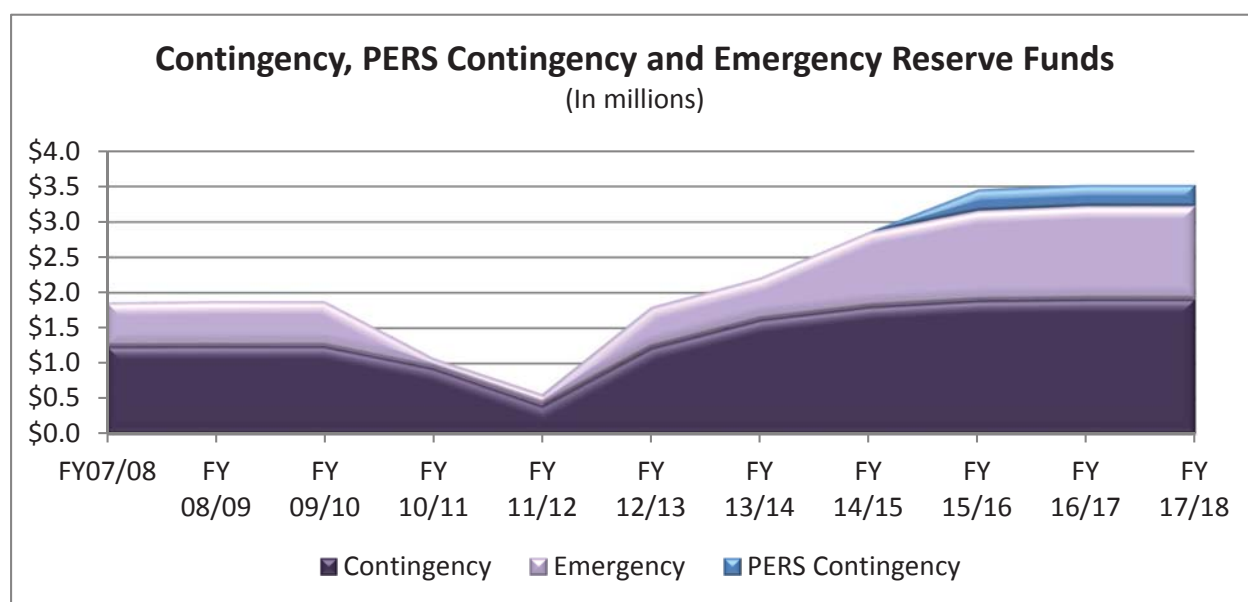
It is anticipated the loss of Measure D revenues could be partially offset by the retirement of a 2007 Pension Obligation Bond, which requires annual debt service payments of \$670,000, increased sales tax

revenue, and general economic growth. If Measure F is not successful in November, the City is anticipating a \$500,000 budget deficit in FY 2017/18.

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.



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 on adjoining parking spaces. The Facilities Reserve Fund ended FY 2015/16 with a cash balance of \$229,870. The FY 2016/17 budget includes an additional \$110,000 transfer into the Facilities Reserve Fund.

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. In the FY 16/17 Adopted and FY 17/18 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 60 percent 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.

Recent changes in CalPERS' risk pools have had a significant negative impact on the City. These changes will result in 3-5% per year increases in CalPERS costs. Understanding that existing employees were already contributing more than the CalPERS-designated "employee share," the City's current labor contracts tie future employee CalPERS contribution rates to cost of living adjustments to reduce the impact on employees.

The number of positions city-wide increased 1.0 FTE in FY 2016/17, with the addition of a Public Works Maintenance Worker due to increased workload associated with the opening of the new park on McGregor Drive. The budget also proposes a temporary increase to Police Officer staffing to ensure full strength staffing levels for the summer of 2017.

Major Initiatives

Seeking Resolution on City / Successor Agency Loans

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

In June 14, 2012, the Successor Agency and City approved exchanging the \$1.35 million Rispin Property Loan for the original subject property. Due to delays in Department of Finance approval, the City formally accepted the Rispin property in October of 2013, after successfully completing a Long Range Property Management Plan. The City plans to open the park to the public after completing ADA improvements funded by City, grant funds, and RPPTF distributions related to a Rispin Settlement Agreement. A complete discussion of the related Rispin Settlement Agreement is included in Note 15.

The Successor Agency was able to reinstate the \$618,028 Loan and Cooperative Agreement, with the first payment received in February 2016.

Funding Measure O Commitments

In FY 11/12, the City conducted a voter survey of 350 Capitola residents to gauge City services and needs. This voter survey indicated that 70% of the voters would support a tax measure that provides for the City's financial stability and improves local streets. These priorities were incorporated into a successful ¼% sales tax measure in 2012. A five-year plan was developed to use all Measure O revenues to fund capital improvement projects, restore and build City reserve levels and enhance policing program efforts.

With the completion of the 5-year Measure D/O overlap, the actual Measure O uses can be compared to the original funding plan. Due to improved economic conditions, the General Fund has contributed over \$1.2 million to these priorities. The tables below display Measure O commitments versus Measure O expenditures. The main differences between the tables is there was slightly less total tax revenue than originally projected, more funding for Public Works staff due to a new Maintenance Worker in FY 2016/17 and significant General Fund transfers to reserves.

Original Measure O Commitment:

Fiscal Year	Measure O Commitment				
	CIP/ St.				Total
	PW Crew	PD Staff	Maint.	Reserves	
12/13	\$9,100	\$5,400	\$94,600	\$136,500	\$245,600
13/14	45,950	18,800	490,900	463,100	1,018,750
14/15	63,300	26,000	515,000	450,000	1,054,300
15/16	100,000	35,000	515,000	450,000	1,100,000
16/17	100,000	35,000	924,000	41,000	1,100,000
Total	\$318,350	\$120,200	\$2,539,500	\$1,540,600	\$4,518,650

FY 2016/17 Actual Measure O Funding:

Fiscal Year	GF to Reserves	Measure O				
		PW Crew	PD Staff	CIP/ St. Maint.	Reserves	Total
12/13	\$350,000	\$9,100	\$5,400	\$94,600	\$136,500	\$245,600
13/14	325,000	45,950	18,800	490,900	463,100	1,018,750
14/15	367,000	63,300	26,000	504,900	447,700	1,041,900
15/16	210,400	105,000	35,000	700,000	242,000	1,082,000
16/17	0	163,000	35,000	752,047	135,000	1,085,047
Total	\$1,252,400	\$386,350	\$120,200	\$2,542,447	\$1,424,300	\$4,473,297

Completion of the Multi-Use Recreational Site – McGregor Park

McGregor Park opened in the summer of 2016. The Council approved the 1.4-acre park consisting of a Skate Park, Pump Track and Dog Park in FY 2013/14. Construction of the park was delayed due to soil contamination issues that have since been remediated. The park would not have been successful without the generous donations from the Monte Foundation and private sponsors.

Planning for a New Library

In 1999 the City of Capitola developed a temporary 4,320 square foot library at the corner of Clares Street and Wharf Road. The City's former RDA entered a contract with the County to construct a permanent library and make annual contributions to the Capitola Branch Library County Trust Fund. That \$2.6 million obligation has been fulfilled, however, additional funds will be needed to complete the library project. A regional bond measure was approved by voters on June 7, 2016. As part of the measure, Capitola will receive an additional \$8 million towards the construction of a new library. The Adopted Budget includes the creation of a Library Fund with \$372,300 in revenue from the County Trust Fund, the allowable allowance for pre-construction services, and \$30,000 for the City to hire a project manager to oversee the project.

Rispin Park

This project includes a new Park on the Rispin Mansion property, improvements to pedestrian paths, but no improvements to the Mansion itself. The design of the park centers around three primary issues: (1) restoring the historic elements of the ground; (2) providing accessible access to all portions of the park; and (3) public safety.

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, 2015. 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 99/00. Once a GFOA Award is received, CSMFO prohibits cities from applying and receiving both awards.

ACKNOWLEDGEMENTS

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

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

Respectfully submitted,



Jamie Goldstein
City Manager

CITY OF CAPITOLA
LIST OF PRINCIPAL OFFICIALS
FOR
FISCAL YEAR ENDED JUNE 30, 2016

ELECTED OFFICIALS

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

APPOINTED OFFICIALS

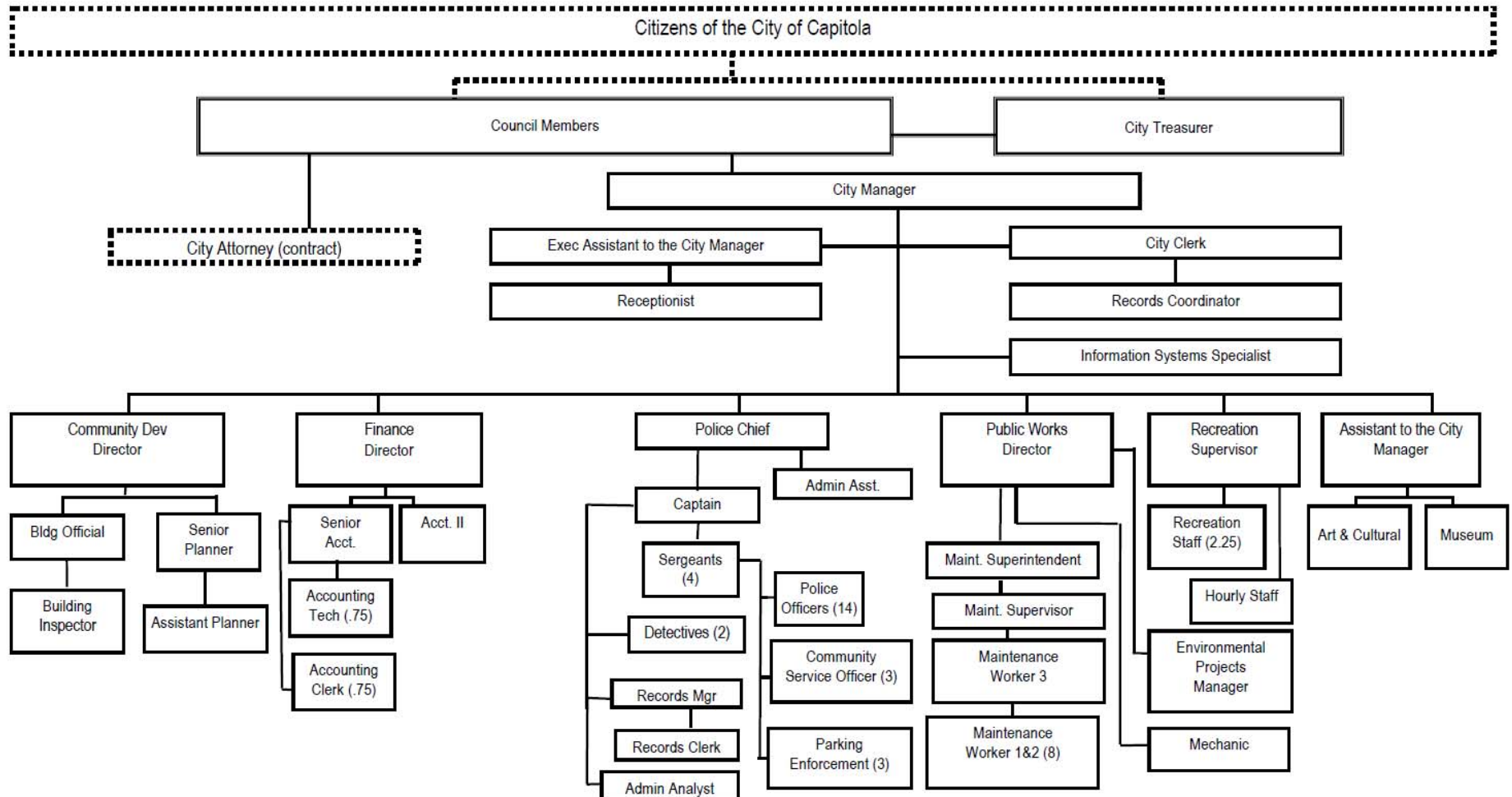
City Manager - Jamie Goldstein
City Attorney - Atchison, Barisone, Condotti & Kovacevich

DEPARTMENT HEADS/ADMINISTRATORS

Assistant to the City Manager - Larry Laurent
Chief of Police - Rudy Escalante
City Clerk - Su Sneddon
Community Development Director - Rich Grunow
Finance Director - Mark Welch
Public Works Director - Steve Jesberg

CITY OF CAPITOLA

ORGANIZATIONAL CHART



R/Forms/Human Resources/Org Chart 031716

CITY OF CAPITOLA

GFOA Award



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, 2015

A handwritten signature in black ink, reading 'Jeffrey R. Emer', is positioned above the title 'Executive Director/CEO'.

Executive Director/CEO

FINANCIAL SECTION

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

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The Honorable City Council
City of Capitola, California

INDEPENDENT AUDITOR'S REPORT

PARTNERS

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Kirk A. Franks, CPA
Scott W. Manno, CPA, CGMA
Leena Shanbhag, CPA, MST, CGMA
Bradford A. Welebir, CPA, MBA, CGMA
Jay H. Zercher, CPA (Partner Emeritus)
Phillip H. Waller, CPA (Partner Emeritus)

MANAGERS / STAFF

Jenny Liu, CPA, MST
Seong-Hyea Lee, CPA, MBA
Charles De Simoni, CPA
Nathan Statham, CPA, MBA
Gardenya Duran, CPA
Brianna Schultz, CPA
Daniel Hernandez, CPA, MBA
Lisa Dongxue Guo, CPA, MSA

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, 2016, 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.

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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, 2016, 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 Funding Progress for Capitola Retiree Healthcare Plan, 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 5 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Rogers, Anderson, Malody & Scott, LLP

San Bernardino, California
December 5, 2016

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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, 2016. Readers are encouraged to consider the information presented here in conjunction with the accompanying letter of transmittal and the basic financial statements.

FINANCIAL HIGHLIGHTS



Government-Wide Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources, at the close of the most recent fiscal year by \$11.2 million (net position).
- The total net position increased by \$2,007,131 from FY 2014/15.
- The City's net capital assets increased by \$1,002,140 from the prior year.
- The City's long-term liabilities increased by \$2,375,949 from the prior year. This change is mostly due to the increase in net pension liability. See Notes 6 and 11 for details.

Fund Highlights

- The City's governmental funds reported combined fund balances of \$9.95 million, an increase of \$545,708 from the prior year. Of the \$9.95 million fund balance, \$524,330 is reported as nonspendable, \$4 million is assigned, and \$4.7 million is unassigned, or available for spending at the City's discretion. An additional \$0.7 million is restricted for specific purposes by their providers through constitutional provisions or by enabling legislation. This is in compliance with Governmental Accounting Standard Board's (GASB) Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions, which is further described in Note 1, Section D10.
- The \$545,708 increase in the City's governmental funds reported combined fund balances was primarily the result of sales tax revenue increases in conjunction with reduced expenditures and an increase in funds planned for future capital projects.
- The Unassigned fund balance for the General Fund was \$4.9 million or 39% of the total General Fund operating expenditures, an increase from 3% last 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 of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City of Capitola that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through users fees and charges (business-type activities). The governmental activities of the City include general government, public safety, 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 18-19 of this report.

Fund Financial Statements

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

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

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

The City currently maintains four major governmental funds: General Fund, Federal Home Loan Reuse Fund, Capitola Housing Successor 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, Federal Home Loan Reuse Fund, the Capitola Housing Successor, 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 20-25 of this report.

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

Notes to the Financial Statements

The Notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 29-68 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information including the City of Capitola's progress in funding the 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 over time as a useful indicator of the City's financial position. In the case of the City of Capitola, assets exceeded liabilities and deferred inflows of resources by \$11.2 million at the close of the most recent fiscal year.

	Governmental Activities	
	2016	2015
Current and other assets	\$ 19,805,624	\$ 19,118,976
Capital assets	15,945,894	14,943,754
Total Assets	\$ 35,751,518	\$ 34,062,730
Total Deferred Outflows of Resources	1,530,518	1,267,930
Other liabilities	1,813,439	1,903,400
Long term liabilities		
Due in one year	854,563	808,111
Due in more than one year	19,689,723	17,360,226
Total Liabilities	22,357,725	20,071,737
Total Deferred Inflows of Resources	3,701,766	6,043,509
Net Position:		
Net investment in capital assets	13,153,957	11,603,977
Restricted	6,952,986	6,992,025
Unrestricted	(8,884,398)	(9,380,588)
Total Net Position	\$ 11,222,545	\$ 9,215,414

The largest portion of the City's net position, \$13.2 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 citizens. Consequently, these assets were not available for future spending.

Although the City of Capitola's investment in capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net position, \$7 million, represented resources that were subject to external restrictions on how they may be used. The remaining (\$8.9) 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 negative net unrestricted fund balance reflects the \$15 million net pension liability.

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

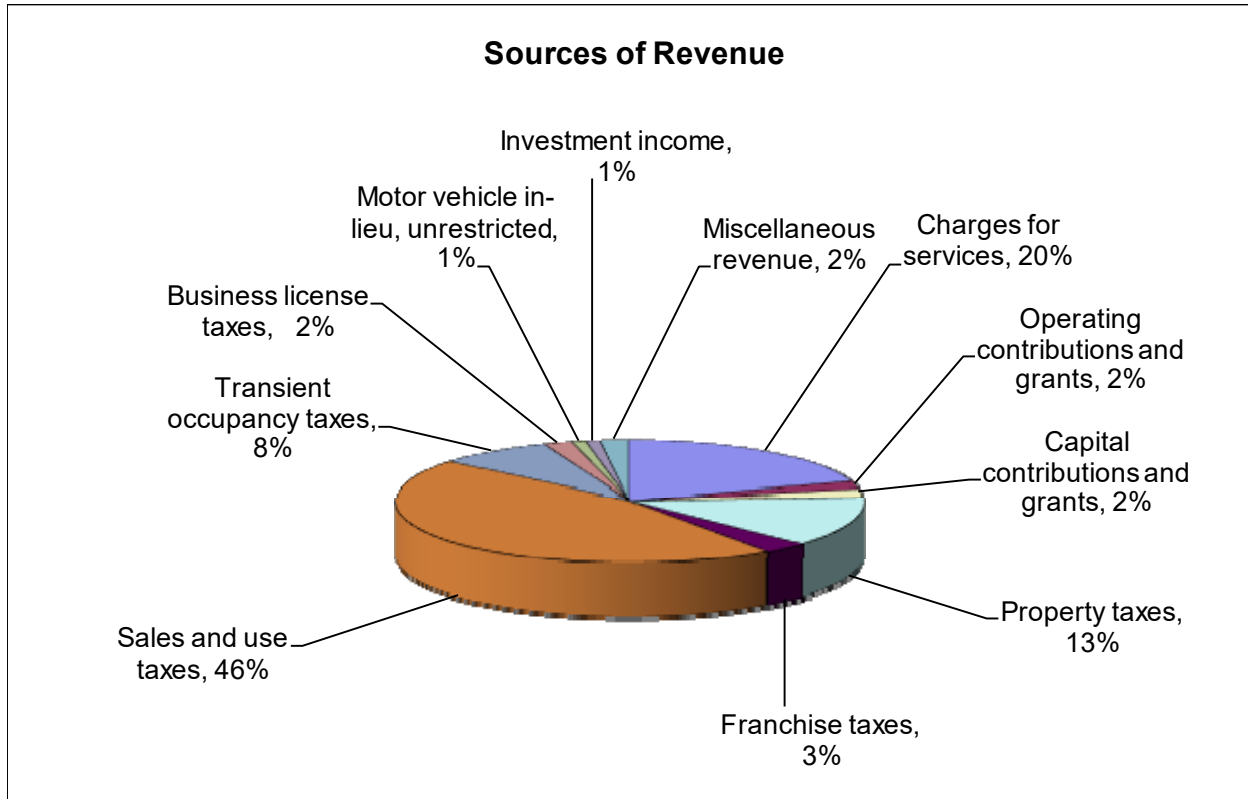
Governmental Activities

Governmental activities increased the City of Capitola's net position by \$2,007,131. The increase is largely due to improved tax revenue collections. The below chart depicts the changes in FY 2015/16 from FY 2014/15:

	2016	2015
Revenues		
Program revenues:		
Charges for services	\$ 3,260,224	\$ 3,335,669
Operating grants and contributions	400,100	656,931
Capital contributions and grants	511,461	12,104
General revenues:		
Taxes:		
Property taxes	2,193,588	2,041,248
Franchise taxes	524,214	507,517
Sales and use taxes	7,859,511	7,330,443
Transient occupancy taxes	1,451,512	1,275,716
Business license taxes	298,020	284,474
Motor vehicle in-lieu, unrestricted	225,617	265,089
Investment income, unrestricted	227,142	118,770
Miscellaneous revenue	425,039	241,714
Total revenues	17,376,428	16,069,675
Expenses		
General government	3,557,011	3,582,320
Public safety	6,210,600	6,180,594
Community development	1,075,841	808,531
Culture and recreation	1,150,144	974,379
Transportation	3,217,996	2,865,807
Interest and other charges	157,705	217,191
Total expenses	15,369,297	14,628,822
Change in Net Position	2,007,131	1,440,853
Beginning Net Position	9,215,414	7,774,561
Ending Net Position	\$ 11,222,545	\$ 9,215,414

Revenues

As shown in the in the Statement of Activities, revenues for FY 2015/16 were \$17.4 million. The following graph includes program and general revenues and shows the percentage of governmental revenues by source:



These revenues represent an increase of approximately of \$1,306,753 over the prior year. This was primarily the result of the following factors:

- Property Taxes – Increase of approximately \$152,340 in property tax revenues. This increase was consistent with property valuation increases provided by the County Auditor Controller.
- Sales Tax Revenues – Increase of approximately \$529,068. The completion of the State of California triple-flip includes one-time sales tax revenue of approximately \$312,000.
- Operating contributions and grants – Decreased \$256,831, largely related to completion of the Housing Element update grants.

Cost of Services

Under GASB 34, program revenues are derived directly from programs or from parties outside the reporting government's taxpayers or citizenry. These revenues reduce the net cost of the function to be financed from the government's general revenues. General revenues are all other revenues not categorized as program revenues, and include taxes, unrestricted grants, contributions, investment earnings, and miscellaneous revenues. Total program revenues from governmental activities were \$4 million.

The table below presents the costs of each of the following City's programs:

	Total Cost of Services	Program Revenues	Net Cost of Services
General government	\$ 3,557,011	\$ 1,095,357	\$ 2,461,654
Public safety	6,210,600	899,937	5,310,663
Community development	1,075,841	921,784	154,057
Culture and recreation	1,150,144	751,265	398,879
Transportation	3,217,996	503,442	2,714,554
Interest and other charges	157,705	-	157,705
Totals	\$ 15,369,297	\$ 4,171,785	\$ 11,197,512

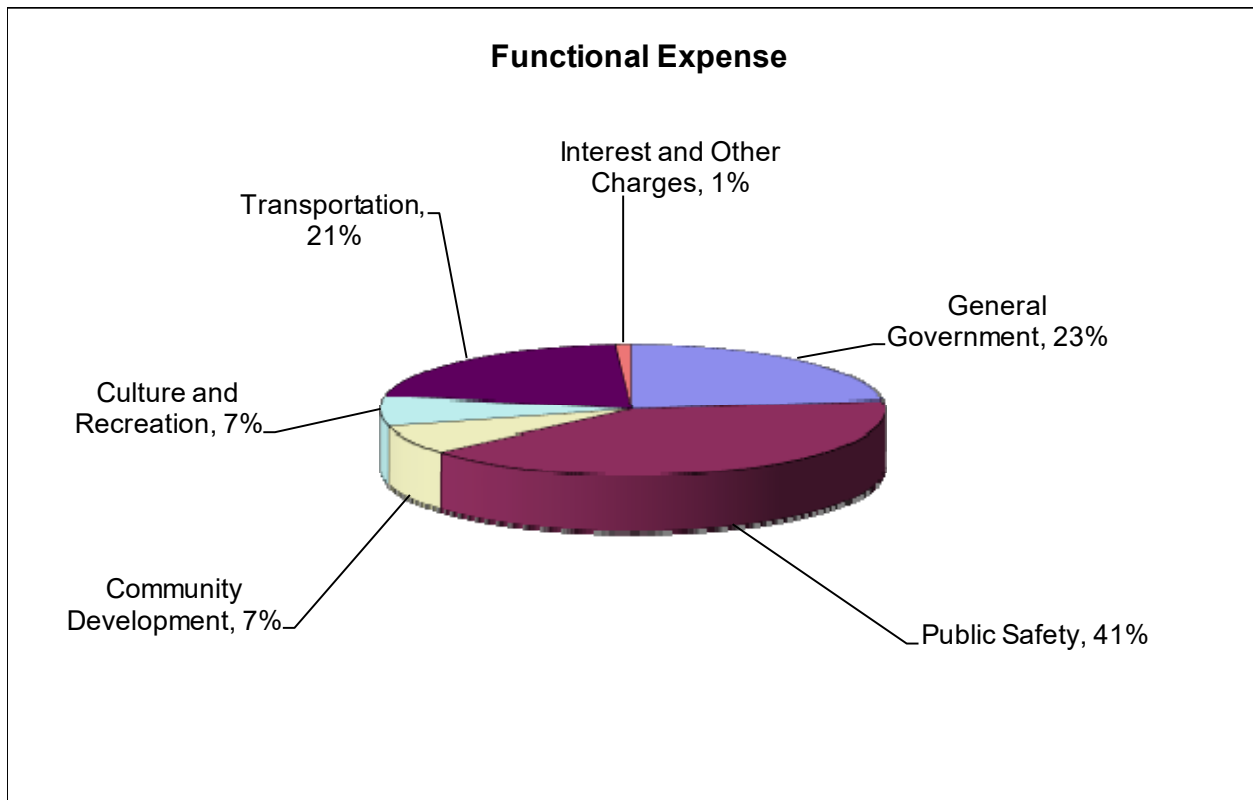
A description of each program is listed below:

- General Government expenses comprise approximately 23% 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 40% 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 7% 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 1% of all governmental expenses. This interest expense is used to pay long-term debt obligations.

Expenses

As shown in the Governmental Activities, expenses increased by \$740,475. This was primarily due to increased personnel costs and an increase in capital expenditures under Transportation/Public Works.

A distribution of expenses by Function is provided below:



Financial Analysis of the City's Funds

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

Governmental Funds

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

At the end of the current fiscal year, the City of Capitola's governmental funds reported a combined ending fund balance of \$9.9 million, an increase of \$0.5 million in comparison with the prior fiscal year. \$524,330 is reported as nonspendable and \$4 million is assigned to the following priorities: Approximately \$1.2 million allocated to Emergency Reserves, \$481,532 assigned to debt service, and \$2.2 million assigned to the Capital Projects Fund. An additional \$4.7 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. At the end of the current fiscal year, the total fund balance was \$6.7 million. This represents an increase of \$0.68 million or 11.3% above the prior year. Approximately 73.3% was unassigned fund balance, which was available for spending at the government's discretion. The majority of the nonspendable balance represents a \$515,023 Loan and Cooperative Agreement with the Successor Agency that was used to establish the former Redevelopment Agency. Additional information regarding this agreement can be found in Note 15.

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	Internal Service Fund	Financial Statements
Beginning Fund Balance	\$ 2,196,185	\$ 115,195	\$ 2,933,022	\$ 761,319	\$ 6,005,721
Revenues	15,652,339	81,976	-	-	15,734,315
Expenditures	12,249,039	126,816	-	246,975	12,622,830
Net Operating Difference	3,403,300	(44,840)	-	(246,975)	3,111,485
Financing Sources/Uses	(3,457,110)	-	752,400	272,660	(2,432,050)
Net Change in Fund Balance	(53,810)	(44,840)	752,400	25,685	679,435
Ending Fund Balance	\$ 2,142,375	\$ 70,355	\$ 3,685,422	\$ 787,004	\$ 6,685,156

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, Emergency Reserve, Facilities Reserve, Open Spaces, 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 FY 2015/16 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, 2016, is presented as Required Supplementary Information following the notes to the financial statements. This information can be found on page 72. Key budgetary differences are provided below.

Revenues:

Revenues exceeded the Final Budget by approximately \$316,653. The greater than anticipated revenues resulted from approximately \$26,894 in increased property tax collections, \$89,664 in increased sales tax revenue, \$92,874 in Transient Occupancy Tax, \$40,533 in state grants, \$28,131 in parking revenue, \$9,592 in building permits, and \$6,380 in recreation class revenue.

Expenditures:

Expenditures prior to transfers were approximately \$495,029 below the Amended Budget mostly due to a decrease in public safety personnel costs. The General Government expenditures were approximately \$91,043 above budget, with Public Safety below \$347,937, Community Development \$59,635, Recreation \$59,695, and Transportation/Public Works \$118,805, respectively.

Appropriations:

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

Fund Balance:

The General Fund's Ending Fund Balance was \$6,685,156 as of June 30, 2016. This amount was approximately \$0.7 million greater than the final budget projection based on the revenue and expenditure information noted above. The Unassigned amount identified for Contingency Reserves is provided for reference. An additional discussion of the City's Contingency and Emergency Reserves can be found in the Financial Management Policies section of the Transmittal letter.

Fund balance:	
Nonspendable:	
Prepaid items	\$ 9,307
Due from successor agency	515,023
Assigned:	
Emergency reserve	1,262,206
Unassigned:	
Contingencies	1,893,346
Unassigned	<u>3,005,274</u>
 Total fund balance	 \$ <u><u>6,685,156</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 2015/16 was \$15,945,894. 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 \$1,002,140 or 6.7%. The increase is largely due to the completion of transportation related capital projects. 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
Building and improvements	26,665,831
Equipment	2,392,272
Infrastructure	3,554,307
Construction in progress	<u>2,051,091</u>
Total fixed assets	39,547,290
 Less depreciation	 <u>23,601,396</u>
 Capital Assets net of Depreciation	 \$ <u><u>15,945,894</u></u>

Long-Term Debt

The City's long-term debt at the end of FY 2015/16 was \$20,544,286. This represents an increase of \$2.4 million when compared to FY 2014/15. The significant change is due to the increase in net pension liability. An overview of all long-term obligations is presented below, while comprehensive information can be found in Note 6.

Governmental Activities

Bonds payable:

2007 POB bonds	\$	1,255,000
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Loans payable:

Capital lease payable - Pacific Cove financing		1,530,761
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Capital lease payable - Beach & Village financing		1,261,176
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Notes payable		19,122
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Compensated absences		823,234
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Net OPEB obligation		364,642
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Net pension liability		15,290,351
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Total long-term debt	\$	<u>20,544,286</u>
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ECONOMIC FACTORS, NEXT YEAR'S BUDGETS, AND RATES

On June 16, 2016, the Council adopted the FY 2016/17 Budget, with a total appropriation of \$19.1 million, and a General Fund appropriation of \$15.4 million. Adequate resources were projected to be available to fund the proposed expenditures. The General Fund budget reflects a conservative growth estimate with projected increases to sales tax revenues at 2.75%, transient occupancy tax revenues at 6% and property tax revenues at approximately 4%. Over \$1.2 million in Measure O sales tax receipts were appropriated with an equivalent amount of expenditures that are consistent with the ballot's stated priorities. The Measure O priorities include CIP/Street projects, reserves, and public safety initiatives.

The City has negotiated contracts with all bargaining units through FY 2017/18, which include cost of living adjustments (COLA's) equivalent to changes in the Consumer Pricing Index (CPI). 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. Employees continue to pick up a portion of the Employee share of the pension costs.

Prospects for the Future

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, maintain the police department staffing and public works maintenance. The City's initial five-year projections estimated conservative increases in core revenues to be relatively consistent with CPI-based cost of living adjustments. If this balanced approach were maintained, the City projected that operational functions would not be impacted by the \$0.5 million loss of Measure D revenues. The expiration of Measure D corresponds to the final \$600,000 payment on the Pension Obligation Bond. These multi-year projections are currently being revisited as a result of risk pool changes to the PERS Classic retirement plans and the projected increase in the City's Unfunded Actuarial Liability annual payments. The City Council has placed a 10-year extension to Measure D on the November 2016 ballot. If the extension is approved the City would fund wharf and beach improvements, improve bicycle and pedestrian safety, maintain the police department staffing and other critical city programs.

Opportunities for development include completion of the Rispin/Peery Park, Wharf resiliency improvement, flume repair or replacement, jetty improvements, and a roundabout on Bay Avenue.

The City has successfully completed all current RDA dissolution and Assembly Bill 1484 (AB 1484) reporting and audit requirements; and received approval for the repayment on the \$618,028 loan made to the former RDA, with the City will including approximately \$115,000 annual payment for the next four fiscal years. Additional information can be found in the transmittal letter, as well as Note 15.

Local, State, and National Economy

In 2008, events in the local, state, and national economies led to a significant downturn in financial markets. In FY 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 2015/16, with Capitola's annual sales tax and transient occupancy tax increasing year over year; increased home sales and prices; and a reduction in unemployment rates. This trend is consistent with the statewide economic conditions.

Fiscal Year 2016/17 is the first year the City projects the Bradley Burns sales tax collections to surpass the Fiscal Year 2007/08 actual sales tax collections. It has taken almost 10 years to regain the same level of collections, not accounting for inflation, whereas the cost to do business has increased over 20%. The City has not added personnel over the last 10 years, but the cost of living, health care, and liability insurance have all increased.

OpenGov Financial Transparency

In July of 2016 the City implemented OpenGov's financial transparency website. The interactive website allows the public access to the City's financial information in an easy to use format. The interactive charts allow a user to display summarized information or line item specific information with a few clicks of the mouse.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

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CITY OF CAPITOLA
Statement of Net Position
June 30, 2016

	Governmental Activities
ASSETS	
Cash and investments	\$ 8,446,040
Accounts receivable, net of allowance for uncollectibles	187,282
Due from other governments	2,663,521
Due from successor agency	515,023
Loans receivable	7,984,451
Prepays	9,307
Capital assets:	
Non-depreciable:	
Land	4,883,789
Construction in progress	2,051,091
Depreciable:	
Equipment	3,554,307
Buildings and improvements	2,392,272
Infrastructure	26,665,831
Accumulated depreciation	<u>(23,601,396)</u>
Total Assets	<u>35,751,518</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension related	<u>1,530,518</u>
LIABILITIES	
Accounts payable	738,908
Accrued liabilities	295,021
Interest payable	71,004
Deposits payable	324,925
Unearned revenue	383,581
Noncurrent liabilities:	
Due within one year	854,563
Due in more than one year	<u>19,689,723</u>
Total Liabilities	<u>22,357,725</u>
DEFERRED INFLOWS OF RESOURCES	
Pension related	1,896,463
Other	<u>1,805,303</u>
Total Deferred Inflows of Resources	<u>3,701,766</u>
NET POSITION	
Net investment in capital assets	13,153,957
Restricted for:	
Public safety	97,821
Transportation	113,135
Community development	6,599,379
Culture and recreation	142,651
Unrestricted	<u>(8,884,398)</u>
Total Net Position	<u>\$ 11,222,545</u>

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

CITY OF CAPITOLA
Statement of Activities
Year Ended June 30, 2016

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government	\$ 3,557,011	\$ 969,430	\$ 125,927	\$ -	\$ (2,461,654)
Public safety	6,210,600	700,877	199,060	-	(5,310,663)
Community development	1,075,841	726,758	67,490	127,536	(154,057)
Culture and recreation	1,150,144	751,265	-	-	(398,879)
Transportation	3,217,996	111,894	7,623	383,925	(2,714,554)
Interest and other charges	157,705	-	-	-	(157,705)
Total Governmental Activities	<u>\$ 15,369,297</u>	<u>\$ 3,260,224</u>	<u>\$ 400,100</u>	<u>\$ 511,461</u>	<u>(11,197,512)</u>
General Revenues:					
Taxes:					
Property taxes					2,193,588
Franchise taxes					524,214
Sales and use taxes					7,859,511
Transient occupancy taxes					1,451,512
Business license taxes					298,020
Motor vehicle in-lieu, unrestricted					225,617
Investment income, unrestricted					227,142
Miscellaneous revenue					<u>425,039</u>
Total General Revenues					<u>13,204,643</u>
Change in Net Position					2,007,131
Net Position, Beginning of Year					<u>9,215,414</u>
Net Position, End of Year					<u>\$ 11,222,545</u>

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

GOVERNMENTAL FUNDS

Major Governmental Funds

GENERAL FUND

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

SPECIAL REVENUE FUNDS

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

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

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

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, 2016

	General	Special Revenue Fund Federal Home Loan Reuse
ASSETS		
Cash and investments	\$ 4,623,288	\$ 168,991
Accounts receivable	41,754	-
Due from other governments	2,642,396	11,432
Due from successor agency	515,023	-
Due from other funds	192,721	-
Loans receivable	-	3,890,160
Prepays	9,307	-
	<u>8,024,489</u>	<u>4,070,583</u>
Total Assets	<u>\$ 8,024,489</u>	<u>\$ 4,070,583</u>
LIABILITIES		
Accounts payable	\$ 348,865	\$ 960
Accrued liabilities	295,021	-
Unearned revenue	382,556	1,025
Due to other funds	-	-
Deposits payable	312,891	-
	<u>1,339,333</u>	<u>1,985</u>
Total Liabilities	<u>1,339,333</u>	<u>1,985</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue	<u>-</u>	<u>3,890,160</u>
FUND BALANCES		
Nonspendable	524,330	-
Restricted	-	178,438
Assigned	1,262,206	-
Unassigned	4,898,620	-
	<u>6,685,156</u>	<u>178,438</u>
Total Fund Balances	<u>6,685,156</u>	<u>178,438</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 8,024,489</u>	<u>\$ 4,070,583</u>

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

Special Revenue Fund	Capital Projects Fund	Non-Major Governmental Funds	Totals
Capitola Housing Successor	Capital Projects		
\$ 113,349	\$ 2,598,380	\$ 942,032	\$ 8,446,040
-	17,000	128,528	187,282
5,486	-	4,207	2,663,521
-	-	-	515,023
-	-	-	192,721
3,767,985	-	326,306	7,984,451
-	-	-	9,307
<u>\$ 3,886,820</u>	<u>\$ 2,615,380</u>	<u>\$ 1,401,073</u>	<u>\$ 19,998,345</u>
\$ 8,457	\$ 341,578	\$ 39,048	\$ 738,908
-	-	-	295,021
-	-	-	383,581
-	-	192,721	192,721
-	11,034	1,000	324,925
<u>8,457</u>	<u>352,612</u>	<u>232,769</u>	<u>1,935,156</u>
<u>3,767,985</u>	<u>-</u>	<u>453,842</u>	<u>8,111,987</u>
-	-	-	524,330
110,378	-	447,612	736,428
-	2,262,768	481,532	4,006,506
-	-	(214,682)	4,683,938
<u>110,378</u>	<u>2,262,768</u>	<u>714,462</u>	<u>9,951,202</u>
<u>\$ 3,886,820</u>	<u>\$ 2,615,380</u>	<u>\$ 1,401,073</u>	<u>\$ 19,998,345</u>

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CITY OF CAPITOLA
Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Position
June 30, 2016

Fund balances of governmental funds	\$ 9,951,202
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	39,547,290
Accumulated depreciation	(23,601,396)
Pension related deferred inflows and outflows of resources are not reported in the governmental funds:	
Deferred outflows	1,530,518
Deferred inflows	(1,896,463)
Accrued interest payable for the current portion of interest due on long-term debt has not been reported in the governmental funds.	(71,004)
Long-term debt has not been included in the governmental fund activity:	
Notes payable	(19,122)
Bonds payable	(1,255,000)
Capital lease financing	(1,530,761)
Lease-back financing	(1,261,176)
Net pension liability	(15,290,351)
Compensated absences	(823,234)
Net OPEB Obligation	(364,642)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.	
Long-term receivables	<u>6,306,684</u>
Net position of governmental activities	<u><u>\$ 11,222,545</u></u>

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, 2016

	General	Special Revenue Fund Federal Home Loan Reuse
REVENUES		
Taxes	\$ 12,028,825	\$ -
Licenses and permits	614,088	-
Fines and forfeitures	655,644	-
Intergovernmental	219,504	-
Charges for services	2,059,197	-
Use of money and property	85,286	98,968
Other revenue	71,771	-
	<hr/>	<hr/>
Total Revenues	15,734,315	98,968
	<hr/>	<hr/>
EXPENDITURES		
Current:		
General government	2,600,521	-
Public safety	5,990,063	-
Community development	682,904	4,160
Culture and recreation	956,096	-
Transportation	2,393,246	-
Capital outlay	-	-
Debt service:		
Principal	-	-
Interest and fiscal charges	-	-
	<hr/>	<hr/>
Total Expenditures	12,622,830	4,160
	<hr/>	<hr/>
Excess (Deficiency) of Revenues over (Under) Expenditures	3,111,485	94,808
	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES)		
Transfers in	-	-
Transfers out	(2,432,050)	-
	<hr/>	<hr/>
Total Other Financing Sources (Uses)	(2,432,050)	-
	<hr/>	<hr/>
Net Change in Fund Balances	679,435	94,808
Fund Balances, Beginning of Year	6,005,721	83,630
	<hr/>	<hr/>
Fund Balances, End of Year	\$ 6,685,156	\$ 178,438
	<hr/>	<hr/>

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

Special Revenue Fund	Capital Projects Fund	Non-Major Governmental Funds	Totals
Capitola Housing Successor	Capital Projects		
\$ -	\$ -	\$ 221,561	\$ 12,250,386
-	39,929	17,221	671,238
-	-	-	655,644
-	383,925	183,254	786,683
-	-	106,072	2,165,269
57,457	-	82,730	324,441
4,000	243,195	8,775	327,741
<u>61,457</u>	<u>667,049</u>	<u>619,613</u>	<u>17,181,402</u>
-	15,518	96,076	2,712,115
-	-	144,213	6,134,276
40,222	-	277,635	1,004,921
-	-	82,447	1,038,543
-	4,483	346,566	2,744,295
-	2,051,648	22,415	2,074,063
-	-	764,184	764,184
-	-	163,297	163,297
<u>40,222</u>	<u>2,071,649</u>	<u>1,896,833</u>	<u>16,635,694</u>
<u>21,235</u>	<u>(1,404,600)</u>	<u>(1,277,220)</u>	<u>545,708</u>
-	1,692,435	1,091,920	2,784,355
-	-	(352,305)	(2,784,355)
-	1,692,435	739,615	-
21,235	287,835	(537,605)	545,708
89,143	1,974,933	1,252,067	9,405,494
<u>\$ 110,378</u>	<u>\$ 2,262,768</u>	<u>\$ 714,462</u>	<u>\$ 9,951,202</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, 2016

Net change in fund balances - total governmental funds	\$	545,708
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Amounts reported for governmental activities in the statement of activities
are different because:

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

Capital outlays, net of disposals		2,078,903
Depreciation		(1,076,763)

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.

764,184

Governmental funds report all contributions in relation to annual required contribution (ARC) for Pensions and OPEB expenditures, however, in the Statement of Activities, pension expense is actuarially determined and OPEB expense is based on the ARC.

Change in pension related items		(434,560)
Change in OPEB		(649)

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		(70,310)
Change in accrued interest expense		5,592

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

Grant revenues		195,026
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Change in net position of governmental activities	\$	2,007,131
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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, 2016

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and investments	\$ 382,836	\$ 36,574
Total Assets	<u>382,836</u>	<u>\$ 36,574</u>
LIABILITIES		
Deposits	-	\$ 36,574
Long-term liabilities:		
Due within one year	103,005	-
Due in more than one year	<u>412,018</u>	<u>-</u>
Total Liabilities	<u>515,023</u>	<u>\$ 36,574</u>
NET POSITION (DEFICIT)		
Held in trust for successor agency and other purposes	<u>(132,187)</u>	
Total Net Position (Deficit)	<u>\$ (132,187)</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, 2016

	Private Purpose Trust Fund
ADDITIONS	
RPTTF distributions	\$ 708,956
Total Additions	<u>708,956</u>
DEDUCTIONS	
Administrative expenses	60,000
Enforceable obligations	<u>380,085</u>
Total Deductions	<u>440,085</u>
Change in Net Position	268,871
Net Position (Deficit), Beginning of Year	<u>(401,058)</u>
Net Position (Deficit), End of Year	<u><u>\$ (132,187)</u></u>

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

City of Capitola
Index to Notes to Financial Statements
Year Ended June 30 2016

NOTE 1 –	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	29
	A. Description of Reporting Entity.....	29
	B. Basis of Presentation.....	29
	C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation.....	30
	D. Assets, Liabilities, and Net Position or Equity.....	31
	1) Cash and Investments	31
	2) Receivables and Payables.....	32
	3) Property Taxes.....	32
	4) Capital Assets.....	33
	5) Prepaid Items.....	33
	6) Deferred Outflow/Inflows of Resources.....	33
	7) Compensated Absences.....	34
	8) Reclassification and Eliminations.....	34
	9) Use of Estimates	34
	10) Fund Equity	34
	11) Implementation of New Pronouncement.....	35
	12) Pension Plans.....	36
NOTE 2 –	CASH AND INVESTMENTS.....	37
NOTE 3 –	INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS.....	40
NOTE 4 –	CAPITAL ASSETS.....	42
NOTE 5 –	OTHER ASSETS.....	43
NOTE 6 –	LONG TERM DEBT.....	44
NOTE 7 –	FUND BALANCE CLASSIFICATIONS.....	47
NOTE 8 –	OTHER REQUIRED DISCLOSURES.....	48
NOTE 9 –	RISK MANAGEMENT.....	48
NOTE 10 –	JOINT VENTURES.....	49
NOTE 11 –	DEFINED BENEFIT PENSION PLANS (PERS).....	51
NOTE 12 –	PUBLIC AGENCY RETIREMENT PLAN.....	61
NOTE 13 –	OTHER POST EMPLOYMENT BENEFITS.....	62
NOTE 14 –	COMMITMENTS AND CONTINGENT LIABILITIES.....	64
NOTE 15 –	SUCCESSOR AGENCY TO THE FORMER CAPITOLA REDEVELOPMENT AGENCY.....	65
NOTE 16 –	RISKS AND UNCERTAINTIES.....	67

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Description of Reporting Entity

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

B) Basis of Presentation

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

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

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

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

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

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

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

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

The City reports the following major governmental funds:

General Fund

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

Federal Home Loan Reuse Fund

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

Capitola Housing Successor Fund

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

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, Liabilities, and Net Position or Equity

1) Cash and Investments

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

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

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

D) Assets, Liabilities, 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

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.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

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 two or more years and a cost or assigned value exceeding \$5,000, with the exception of infrastructure valued at \$50,000 or more.

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

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

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

5) Prepaid Items

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

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.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

7) Compensated Absences

In compliance with Governmental Accounting Standards Board Statement No. 16, the City has established a liability for accrued vacation in relevant funds. Based on prior MOU language, a sick leave liability is also accrued for one remaining employee. For governmental fund types, the current liability appears in the respective funds and the long-term liability appears in the government-wide financial statements. This liability is set up for the current employees at the current rates of pay. If vacation and the sick leave balances are not used by employees during the term of employment, compensation is payable to the employee at the time of retirement. Such compensation is calculated at the employee's prevailing rate at the time of retirement or termination. Each fiscal year, an adjustment to the liability is made based on pay rate changes and adjustments for the current portion. The General Fund is primarily responsible for the repayment of the governmental portion of compensated absences.

8) Reclassifications and Eliminations

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

9) Use of Estimates

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

10) Fund Equity

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

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

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

10) Fund Equity (continued)

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

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

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

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

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

11) Implementation of New Pronouncement

The City implemented GASB Statement No. 72, Fair Value Measurement and Application. The objective of this statement is to address accounting and financial reporting issues related to fair value measurement. The statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between two market participants. This statement provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

11) Implementation of New Pronouncement (continued)

The City implemented GASB Statement No. 82, Pension Issues. The objective of this statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. The statement addresses the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes and the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

12) 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 the CalPERS Financial Office. 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.

GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

Valuation Date (VD)	June 30, 2014
Measurement Date (MD)	June 30, 2015
Measurement Period (MP)	July 1, 2014 to June 30, 2015

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

2) CASH AND INVESTMENTS

Cash and investments held by the City at June 30, 2016, are classified in the accompanying financial statement as follows:

Statement of Net Position:	
Cash and investments	\$ 8,446,040
Statement of Fiduciary Net Position:	
Cash and investments	<u>419,410</u>
Total cash and investments	<u><u>\$ 8,865,450</u></u>

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

Petty cash	\$ 1,450
Demand deposits	2,728,549
Investments	<u>6,135,451</u>
Total cash and investments	<u><u>\$ 8,865,450</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	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$65,000,000
Guaranteed Investment Contracts	15 months	None	None

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

2) CASH AND INVESTMENTS, (continued)

Disclosures Relating to Interest Rate Risk

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

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

Investment Type	Remaining Maturity				Total
	12 months or less	13 to 24 months	25 to 60 months	More than 60 months	
Local Agency Investment Fund	\$ 6,135,451	\$ -	\$ -	\$ -	\$ 6,135,451
Total	<u>\$ 6,135,451</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,135,451</u>

Investment with Fair Values Highly Sensitive to Interest Rate Fluctuations

During the fiscal year ended June 30, 2016, the City did not hold any investments that were highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

Disclosures Relating to Credit Risk

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

Investment Type	Total	Minimum Legal Rating	Exempt From Disclosure	Not Rated
Local Agency Investment Fund	<u>\$ 6,135,451</u>	N/A	N/A	<u>\$ 6,135,451 *</u>
Total	<u>\$ 6,135,451</u>			<u>\$ 6,135,451</u>

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

2) CASH AND INVESTMENTS, (continued)

Concentration of Risk

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

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., 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, 2016 the City had deposits with financial institutions in excess of federal depository insurance limits by \$2,517,082 that were held in collateralized accounts.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF). LAIF was established in 1977 under the California Government Code Section 16429.1 et seq. as an investment alternative for local California governments and 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.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

2) CASH AND INVESTMENTS, (continued)

Fair Value Measurements

GASB Statement No. 72, Fair Value Measurements and Application, 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 of \$6,135,451 are measured at Net Asset Value (NAV).

3) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Due To/From Other Funds

Due to/from other funds at June 30, 2016, is as follows:

<u>Due from other funds</u>	<u>Due to other funds</u>	<u>Amount</u>
General Fund	Non-Major governmental funds	\$ 192,721

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, 2016

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

Interfund Transfers

Interfund transfers for the year ended June 30, 2016, are as follows:

	Transfers In		Total
	Capital Projects Fund	Non-Major Governmental Funds	
Transfers Out			
General Fund	\$ 1,492,435	\$ 939,615	\$ 2,432,050
Non-Major Governmental Funds	200,000	152,305	352,305
Total	<u>\$ 1,692,435</u>	<u>\$ 1,091,920</u>	<u>\$ 2,784,355</u>

The General Fund transferred \$820,715 in debt service payments to Non-Major Funds, including \$666,899 to the Pension Obligation Bond Fund, \$138,750 to the Pacific Cove Debt Financing Fund; and \$15,066 to the Beach & Village Lot II Debt Financing Fund. Additional General Fund transfers to Non-Major Funds included \$118,900 to the Parking Reserve. Additional transfers to the Pension Obligation Bond Fund for debt service payments originated from the following Non-Major Funds: Supplemental Law Enforcement for \$2,305. 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 \$50,000. The Pacific Cove Debt Financing Fund transferred \$200,000 to the Capital Improvement Fund.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

4) **CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2016, 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	2,632,639	1,833,785	(2,415,333)	2,051,091
Total capital assets, not being depreciated	7,516,428	1,833,785	(2,415,333)	6,934,880
Capital assets, being depreciated:				
Equipment	3,442,912	257,040	(145,645)	3,554,307
Building and improvements	2,392,272	-	-	2,392,272
Infrastructure	24,250,498	2,415,333	-	26,665,831
Total capital assets, being depreciated	30,085,682	2,672,373	(145,645)	32,612,410
Less accumulated depreciation for:				
Equipment	(2,495,116)	(288,566)	133,723	(2,649,959)
Building and improvements	(1,344,635)	(106,124)	-	(1,450,759)
Infrastructure	(18,818,605)	(682,073)	-	(19,500,678)
	(22,658,356)	(1,076,763)	133,723	(23,601,396)
Total capital assets, being depreciated, net	7,427,326	1,595,610	(11,922)	9,011,014
Total governmental activities capital assets, net of accumulated depreciation	\$ 14,943,754	\$ 3,429,395	\$ (2,427,255)	\$ 15,945,894

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	\$ 648,337
Public safety	79,141
Cultural and recreation	16,752
Transportation	332,533
Total Depreciation Expense - Governmental Activities	\$ 1,076,763

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

5) OTHER ASSETS

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 Agency funds become available, but in no event later than twenty-five years from the Agreement date. As of June 30, 2016, the principal owed to the City is \$515,023.

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

Due to the Dissolution of the Agency in January of 2012, the combined loan balances of \$1,968,028 were transferred to the Successor Agency in accordance with AB X1 26 and AB 1484. The City and the Oversight Board resolved to transfer the Rispin Property to the City and terminate the \$1.35 million loan. This transfer was recognized in FY 13/14. After successfully completing the legislatively required Long Range Property Management Plan, the City accepted the property by resolution in October of 2014 in exchange for the Rispin Property. Additional information regarding the Cooperative Agreement can be found in the Risk and Uncertainties; and Successor Agency Notes.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

5) OTHER ASSETS, (continued)

Housing and Community Development Loan Program

The City uses Federal Home Loan Reuse, Affordable Housing and CDBG Program Income funds to provide housing loans to eligible applicants. Such loans are made to low and moderate income households to improve or rehabilitate residences. The City accounts for this program in the Special Revenue Funds. Total detail of loans receivable of \$8 million at June 30, 2016, is listed below:

	CDBG Program Income	Federal Home Loan Reuse	Affordable Housing	Capitola Housing Successor	Total
Individual Loans	\$ 142,693	\$ 483,126	\$ -	\$ 673,662	\$ 1,299,481
Bay Avenue Senior Apartments	-	3,218,901	-	1,663,635	4,882,536
Castle Mobile Home Park	-	-	183,613	1,430,688	1,614,301
Wharf Road Manor	-	188,133	-	-	188,133
Totals	<u>\$ 142,693</u>	<u>\$ 3,890,160</u>	<u>\$ 183,613</u>	<u>\$ 3,767,985</u>	<u>\$ 7,984,451</u>

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

6) LONG TERM DEBT

A summary of changes in long-term debt for the fiscal year ended June 30, 2016, was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due Within One Year
2007 POB Bonds	\$ 1,830,000	\$ -	\$ (575,000)	\$ 1,255,000	\$ 610,000
Capital Lease - Cove Financing	1,658,324	-	(127,563)	1,530,761	99,347
Beach & Village Lot II Financing	1,317,460	-	(56,284)	1,261,176	57,556
Note Payable	24,459	-	(5,337)	19,122	5,337
Compensated Absences	752,924	424,148	(353,838)	823,234	82,323
Net OPEB Obligation	363,993	649	-	364,642	-
Net Pension Liability	12,221,177	3,967,138	(897,964)	15,290,351	-
Totals	<u>\$ 18,168,337</u>	<u>\$ 4,391,935</u>	<u>\$ (2,015,986)</u>	<u>\$20,544,286</u>	<u>\$ 854,563</u>

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

6) LONG TERM DEBT, (continued)

2007 Pension Obligation Bonds

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

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 610,000	\$ 57,095	\$ 667,095
2018	645,000	19,382	664,382
Total	<u>\$ 1,255,000</u>	<u>\$ 76,477</u>	<u>\$ 1,331,477</u>

Capital Leases Payable - Pacific Cove Debt Financing

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

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

6) LONG TERM DEBT, (continued)

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

Future lease payments under the capital lease as of June 30, 2016, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 99,347	\$ 65,719	\$ 165,066
2018	102,602	62,464	165,066
2019	105,963	59,103	165,066
2020	109,435	55,631	165,066
2021	113,021	52,045	165,066
2022-2026	623,136	202,193	825,329
2027-2029	377,257	69,230	446,487
Total	<u>\$ 1,530,761</u>	<u>\$ 566,385</u>	<u>\$ 2,097,146</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, 2016, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 57,556	\$ 31,636	\$ 89,192
2018	58,857	30,148	89,005
2019	60,187	28,626	88,813
2020	61,547	27,069	88,616
2021	62,938	25,478	88,416
2022-2026	336,679	102,235	438,914
2027-2031	376,483	56,697	433,180
2032	246,929	9,947	256,876
Total	<u>\$ 1,261,176</u>	<u>\$ 311,836</u>	<u>\$ 1,573,012</u>

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

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 per month.

Compensated Absences

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

City employees accumulate earned but unused benefits that can be converted to cash at termination of employment. The non-current portion of these vested benefits, payable in accordance with various collective bargaining agreements, totals \$823,234 as of June 30, 2016.

7) FUND BALANCE CLASSIFICATIONS

The details of the fund balances as of June 30, 2016, are presented below:

	General Fund	Federal Home Loan Reuse	Capitola Housing Successor	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
Nonspendable:						
Prepays	\$ 9,307	\$ -	\$ -	\$ -	\$ -	\$ 9,307
Due from successor agency	515,023	-	-	-	-	515,023
Restricted for:						
Public Safety	-	-	-	-	97,821	97,821
Transportation	-	-	-	-	132,257	132,257
Community Development	-	178,438	110,378	-	74,883	363,699
Culture and Recreation	-	-	-	-	142,651	142,651
Assigned to:						
Debt Service	-	-	-	-	481,532	481,532
Other Capital Projects	-	-	-	2,262,768	-	2,262,768
Emergency Reserve	1,262,206	-	-	-	-	1,262,206
Unassigned:						
Contingencies	1,893,346	-	-	-	-	1,893,346
Unassigned	3,005,274	-	-	-	(214,682)	2,790,592
Total	<u>\$ 6,685,156</u>	<u>\$ 178,438</u>	<u>\$ 110,378</u>	<u>\$ 2,262,768</u>	<u>\$ 714,462</u>	<u>\$ 9,951,202</u>

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

8) OTHER REQUIRED DISCLOSURES

Deficit Fund Balances

The following funds reported deficit fund balances at June 30, 2016:

Gas Tax	\$ (40,124)
CDBG	(130,092)
CDBG Program Income	(1,094)
Beach & Village Lot II Debt Financing	(39,185)
Library	(4,187)

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

9) RISK MANAGEMENT

The City participates in the Monterey Bay Area Self-Insurance Agency (Authority), a joint powers agency comprising the City and nine other local jurisdictions, created pursuant to California law for liability and workers compensation insurance services. The 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 four previous years.

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

9) RISK MANAGEMENT, (continued)

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

10) JOINT VENTURES

Santa Cruz Consolidated Emergency Communications Center

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

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

10) JOINT VENTURES, (continued)

Santa Cruz Consolidated Emergency Communications Center, (continued)

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

Fiscal Year Ending June 30,	Annual Use Payment
2017	\$ 34,450
2018	33,989
2019	34,085
2020	34,141
2021	34,156
2022-2026	171,019
2027-2031	170,856
2032-2034	102,796
Total	<u>\$ 615,492</u>

Other Activities

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

11) DEFINED BENEFIT PENSION PLANS (PERS)

General information about the pension plans

Plan descriptions

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (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. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The City sponsors three rate plans (two miscellaneous and one 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.

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 Plan operates 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. The Plan's authority to establish and amend the benefit terms are set by the PERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the CalPERS Board.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

11) DEFINED BENEFIT PENSION PLANS (PERS), (continued)

General information about the pension plans, (continued)

The Plan's provisions and benefits in effect at June 30, 2016 are summarized as follows:

	Miscellaneous	
	Classic	PEPRA
	Prior to	On or after
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	8.0%	6.25%
Required employer contribution rates	15.68%	6.25%

	Safety	
	Classic	PEPRA
	Prior to	On or after
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	9.0%	11.50%
Required employer contribution rates	26.15%	11.50%

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.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

11) DEFINED BENEFIT PENSION PLANS (PERS), (continued)

Contributions. (continued)

Employer contribution rates may change if plan contracts are amended. Employer Contributions to the respective miscellaneous and safety plans for the fiscal year ended June 30, 2016 were \$261,644 and \$640,821. The actual employer payments of \$261,644 for miscellaneous plans and \$640,821 for the safety plan made to CalPERS by the City during the measurement period ended June 30, 2015 differed from the City's proportionate share of the employer's contributions of \$852,709 for miscellaneous plans and \$947,877 for the safety plan by \$591,065 and \$307,056, which is being amortized over the expected average remaining service lifetime in the Public Agency Cost-Sharing Multiple Employer Plan.

Net pension liability

The City's net pension liability for each plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 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

	<u>Miscellaneous</u>	<u>Safety</u>
Valuation Date	June 30, 2014	June 30, 2014
Measurement Date	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Asset Valuation Method	Actuarial Value of Assets	Actuarial Value of Assets
Actuarial Assumptions		
Discount Rate	7.65%	7.65%
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)	7.65%	7.65%
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. For more details on this table, please refer to the 2015 experience report.

All other actuarial assumptions used in the June 30, 2014 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 Experience Study report can be obtained at CalPERS' website under Forms and Publications.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

11) DEFINED BENEFIT PENSION PLANS (PERS), (continued)

Net pension liability, (continued)

Change of Assumptions

GASB 68, paragraph 68 states that the long long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

Discount rate

The discount rate used to measure the total pension liability for measurement date June 30, 2015 was 7.65 percent. The discount rate used to measure the total pension liability in the previous year was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a 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. Based on the testing of the plan, the test revealed the assets would not run out. Therefore, the current 7.65 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 7.65 percent is applied to all plans in the Public Employees Retirement Fund. 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 best-estimate ranges of 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 (Public Employees' Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

11) **DEFINED BENEFIT PENSION PLANS (PERS), (continued)**

Net pension liability, (continued)

Discount rate, (continued)

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, 2014.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10¹	Real Return Years 11+²
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	(0.55%)	(1.05%)
Total	100%		

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

11) DEFINED BENEFIT PENSION PLANS (PERS), (continued)

Net pension liability, (continued)

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.

The plan fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the plan assets reported in the funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and Other Post-Employment Benefits (OPEB) expense included as assets. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves.

Proportionate share of net pension liability

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

Miscellaneous Plan:

	Increase (Decrease)		
	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2014 (VD)	\$ 31,829,680	\$ 26,090,262	\$ 5,739,418
Balance at: 6/30/2015 (MD)	\$ 32,281,567	\$ 24,651,301	\$ 7,630,266
Net changes during 2014-2015	\$ 451,887	\$ (1,438,961)	\$ 1,890,848

Safety Plan:

	Increase (Decrease)		
	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2014 (VD)	\$ 34,883,131	\$ 28,401,372	\$ 6,481,759
Balance at: 6/30/2015 (MD)	\$ 35,520,935	\$ 27,860,850	\$ 7,660,085
Net changes during 2014-2015	\$ 637,804	\$ (540,522)	\$ 1,178,326

Valuation Date (VD), Measurement Date (MD).

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

11) DEFINED BENEFIT PENSION PLANS (PERS), (continued)

Proportionate share of net pension liability (continued)

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 each Plan is measured as of June 30, 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 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 under Forms and Publications, at www.calpers.ca.gov. The City's proportionate share of the net pension liability for each Plan as of June 30, 2014 and 2015 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>	<u>Total PERF C</u>
Proportionate Share of NPL - June 30, 2014	0.23223%	0.17280%	0.40503%
Proportionate Share of NPL - June 30, 2015	0.27812%	0.18590%	0.46402%
Change - Increase (Decrease)	0.04589%	0.01310%	0.05899%

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 each Plan as of the measurement date, calculated using the discount rate of 7.65 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 (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Total Plans' Net Pension Liability	\$ 24,556,953	\$ 15,290,351	\$ 7,667,136

Subsequent events

There were no subsequent events that would materially affect the results presented in this disclosure.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

11) **DEFINED BENEFIT PENSION PLANS (PERS), (continued)**

Proportionate share of net pension liability, (continued)

Recognition of gains and losses

Under GASB 68, 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 for the 2014-15 measurement period is 3.8 years, which was obtained by dividing the total service years of 467,023 (the sum of remaining service lifetimes of the active employees) by 122,410 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

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

Miscellaneous

As of the start of the measurement period (July 1, 2014), the net pension liability for the respective miscellaneous plans was \$5,739,418. For the measurement period ending June 30, 2015 (the measurement date), the City incurred a pension expense of \$940,685, for the Miscellaneous Plans.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

11) **DEFINED BENEFIT PENSION PLANS (PERS), (continued)**

Pension expense and deferred outflows and deferred inflows of resources related to pensions, (continued)

Safety

As of the start of the measurement period (July 1, 2014), the net pension liability for the respective safety plan was \$6,481,759. For the measurement period ending June 30, 2015 (the measurement date), the City incurred a pension expense of \$684,477 for the Safety Plans.

As of June 30, 2016, the City has deferred outflows and deferred inflows of resources related to pensions as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 16,769	\$ (84,301)
Changes of Assumptions	-	(546,385)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(276,040)
Change in Employer's Proportion	323,147	-
Difference in Actual vs. Projected Contributions	-	(989,737)
Pension Contributions Subsequent to Measurement Date	1,190,602	-
	<u>\$ 1,530,518</u>	<u>\$ (1,896,463)</u>

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

11) **DEFINED BENEFIT PENSION PLANS (PERS), (continued)**

Pension expense and deferred outflows and deferred inflows of resources related to pensions, (continued)

These amounts above are net of outflows and inflow recognized in the 2014-15 measurement period expense. \$1,190,602 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources, Net
2016	\$ (779,708)
2017	(769,040)
2018	(641,756)
2019	633,957
2020	-
Remaining	-

Payable to the pension plan

At June 30, 2016, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

12) PUBLIC AGENCY RETIREMENT PLAN

Overview

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

Plan Description

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

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

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, 2016, contributions totaled \$18,222. This included contributions of \$3,124 by the City and \$15,098 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 2015-16 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 1/1/15	\$ 62,893
Contributions	18,222
Earnings	223
Subtotal	81,338
Less: Expenses	(4,611)
Disbursements	(17,724)
Balance 12/31/15	<u>\$ 59,003</u>

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

13) OTHER POST EMPLOYMENT BENEFITS

Plan Description

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

Funding Policy

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

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

On May 14, 2009, the City Council adopted a resolution indicating that it would finance CRHP benefits on a "pay-as-you-go" basis. The method recognizes monthly benefit costs as the actual benefits are paid. On March 27, 2014, the City Council adopted a resolution to elect to prefund other post employment benefits through the California Public Employees Retirement System (PERS) and deposit contributions in the California Public Employees Retirement Benefit Trust Fund (CERBT). In FY 13/14, the City contributed the actuarially determined ARC of \$69,900. This transition from a "pay as you go" basis to a prefunding method reduced the City's FY 13/14 unfunded actuarial accrued liability (UAAL) from \$1,011,800 to \$657,500. In FY 15/16 the unfunded actuarial accrued liability (UAAL) was \$690,674.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

13) OTHER POST EMPLOYMENT BENEFITS, (continued)

Annual OPEB Cost

The City's annual OPEB cost, net OPEB obligation and the related information for 2016 were as follows:

	<u>Total</u>
Annual required contribution	\$ 84,925
Interest on net OPEB obligation	25,480
Adjustments to annual required contribution	<u>(24,831)</u>
Annual OPEB cost (expense)	85,574
Contributions made	<u>(84,925)</u>
Increase in net OPEB obligation	649
Net OPEB obligation - beginning of year	<u>363,993</u>
Net OPEB obligation - end of year	<u><u>\$ 364,642</u></u>

For 2016, the City's annual OPEB cost (expense) of \$85,574 for CRHP was more than the ARC by \$649. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years were as follows:

<u>THREE YEAR TREND INFORMATION FOR CRHP</u>			
<u>Fiscal Year</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2014	\$ 72,946	98%	\$ 361,494
6/30/2015	74,499	97%	363,993
6/30/2016	85,574	99%	364,642

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2015, the most recent actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	\$ 834,061
Actuarial Value Plan Assets	143,387
Unfunded Actuarial Accrued Liability (UAAL)	\$ 690,674
Funded Ratio (Actuarial Value of Plan Assets/AAL)	17.2%
Covered Payroll (Active Plan Members)	\$ 5,228,823
UAAL as a Percentage of Covered Payroll	13.21%

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

13) OTHER POST EMPLOYMENT BENEFITS, (continued)

Actuarial Methods and Assumptions

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

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

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

Valuation Date	July 1, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	23 Years as of the Valuation Date
Actuarial Assumptions:	
Investment Rate of Return	7.00%
Projected Salary Increase	2.75%
Health Care Trend Rate	4.00%
Inflation Rate	2.75%

14) COMMITMENTS AND CONTINGENT LIABILITIES

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

15) **SUCCESSOR AGENCY TO THE FORMER CAPITOLA REDEVELOPMENT AGENCY**

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

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, 2016

15) **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:

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

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

Long-Term Debt

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

The debt of the Successor Agency as of June 30, 2016 is as follows:

	Beginning Balance	Additions	Reductions	Ending balance	Due Within One Year
Advances Payable - Due to the City	\$ 618,028	\$ -	\$ (103,005)	\$ 515,023	\$ 103,005
Totals	<u>\$ 618,028</u>	<u>\$ -</u>	<u>\$ (103,005)</u>	<u>\$ 515,023</u>	<u>\$ 103,005</u>

Due to the City

The obligations due to the City represent a loan in the amount of \$515,023 for staff and administrative costs associated with the expansion of the redevelopment area and the amendment of the redevelopment plan. A note in the amount of \$1,350,000 for the purchase of the City-owned Rispin Mansion property was terminated in exchange for the return of the Rispin Property. Complete details on these obligations can be found in the Note 5.

- 16) RISKS AND UNCERTAINTIES

Grants

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2016

16) RISKS AND UNCERTAINTIES, (continued)

City/Successor Agency Obligations

Deductions (expenses) incurred by the Successor Agency for the year ended June 30, 2016 (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 met with denial from 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.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CAPITOLA
Required Supplementary Information
Year Ended June 30, 2016

Schedule of Funding Progress for Capitola Retiree Healthcare Plan

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B - A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B - A) / C]
7/1/2011	\$ -	\$ 1,006,309	\$ 1,006,309	-	\$ 4,686,029	21.48%
7/1/2013	-	657,500	657,500	-	4,821,600	13.64%
7/1/2015	143,387	834,061	690,674	17.19%	5,228,823	13.21%

CITY OF CAPITOLA
Required Supplementary Information
Year Ended June 30, 2016

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

	Measurement Date 6/30/2014	Measurement Date 6/30/2015
Employer's Proportion of the Collective Net Pension Liability ¹	0.19641%	0.46402%
Employer's Proportionate Share of the Collective Net Pension Liability	\$ 12,221,177	\$ 15,290,351
Employer's Covered Payroll ²	\$ 5,315,720	\$ 5,029,882
Employer's Proportionate Share of the Collective Net Pension Liability as a Percentage of the Employer's Covered Payroll	229.91%	303.99%
Pension Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	81.68%	77.45%

¹ Proportion of the collective net pension liability represents the plan's proportion of PERF C, which includes both the Miscellaneous and Safety Risk Pools excluding the 1959 Survivors Risk Pool.

² Covered payroll is defined as the payroll on which contributions to a pension plan are based, in accordance with GASB 82.

* Measurement period 2013-14 (fiscal year 2014-15) was the first year of implementation.

CITY OF CAPITOLA
Required Supplementary Information
Year Ended June 30, 2016

Schedule of Plan Contributions
Last 10 Years*

	Fiscal Year 2014-2015	Fiscal Year 2015-2016
	Miscellaneous	Miscellaneous
Contractually Determined Contribution	\$ 902,465	\$ 1,190,602
Contributions in Relation to the Contractually Determined Contribution	(902,465)	(1,190,602)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll ¹	\$ 5,315,720	\$ 5,029,882
Contributions as a Percentage of Covered-Employee Payroll	16.98%	23.67%

¹ Covered payroll is defined as the payroll on which contributions to a pension plan are based, in accordance with GASB 82.

Notes to Schedule:

Change in Benefit Terms: None

Change in Assumptions: The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

*Measurement period 2013-14 (fiscal year 2014-15) was the first year of implementation.

GENERAL FUND

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

CITY OF CAPITOLA
Required Supplementary Information
General Fund
Budgetary Comparison Schedule
Year Ended June 30, 2016

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Taxes	\$ 11,319,500	\$ 11,768,148	\$ 12,028,825	\$ 260,677
Licenses and permits	531,650	531,650	614,088	82,438
Fines and forfeitures	720,000	705,000	655,644	(49,356)
Intergovernmental	178,793	327,364	219,504	(107,860)
Charges for services	1,940,700	1,965,200	2,059,197	93,997
Use of money and property	59,100	59,100	85,286	26,186
Other revenue	67,400	61,200	71,771	10,571
Total revenues	14,817,143	15,417,662	15,734,315	316,653
Expenditures:				
Current:				
General government	2,443,708	2,509,478	2,600,521	(91,043)
Public safety	6,333,000	6,338,000	5,990,063	347,937
Community development	754,989	742,539	682,904	59,635
Culture and recreation	1,011,748	1,015,791	956,096	59,695
Transportation	2,482,051	2,512,051	2,393,246	118,805
Total expenditures	13,025,496	13,117,859	12,622,830	495,029
Excess (deficiency) of revenues over (under) expenditures	1,791,647	2,299,803	3,111,485	811,682
Other financing sources (uses):				
Transfers out	(2,459,626)	(2,459,626)	(2,432,050)	27,576
Net change in fund balance	(667,979)	(159,823)	679,435	839,258
Fund balance, Beginning of Year	6,005,721	6,005,721	6,005,721	-
Fund balance, End of Year	\$ 5,337,742	\$ 5,845,898	\$ 6,685,156	\$ 839,258

SPECIAL REVENUE FUNDS

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

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

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

CITY OF CAPITOLA
Federal Home Loan Reuse Fund
Major Special Revenue Fund
Budgetary Comparison Schedule
Year Ended June 30, 2016

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Use of money and property	\$ 12,300	\$ 87,539	\$ 98,968	\$ 11,429
Total revenues	12,300	87,539	98,968	11,429
Expenditures:				
Current:				
Community development	3,200	4,160	4,160	-
Total expenditures	3,200	4,160	4,160	-
Net change in fund balance	9,100	83,379	94,808	11,429
Fund balance, beginning	83,630	83,630	83,630	-
Fund balance, ending	\$ 92,730	\$ 167,009	\$ 178,438	\$ 11,429

CITY OF CAPITOLA
Capitola Housing Successor
Major Special Revenue Fund
Budgetary Comparison Schedule
Year Ended June 30, 2016

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Use of money and property	\$ -	\$ 25,000	\$ 57,457	\$ 32,457
Other revenue	-	-	4,000	4,000
Total revenues	-	25,000	61,457	36,457
Expenditures:				
Current:				
Community development	35,000	40,000	40,222	(222)
Total expenditures	35,000	40,000	40,222	(222)
Net change in fund balance	(35,000)	(15,000)	21,235	36,235
Fund balance, beginning	89,143	89,143	89,143	-
Fund balance, ending	\$ 54,143	\$ 74,143	\$ 110,378	\$ 36,235

CITY OF CAPITOLA
Notes to Required Supplementary Information
Year Ended June 30, 2016

BUDGETS AND BUDGETARY ACCOUNTING

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

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

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

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

Budgets were adopted for all governmental funds with the exception of the following special revenue fund: 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	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
Major Governmental:			
Capitola Housing Successor	\$ 40,000	\$ 40,222	\$ (222)
Capital Projects	1,305,735	2,071,649	(765,914)

Non-Major Governmental:

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

SUPPLEMENTARY INFORMATION

CAPITAL PROJECTS FUND

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

CITY OF CAPITOLA
Capital Projects Fund
Major Capital Projects Fund
Budgetary Comparison Schedule
Year Ended June 30, 2016

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Licenses and permits	\$ 38,000	\$ 45,000	\$ 39,929	\$ (5,071)
Intergovernmental	-	-	383,925	383,925
Other revenue	40,000	50,000	243,195	193,195
Total revenues	78,000	95,000	667,049	572,049
Expenditures:				
General government	75,300	75,300	15,518	59,782
Transportation	-	-	4,483	(4,483)
Capital outlay	1,040,000	1,230,435	2,051,648	(821,213)
Total expenditures	1,115,300	1,305,735	2,071,649	(765,914)
Excess (deficiency) of revenues over (under) expenditures	(1,037,300)	(1,210,735)	(1,404,600)	(193,865)
Other financing sources (uses):				
Transfers in	1,000,000	1,692,435	1,692,435	-
Total other financing sources (uses)	1,000,000	1,692,435	1,692,435	-
Net change in fund balance	(37,300)	481,700	287,835	(193,865)
Fund balance, beginning	1,974,933	1,974,933	1,974,933	-
Fund balance, ending	\$ 1,937,633	\$ 2,456,633	\$ 2,262,768	\$ (193,865)

CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Balance Sheet
June 30, 2016

NON-MAJOR FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

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

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

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

CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Balance Sheet
June 30, 2016

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.

CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Balance Sheet
June 30, 2016

	SPECIAL REVENUE FUNDS		
	Supplemental Law Enforcement	Gas Tax	Wharf
ASSETS			
Cash and investments	\$ 99,820	\$ -	\$ 96,542
Accounts receivable	-	-	-
Due from other governments	-	-	-
Loans receivable	-	-	-
Total Assets	<u>\$ 99,820</u>	<u>\$ -</u>	<u>\$ 96,542</u>
LIABILITIES			
Accounts payable	\$ 1,999	\$ 18,965	\$ 11,116
Due to other funds	-	21,159	-
Deposits payable	-	-	1,000
Total Liabilities	<u>1,999</u>	<u>40,124</u>	<u>12,116</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Restricted	97,821	-	84,426
Assigned	-	-	-
Unassigned	-	(40,124)	-
Total Fund Balances (Deficit)	<u>97,821</u>	<u>(40,124)</u>	<u>84,426</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 99,820</u>	<u>\$ -</u>	<u>\$ 96,542</u>

SPECIAL REVENUE FUNDS

Parking Reserve	Technology Fees	PEG Cable TV Access Fee	Capitola Village and Wharf BIA	CDBG
\$ 737	\$ 52,556	\$ 54,018	\$ -	\$ -
-	-	-	992	127,536
-	-	4,207	-	-
-	-	-	-	-
<u>\$ 737</u>	<u>\$ 52,556</u>	<u>\$ 58,225</u>	<u>\$ 992</u>	<u>\$ 127,536</u>
\$ -	\$ 2,980	\$ -	\$ 233	\$ 3,755
-	-	-	759	126,337
-	-	-	-	-
-	2,980	-	992	130,092
-	-	-	-	127,536
-	-	-	-	127,536
737	49,576	58,225	-	-
-	-	-	-	-
-	-	-	-	(130,092)
<u>737</u>	<u>49,576</u>	<u>58,225</u>	<u>-</u>	<u>(130,092)</u>
<u>\$ 737</u>	<u>\$ 52,556</u>	<u>\$ 58,225</u>	<u>\$ 992</u>	<u>\$ 127,536</u>

(Continued)

CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Balance Sheet
June 30, 2016

	<u>SPECIAL REVENUE FUNDS</u>	
	<u>CDBG Program Income</u>	<u>Affordable Housing</u>
ASSETS		
Cash and investments	\$ -	\$ 25,307
Accounts receivable	-	-
Due from other governments	-	-
Loans receivable	142,693	183,613
	<hr/>	<hr/>
Total Assets	<u>\$ 142,693</u>	<u>\$ 208,920</u>
LIABILITIES		
Accounts payable	\$ -	\$ -
Due to other funds	1,094	-
Deposits payable	-	-
	<hr/>	<hr/>
Total Liabilities	<u>1,094</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue	142,693	183,613
	<hr/>	<hr/>
Total Deferred Inflows of Resources	<u>142,693</u>	<u>183,613</u>
FUND BALANCES		
Restricted	-	25,307
Assigned	-	-
Unassigned	(1,094)	-
	<hr/>	<hr/>
Total Fund Balances (Deficit)	<u>(1,094)</u>	<u>25,307</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 142,693</u>	<u>\$ 208,920</u>

DEBT SERVICE FUNDS			CAPITAL PROJECTS FUND	Total Non-Major Governmental Funds
Beach & Village Lot II Debt Financing	Pacific Cove Debt Financing	2007 POB Debt Service	Library	
\$ -	\$ 131,520	\$ 481,532	\$ -	\$ 942,032
-	-	-	-	128,528
-	-	-	-	4,207
-	-	-	-	326,306
<u>\$ -</u>	<u>\$ 131,520</u>	<u>\$ 481,532</u>	<u>\$ -</u>	<u>\$ 1,401,073</u>
\$ -	\$ -	\$ -	\$ -	\$ 39,048
39,185	-	-	4,187	192,721
-	-	-	-	1,000
<u>39,185</u>	<u>-</u>	<u>-</u>	<u>4,187</u>	<u>232,769</u>
-	-	-	-	453,842
-	-	-	-	453,842
-	131,520	-	-	447,612
-	-	481,532	-	481,532
<u>(39,185)</u>	<u>-</u>	<u>-</u>	<u>(4,187)</u>	<u>(214,682)</u>
<u>(39,185)</u>	<u>131,520</u>	<u>481,532</u>	<u>(4,187)</u>	<u>714,462</u>
<u>\$ -</u>	<u>\$ 131,520</u>	<u>\$ 481,532</u>	<u>\$ -</u>	<u>\$ 1,401,073</u>

CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Year Ended June 30, 2016

	SPECIAL REVENUE FUNDS		
	Supplemental Law Enforcement	Gas Tax	Wharf
REVENUES			
Taxes	\$ -	\$ 221,561	\$ -
Licenses and permits	-	-	-
Intergovernmental	142,616	-	-
Charges for services	-	-	-
Use of money and property	452	232	80,471
Other revenue	-	6,775	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>143,068</u>	<u>228,568</u>	<u>80,471</u>
EXPENDITURES			
Current:			
General government	-	-	7,456
Public safety	144,213	-	-
Community development	-	-	-
Culture and recreation	-	-	82,447
Transportation	-	346,566	-
Capital outlay	-	-	-
Debt service:			
Principal	-	5,337	-
Interest and fiscal charges	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>144,213</u>	<u>351,903</u>	<u>89,903</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,145)</u>	<u>(123,335)</u>	<u>(9,432)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	(2,305)	-	-
	<u>(2,305)</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(2,305)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(3,450)	(123,335)	(9,432)
Fund Balances (Deficit), Beginning of Year	<u>101,271</u>	<u>83,211</u>	<u>93,858</u>
Fund Balances (Deficit), End of Year	<u>\$ 97,821</u>	<u>\$ (40,124)</u>	<u>\$ 84,426</u>

SPECIAL REVENUE FUNDS

Parking Reserve	Technology Fees	PEG Cable TV Access Fee	Capitola Village and Wharf BIA	CDBG
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	17,221	-	-
-	-	-	-	17,338
-	12,670	-	70,374	-
-	-	201	98	-
-	-	-	-	-
-	12,670	17,422	70,472	17,338
-	-	9,283	-	-
-	-	-	-	-
-	13,248	-	71,310	178,089
-	-	-	-	-
-	-	-	-	-
22,415	-	-	-	-
-	-	-	-	-
-	-	-	-	-
22,415	13,248	9,283	71,310	178,089
(22,415)	(578)	8,139	(838)	(160,751)
118,900	-	-	-	-
(100,000)	-	-	-	-
18,900	-	-	-	-
(3,515)	(578)	8,139	(838)	(160,751)
4,252	50,154	50,086	838	30,659
\$ 737	\$ 49,576	\$ 58,225	\$ -	\$ (130,092)

(Continued)

CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Year Ended June 30, 2016

	<u>SPECIAL REVENUE FUNDS</u>	
	<u>CDBG Program Income</u>	<u>Affordable Housing</u>
REVENUES		
Taxes	\$ -	\$ -
Licenses and permits	-	-
Intergovernmental	-	-
Charges for services	-	23,028
Use of money and property	-	-
Other revenue	2,000	-
	<u>2,000</u>	<u>-</u>
Total Revenues	<u>2,000</u>	<u>23,028</u>
EXPENDITURES		
Current:		
General government	-	-
Public safety	-	-
Community development	25	14,963
Culture and recreation	-	-
Transportation	-	-
Capital outlay	-	-
Debt service:		
Principal	-	-
Interest and fiscal charges	-	-
	<u>-</u>	<u>-</u>
Total Expenditures	<u>25</u>	<u>14,963</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,975</u>	<u>8,065</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	-	-
Transfers out	-	(50,000)
	<u>-</u>	<u>(50,000)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>(50,000)</u>
Net Change in Fund Balances	1,975	(41,935)
Fund Balances (Deficit), Beginning of Year	<u>(3,069)</u>	<u>67,242</u>
Fund Balances (Deficit), End of Year	<u>\$ (1,094)</u>	<u>\$ 25,307</u>

DEBT SERVICE FUNDS			CAPITAL PROJECTS FUND	Total Non-Major Governmental Funds
Beach & Village Lot II Debt Financing	Pacific Cove Debt Financing	2007 POB Debt Service	Library	
\$ -	\$ -	\$ -	\$ -	\$ 221,561
-	-	-	-	17,221
-	-	-	23,300	183,254
-	-	-	-	106,072
161	1,115	-	-	82,730
-	-	-	-	8,775
161	1,115	-	23,300	619,613
1,000	49,350	1,500	27,487	96,076
-	-	-	-	144,213
-	-	-	-	277,635
-	-	-	-	82,447
-	-	-	-	346,566
-	-	-	-	22,415
56,284	127,563	575,000	-	764,184
33,091	37,502	92,704	-	163,297
90,375	214,415	669,204	27,487	1,896,833
(90,214)	(213,300)	(669,204)	(4,187)	(1,277,220)
89,400	214,416	669,204	-	1,091,920
-	(200,000)	-	-	(352,305)
89,400	14,416	669,204	-	739,615
(814)	(198,884)	-	(4,187)	(537,605)
(38,371)	330,404	481,532	-	1,252,067
\$ (39,185)	\$ 131,520	\$ 481,532	\$ (4,187)	\$ 714,462

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CITY OF CAPITOLA
Supplemental Law Enforcement Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2016

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Intergovernmental	\$ 185,076	\$ 185,076	\$ 142,616	\$ (42,460)
Use of money and property	200	200	452	252
Total revenues	185,276	185,276	143,068	(42,208)
Expenditures:				
Current:				
Public safety	142,166	184,586	144,213	40,373
Total expenditures	142,166	184,586	144,213	40,373
Excess (deficiency) of revenues over (under) expenditures	43,110	690	(1,145)	(1,835)
Other financing sources (uses):				
Transfers out	(4,610)	(4,610)	(2,305)	2,305
Total other financing sources (uses)	(4,610)	(4,610)	(2,305)	2,305
Net change in fund balance	38,500	(3,920)	(3,450)	470
Fund balance, beginning	101,271	101,271	101,271	-
Fund balance, ending	\$ 139,771	\$ 97,351	\$ 97,821	\$ 470

CITY OF CAPITOLA
Gas Tax Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2016

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Taxes	\$ 222,000	\$ 335,200	\$ 221,561	\$ (113,639)
Use of money and property	-	-	232	232
Other revenue	-	6,775	6,775	-
Total revenues	222,000	341,975	228,568	(113,407)
Expenditures:				
Current:				
Transportation	272,500	409,000	346,566	62,434
Debt service:				
Principal	5,400	5,400	5,337	63
Total expenditures	277,900	414,400	351,903	62,497
Net change in fund balance	(55,900)	(72,425)	(123,335)	(50,910)
Fund balance, beginning	83,211	83,211	83,211	-
Fund balance (deficit), ending	\$ 27,311	\$ 10,786	\$ (40,124)	\$ (50,910)

CITY OF CAPITOLA
Wharf Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2016

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Use of money and property	\$ 86,200	\$ 86,200	\$ 80,471	\$ (5,729)
Total revenues	86,200	86,200	80,471	(5,729)
Expenditures:				
Current:				
General government	-	-	7,456	(7,456)
Culture and recreation	86,150	139,450	82,447	57,003
Total expenditures	86,150	139,450	89,903	49,547
Net change in fund balance	50	(53,250)	(9,432)	43,818
Fund balance, beginning	93,858	93,858	93,858	-
Fund balance, ending	\$ 93,908	\$ 40,608	\$ 84,426	\$ 43,818

CITY OF CAPITOLA
Parking Reserve Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2016

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Capital outlay	-	22,900	22,415	485
Total expenditures	-	22,900	22,415	485
Excess (deficiency) of revenues over (under) expenditures	-	(22,900)	(22,415)	485
Other financing sources (uses):				
Transfers in	100,000	118,900	118,900	-
Transfers out	(100,000)	(100,000)	(100,000)	-
Total other financing sources (uses)	-	18,900	18,900	-
Net change in fund balance	-	(4,000)	(3,515)	485
Fund balance, beginning	4,252	4,252	4,252	-
Fund balance, ending	\$ 4,252	\$ 252	\$ 737	\$ 485

-

CITY OF CAPITOLA
Technology Fees Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2016

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Charges for services	\$ 9,500	\$ 9,500	\$ 12,670	\$ 3,170
Total revenues	9,500	9,500	12,670	3,170
Expenditures:				
Current:				
Community development	16,000	16,000	13,248	2,752
Total expenditures	16,000	16,000	13,248	2,752
Net change in fund balance	(6,500)	(6,500)	(578)	5,922
Fund balance, beginning	50,154	50,154	50,154	-
Fund balance, ending	<u>\$ 43,654</u>	<u>\$ 43,654</u>	<u>\$ 49,576</u>	<u>\$ 5,922</u>

CITY OF CAPITOLA
PEG Cable TV Access Fee Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2016

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Licenses and permits	\$ 17,000	\$ 17,000	\$ 17,221	\$ 221
Use of money and property	50	75	201	126
Total revenues	17,050	17,075	17,422	347
Expenditures:				
Current:				
General government	7,500	7,500	9,283	(1,783)
Capital outlay	15,000	15,000	-	15,000
Total expenditures	22,500	22,500	9,283	13,217
Net change in fund balance	(5,450)	(5,425)	8,139	13,564
Fund balance, beginning	50,086	50,086	50,086	-
Fund balance, ending	\$ 44,636	\$ 44,661	\$ 58,225	\$ 13,564

CITY OF CAPITOLA
Capitola Village and Wharf BIA Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
Revenues:				
Charges for services	\$ 65,000	\$ 69,000	\$ 70,374	\$ 1,374
Use of money and property	-	35	98	63
Total revenues	<u>65,000</u>	<u>69,035</u>	<u>70,472</u>	<u>1,437</u>
Expenditures:				
Current:				
Community development	<u>67,200</u>	<u>78,271</u>	<u>71,310</u>	<u>6,961</u>
Total expenditures	<u>67,200</u>	<u>78,271</u>	<u>71,310</u>	<u>6,961</u>
Net change in fund balance	(2,200)	(9,236)	(838)	8,398
Fund balance, beginning	<u>838</u>	<u>838</u>	<u>838</u>	<u>-</u>
Fund balance (deficit), ending	<u>\$ (1,362)</u>	<u>\$ (8,398)</u>	<u>\$ -</u>	<u>\$ 8,398</u>

CITY OF CAPITOLA
CDBG Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Revenues:				
Intergovernmental	<u>\$ 500,000</u>	<u>\$ 500,000</u>	<u>\$ 17,338</u>	<u>\$ (482,662)</u>
Total revenues	<u>500,000</u>	<u>500,000</u>	<u>17,338</u>	<u>(482,662)</u>
Expenditures:				
Current:				
Community development	<u>485,000</u>	<u>500,000</u>	<u>178,089</u>	<u>321,911</u>
Total expenditures	<u>485,000</u>	<u>500,000</u>	<u>178,089</u>	<u>321,911</u>
Net change in fund balance	15,000	-	(160,751)	(160,751)
Fund balance, beginning	<u>30,659</u>	<u>30,659</u>	<u>30,659</u>	<u>-</u>
Fund balance (deficit), ending	<u><u>\$ 45,659</u></u>	<u><u>\$ 30,659</u></u>	<u><u>\$ (130,092)</u></u>	<u><u>\$ (160,751)</u></u>

CITY OF CAPITOLA
Affordable Housing Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2016

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Charges for services	\$ 15,000	\$ 10,000	\$ 23,028	\$ 13,028
Total revenues	15,000	10,000	23,028	13,028
Expenditures:				
Current:				
Community development	15,000	15,000	14,963	37
Total expenditures	15,000	15,000	14,963	37
Excess (deficiency) of revenues over (under) expenditures	-	(5,000)	8,065	13,065
Other financing sources (uses):				
Transfers out	(50,000)	(50,000)	(50,000)	-
Total other financing sources (uses)	(50,000)	(50,000)	(50,000)	-
Net change in fund balance	(50,000)	(55,000)	(41,935)	13,065
Fund balance, beginning	67,242	67,242	67,242	-
Fund balance, ending	\$ 17,242	\$ 12,242	\$ 25,307	\$ 13,065

CITY OF CAPITOLA
Beach & Village Lot II Debt Financing
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2016

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Use of money and property	\$ -	\$ -	\$ 161	\$ 161
Total revenues	-	-	161	161
Expenditures:				
Current:				
General government	-	1,000	1,000	-
Debt service:				
Principal	56,284	56,284	56,284	-
Interest and fiscal charges	33,091	33,091	33,091	-
Total expenditures	89,375	90,375	90,375	-
Excess (deficiency) of revenues over (under) expenditures	(89,375)	(90,375)	(90,214)	161
Other financing sources:				
Transfers in	89,400	89,400	89,400	-
Total other financing sources	89,400	89,400	89,400	-
Net change in fund balance	25	(975)	(814)	161
Fund balance (deficit), beginning	(38,371)	(38,371)	(38,371)	-
Fund balance (deficit), ending	<u>\$ (38,346)</u>	<u>\$ (39,346)</u>	<u>\$ (39,185)</u>	<u>\$ 161</u>

CITY OF CAPITOLA
Pacific Cove Debt Financing Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2016

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Use of money and property	\$ -	\$ 450	\$ 1,115	\$ 665
Total revenues	-	450	1,115	665
Expenditures:				
Current:				
General government	-	49,350	49,350	-
Debt service:				
Principal	96,195	127,563	127,563	-
Interest and fiscal charges	68,861	37,502	37,502	-
Total expenditures	165,056	214,415	214,415	-
Excess (deficiency) of revenues over (under) expenditures	(165,056)	(213,965)	(213,300)	665
Other financing sources:				
Transfers in	165,065	214,416	214,416	-
Transfers out	-	(200,000)	(200,000)	-
Total other financing sources	165,065	14,416	14,416	-
Net change in fund balance	9	(199,549)	(198,884)	665
Fund balance, beginning	330,404	330,404	330,404	-
Fund balance, ending	\$ 330,413	\$ 130,855	\$ 131,520	\$ 665

CITY OF CAPITOLA
2007 POB Debt Service Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2016

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Current:				
General government	1,500	1,500	1,500	-
Debt service:				
Principal	575,000	575,000	575,000	-
Interest and fiscal charges	92,704	92,704	92,704	-
Total expenditures	669,204	669,204	669,204	-
Excess (deficiency) of revenues over (under) expenditures	(669,204)	(669,204)	(669,204)	-
Other financing sources:				
Transfers in	669,204	669,204	669,204	-
Total other financing sources	669,204	669,204	669,204	-
Net change in fund balance	-	-	-	-
Fund balance, beginning	481,532	481,532	481,532	-
Fund balance, ending	\$ 481,532	\$ 481,532	\$ 481,532	\$ -

CITY OF CAPITOLA
Library Capital Project Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Revenues:				
Intergovernmental	<u>\$ -</u>	<u>\$ 23,980</u>	<u>\$ 23,300</u>	<u>\$ (680)</u>
Total revenues	<u>-</u>	<u>23,980</u>	<u>23,300</u>	<u>(680)</u>
Expenditures:				
Current:				
General government	<u>-</u>	<u>39,980</u>	<u>27,487</u>	<u>12,493</u>
Total expenditures	<u>-</u>	<u>39,980</u>	<u>27,487</u>	<u>12,493</u>
Net change in fund balance	<u>-</u>	<u>(16,000)</u>	<u>(4,187)</u>	<u>11,813</u>
Fund balance, beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance (deficit), ending	<u><u>\$ -</u></u>	<u><u>\$ (16,000)</u></u>	<u><u>\$ (4,187)</u></u>	<u><u>\$ 11,813</u></u>

CITY OF CAPITOLA
Statement of Changes in Fiduciary Assets and Liabilities
Fiduciary Funds – Agency Funds
Year Ended June 30, 2016

	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
<u>BROOKVALE ASSESSMENT DISTRICT</u>				
Assets				
Cash and investments	\$ 16,022	\$ 83	\$ 15	\$ 16,090
Total assets	<u>\$ 16,022</u>	<u>\$ 83</u>	<u>\$ 15</u>	<u>\$ 16,090</u>
Liabilities				
Deposits	\$ 16,022	\$ 83	\$ 15	\$ 16,090
Total liabilities	<u>\$ 16,022</u>	<u>\$ 83</u>	<u>\$ 15</u>	<u>\$ 16,090</u>
<u>AUTO CENTER ASSESSMENT DISTRICT</u>				
Assets				
Cash and investments	\$ 20,397	\$ 106	\$ 19	\$ 20,484
Total assets	<u>\$ 20,397</u>	<u>\$ 106</u>	<u>\$ 19</u>	<u>\$ 20,484</u>
Liabilities				
Deposits	\$ 20,397	\$ 106	\$ 19	\$ 20,484
Total liabilities	<u>\$ 20,397</u>	<u>\$ 106</u>	<u>\$ 19</u>	<u>\$ 20,484</u>
<u>TOTALS - ALL AGENCY FUNDS</u>				
Assets				
Cash and investments	\$ 36,419	\$ 189	\$ 34	\$ 36,574
Total assets	<u>\$ 36,419</u>	<u>\$ 189</u>	<u>\$ 34</u>	<u>\$ 36,574</u>
Liabilities				
Deposits	\$ 36,419	\$ 189	\$ 34	\$ 36,574
Total liabilities	<u>\$ 36,419</u>	<u>\$ 189</u>	<u>\$ 34</u>	<u>\$ 36,574</u>

CITY OF CAPITOLA
Comprehensive Annual Financial Report
Statistical Section (Unaudited)
Table of Contents
Fiscal year ended June 30, 2016

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.

- 2016- 1 Net Position by Component
- 2016- 2 Changes in Net Position
- 2016- 3 Fund Balances of Government Funds
- 2016- 4 Changes in Fund Balances of Governmental Funds
- 2016- 5 General Revenues By Source

Revenue Capacity

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

- 2016- 6 Net Taxable Assessed Value History
- 2016- 7 Assessed Value of Taxable Property
- 2016- 8 Direct & Overlapping Property Tax Rates
- 2016- 9 Top Ten Property Taxpayers
- 2016- 10 Property Tax Levies and Collections
- 2016- 11 Top 25 Sales Tax Taxpayers

Debt Capacity

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

- 2016- 12 Ratios of Outstanding Debt by Type
- 2016- 13 Ratios of General Bonded Debt Outstanding
- 2016- 14 Direct and Overlapping Debt
- 2016- 15 Legal Debt Margin Information
- 2016- 16 Pledged-Revenue Coverage

Demographic and Economic Information

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

- 2016- 17 Demographic and Economic Statistics
- 2016- 18 Principal Employers - Top Ten
- 2016- 19 Full-time and Part-time City Employees by Function

Operating Information

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

- 2016- 20 Operating Indicators by Function
- 2016- 21 Capital Asset Statistics by Function

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*	2016
Primary government activities												
Net Investment in												
Capital Assets	\$ 15,006	\$ 14,572	\$ 15,650	\$ 15,636	\$ 15,659	\$ 15,598	\$ 15,054	\$ 11,918	\$ 11,521	\$ 12,751	\$ 11,604	\$ 13,154
Restricted for												
Public Safety	-	-	14	4	-	-	10	51	101	119	101	98
Transportation	-	42	602	464	73	63	184	2,445	1,513	416	393	113
Community Development	2,157	3,310	3,633	1,717	1,107	1,317	1,256	1,141	3,511	3,852	6,357	6,599
Culture and Recreation	-	-	-	-	-	-	185	88	77	116	141	143
Total Restricted	\$ 2,157	\$ 3,352	\$ 4,249	\$ 2,185	\$ 1,180	\$ 1,380	\$ 1,635	\$ 3,725	\$ 5,202	\$ 4,503	\$ 6,992	\$ 6,953
Unrestricted	1,944	4,732	5,135	3,191	3,435	4,575	3,249	4,134	4,893	5,957	(9,381)	(8,884)
Total Primary govt net position	<u>\$ 19,107</u>	<u>\$ 22,656</u>	<u>\$ 25,034</u>	<u>\$ 21,012</u>	<u>\$ 20,274</u>	<u>\$ 21,553</u>	<u>\$ 19,938</u>	<u>\$ 19,777</u>	<u>\$ 21,616</u>	<u>\$ 23,211</u>	<u>\$ 9,215</u>	<u>\$ 11,223</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

2016-1

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

	Fiscal Year				
	2007	2008	2009	2010	2011
EXPENSES:					
Primary government activities					
General government	\$ 4,343	\$ 4,398	\$ 4,482	\$ 5,103	\$ 5,453
Public safety	5,733	5,298	5,927	5,533	5,422
Community development	1,550	2,193	2,218	2,428	2,068
Culture and recreation	1,596	1,658	1,035	1,025	995
Transportation	1,697	1,522	2,530	1,932	2,445
Interest and other charges	190	589	533	509	448
Total primary government expenses	\$ 15,109	\$ 15,658	\$ 16,725	\$ 16,530	\$ 16,831
PROGRAM REVENUES:					
Primary government activities					
Charges for services:					
General government	\$ 705	\$ 794	\$ 658	\$ 806	\$ 759
Public safety	688	736	905	1,009	902
Community development	1,469	1,153	1,617	2,266	1,077
Culture and recreation	749	726	709	696	655
Transportation	18	13	34	53	54
Operating grants and contributions	1,010	1,420	286	1,469	1,040
Capital grants and contributions	514	-	527	388	421
Total primary govt program revenues	\$ 5,153	\$ 4,842	\$ 4,736	\$ 6,687	\$ 4,908
NET PRIMARY GOVT REV/(EXP)	\$ (9,956)	\$ (10,816)	\$ (11,989)	\$ (9,843)	\$ (11,923)
GENERAL REVENUES AND OTHER CHANGES IN NET POSITION:					
Primary government activities					
Taxes:					
Property Taxes	\$ 3,916	\$ 4,034	\$ 4,147	\$ 4,066	\$ 4,107
Transaction and Use Tax (.25%)	1,048	1,016	788	928	850
Sales and Use tax	4,174	3,939	2,858	3,289	3,002
Transient occupancy taxes	604	644	605	592	602
Franchise taxes	438	437	459	462	477
Business license tax	326	299	278	282	267
Other taxes	-	-	-	-	-
Intergovernmental	1,421	1,507	1,417	979	1,323
Investment income	287	379	394	238	185
Other general revenues	120	452	305	287	289
Transfers	-	-	-	-	-
Extraordinary Item	-	-	-	-	(795)
Total primary government activities	\$ 12,334	\$ 12,707	\$ 11,251	\$ 11,123	\$ 10,307
CHANGES IN NET POSITION:					
Total primary government activities	\$ 2,378	\$ 1,891	\$ (738)	\$ 1,280	\$ (1,616)

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

* 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.

Source: City of Capitola Finance Department

		Fiscal Year			
2012		2013	2014	2015*	2016
\$	4,851	\$ 4,862	\$ 3,403	\$ 3,582	\$ 3,557
	5,491	5,411	5,412	6,181	6,211
	3,471	727	741	809	1,076
	1,010	1,398	970	974	1,150
	2,556	2,456	3,070	2,866	3,218
	419	288	211	217	158
\$	17,798	\$ 15,142	\$ 13,807	\$ 14,629	\$ 15,370
\$	1,059	\$ 948	\$ 1,109	\$ 1,012	\$ 970
	759	732	782	806	701
	1,145	523	683	633	727
	751	685	749	765	751
	166	145	131	120	112
	3,131	2,292	313	657	400
	-	3	15	12	511
\$	7,011	\$ 5,328	\$ 3,782	\$ 4,005	\$ 4,172
\$	(10,787)	\$ (9,814)	\$ (10,025)	\$ (10,624)	\$ (11,198)
\$	2,993	\$ 1,778	\$ 1,849	\$ 2,041	\$ 2,194
	932	1,510	-	-	-
	3,322	4,531	2,036	7,330	7,860
	913	1,074	1,263	1,276	1,452
	483	479	497	508	524
	281	292	287	284	298
	-	-	-	-	-
	947	241	327	265	226
	190	131	107	119	227
	309	497	238	242	424
	-	-	-	-	-
	380	1,118	-	-	-
\$	10,750	\$ 11,651	\$ 6,604	\$ 12,065	\$ 13,205
\$	(37)	\$ 1,837	\$ (3,421)	\$ 1,441	\$ 2,007

2016-2

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
GENERAL FUND										
Reserved										
Prepaid	\$ -	\$ -	\$ 21	\$ 116	Represented below per GASB 54					
Advances	1,968	1,968	1,968	1,968						
Total Reserved	\$ 1,968	\$ 1,968	\$ 1,989	\$ 2,084						
Unreserved										
Designated	\$ 3,467	\$ 3,185	\$ 2,659	\$ 2,928						
Unrestricted	1,342	1,350	1,350	1,350	Pre-GASB 54 balances stated above					
Total Unreserved	\$ 4,809	\$ 4,535	\$ 4,009	\$ 4,278						
Fund Balance GASB 54										
Nonspendable					\$ 1,973	\$ 1,970	\$ 2,024	\$ 620	\$ 618	\$ 524
Restricted					-	-	-	-	-	-
Committed					-	-	-	-	-	-
Assigned					-	-	570	584	1,049	1,262
Unassigned					2,786	2,608	2,846	3,686	4,338	4,899
Total General Fund	\$ 6,777	\$ 6,503	\$ 5,998	\$ 6,362	\$ 4,759	\$ 4,578	\$ 5,440	\$ 4,890	\$ 6,005	\$ 6,685
ALL OTHER GOVERNMENT FUNDS										
Reserved										
Low income housing	\$ 1,808	\$ -	\$ -	\$ -	Represented below per GASB 54					
Debt service	608	-	-	-						
Total Reserved	\$ 2,416	\$ -	\$ -	\$ -						
Unreserved, reported in:										
Unrestricted	\$ -	\$ -	\$ -	\$ -						
Special revenue funds	938	3,423	2,976	1,643	Pre-GASB 54 balances state above					
Capital project funds	440	1,874	1,322	627						
Debt service funds	-	-	-	1,458						
Total Unreserved	\$ 1,378	\$ 5,297	\$ 4,298	\$ 3,728						
Fund Balance GASB 54										
Nonspendable					\$ 109	\$ 586	\$ -	\$ -	\$ -	\$ -
Restricted					1,705	1,858	1,497	1,043	985	736
Committed					-	-	-	-	-	-
Assigned					1,564	1,045	1,046	1,764	2,457	2,745
Unassigned					(19)	(148)	(19)	(2)	(41)	(215)
Total All Other Govt Funds	\$ 3,794	\$ 5,297	\$ 4,298	\$ 3,728	\$ 3,359	\$ 3,341	\$ 2,524	\$ 2,805	\$ 3,401	\$ 3,266
TOTAL	\$ 10,571	\$ 11,800	\$ 10,296	\$ 10,090	\$ 8,118	\$ 7,919	\$ 7,964	\$ 7,695	\$ 9,406	\$ 9,951

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

Source: City of Capitola Finance Department

2016-3

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

	Fiscal Year					
	2007	2008	2009	2010	2011	2012
REVENUES:						
Taxes	\$ 12,047	\$ 12,008	\$ 10,239	\$ 10,285	\$ 10,335	\$ 9,878
Licenses & permits	255	270	664	609	474	630
Intergovernmental	1,225	1,121	1,745	2,932	2,426	2,755
Fines and forfeitures	639	672	702	803	702	724
Charges for services	2,263	2,467	1,744	1,380	1,278	1,907
Use of money and property	971	1,046	812	595	492	403
Other	89	434	178	163	173	90
Total revenues	\$ 17,489	\$ 18,018	\$ 16,084	\$ 16,767	\$ 15,880	\$ 16,387
EXPENSES:						
Current:						
General government	\$ 3,583	\$ 3,672	\$ 3,591	\$ 4,232	\$ 4,483	\$ 4,034
Public safety	5,631	5,246	5,869	5,441	5,468	5,436
Community development	1,831	2,324	2,362	2,338	1,986	3,458
Culture and recreation	1,564	1,630	1,009	986	1,009	1,041
Transportation	1,690	1,476	2,575	2,017	2,294	2,204
Capital outlay	1,858	1,015	1,224	847	665	757
Subtotal	\$ 16,157	\$ 15,363	\$ 16,630	\$ 15,861	\$ 15,905	\$ 16,930
Debt service:						
Debt issuance costs	\$ -	\$ 125	\$ -	\$ -	\$ -	\$ 43
Principal retirement	91	123	499	535	704	673
Interest and agent fees	170	471	529	507	447	394
Subtotal	\$ 261	\$ 719	\$ 1,028	\$ 1,042	\$ 1,151	\$ 1,110
Total expenditures	\$ 16,418	\$ 16,082	\$ 17,658	\$ 16,903	\$ 17,056	\$ 18,040
Excess/(deficiency) of revenues over/(under) expenditures	\$ 1,071	\$ 1,936	\$ (1,574)	\$ (136)	\$ (1,176)	\$ (1,653)
OTHER FINANCING SOURCES/(USES):						
Sale of capital assets	\$ -	\$ 166	\$ -	\$ -	\$ -	\$ 2,390
Transfers in	1,764	2,754	1,775	1,337	1,945	2,272
Transfers out	(1,764)	(2,754)	(1,775)	(1,337)	(1,945)	(2,272)
Issuance of bonds	-	5,040	-	-	-	-
Payment to bond escrow agent	-	-	-	-	-	-
Total other financing sources/(uses)	\$ -	\$ 5,206	\$ -	\$ -	\$ -	\$ 2,390
Special Items						
Flood Disaster loss/recovery	\$ -	\$ -	\$ -	\$ -	\$ (795)	\$ (623)
Prefunding of PERS liability	-	(5,913)	-	-	-	-
Gain/Loss on RDA dissolution	-	-	-	-	-	(190)
Net change in fund balances	\$ 1,071	\$ 1,229	\$ (1,574)	\$ (136)	\$ (1,971)	\$ (76)
Beginning fund balance, as restated	\$ 9,500	\$ 10,571	\$ 11,800	\$ 10,226	\$ 10,090	\$ 7,995
Changes in fund balance	1,071	1,229	(1,574)	(136)	(1,971)	(75)
Ending fund balance	\$ 10,571	\$ 11,800	\$ 10,226	\$ 10,090	\$ 8,119	\$ 7,920
Debt Service as a percentage of non-capital expenditures						
Total Expenditures	\$ 16,418	\$ 16,082	\$ 17,658	\$ 16,903	\$ 17,056	\$ 18,040
Capitalized Portion of Capital Outlay	2,049	958	1,220	888	430	824
Total Non-Capitalized Expenditures	\$ 14,369	\$ 15,124	\$ 16,438	\$ 16,015	\$ 16,626	\$ 17,216
Debt service: Principal & Interest	261	594	1,028	1,042	1,151	1,067
Debt service as a percentage of noncapital expenditures	1.82%	3.93%	6.25%	6.51%	6.92%	6.20%

NOTES: The City of Capitola implemented GASB 34 for the fiscal year ended June 30, 2003.
Debt service as a percentage of noncapital expenditures reflects total governmental fund expenditures less the capital outlay shown separately in the Changes in Fund Balances schedule and any expenditures for capitalized assets contained within the functional expenditure categories. The sum of these items is reported in this calculation, as well as appearing as a reconciling item in the reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Activities.

Fiscal Year			
2013	2014	2015	2016
\$ 9,607	\$ 11,112	\$ 11,416	\$ 12,250
520	703	629	671
837	637	757	656
688	731	671	787
1,862	2,053	2,078	2,165
235	219	228	324
238	128	132	328
<u>\$ 13,987</u>	<u>\$ 15,583</u>	<u>\$ 15,911</u>	<u>\$ 17,181</u>
\$ 3,865	\$ 2,749	\$ 2,443	\$ 2,712
5,369	5,838	5,917	6,134
712	722	823	1,005
1,118	966	978	1,039
2,157	2,782	2,577	2,744
551	3,328	535	2,074
<u>\$ 13,772</u>	<u>\$ 16,385</u>	<u>\$ 13,273</u>	<u>\$ 15,708</u>
\$ 38	\$ 12	\$ -	\$ -
1,031	616	699	764
320	210	229	163
<u>\$ 1,389</u>	<u>\$ 838</u>	<u>\$ 928</u>	<u>\$ 927</u>
<u>\$ 15,161</u>	<u>\$ 17,223</u>	<u>\$ 14,201</u>	<u>\$ 16,635</u>
\$ (1,174)	\$ (1,640)	\$ 1,710	\$ 546
\$ 99	\$ -	\$ -	\$ -
2,151	1,861	2,091	2,784
(2,151)	(1,861)	(2,091)	(2,784)
-	1,372	-	-
-	-	-	-
<u>\$ 99</u>	<u>\$ 1,372</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,118	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
<u>\$ 43</u>	<u>\$ (268)</u>	<u>\$ 1,710</u>	<u>\$ 546</u>
\$ 7,920	\$ 7,963	\$ 7,695	\$ 9,405
43	(268)	1,710	546
<u>\$ 7,963</u>	<u>\$ 7,695</u>	<u>\$ 9,405</u>	<u>\$ 9,951</u>
\$ 15,161	\$ 17,223	\$ 14,200	\$ 16,636
306	3,809	(153)	2,079
<u>\$ 14,855</u>	<u>\$ 13,414</u>	<u>\$ 14,353</u>	<u>\$ 14,557</u>
1,351	826	928	928
9.09%	6.16%	6.47%	6.37%

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
2007	\$ 6,579,908	\$ 3,915,955	\$ 603,997	\$ 438,412	\$ 325,946	\$ 287,069	\$ 183,019	\$ 12,334,306
2008	6,417,075	4,033,686	643,541	437,065	299,394	379,439	497,094	12,707,294
2009	4,859,096	4,147,459	605,365	459,042	277,959	394,135	507,957	11,251,013
2010	4,993,844	4,065,897	591,925	461,937	281,739	237,926	489,162	11,122,430
2011	4,890,518	4,107,291	601,726	477,084	266,948	185,346	573,436	11,102,349
2012	5,200,303	2,993,125	912,851	482,782	281,336	190,390	309,110	10,369,897
2013	6,040,542	1,778,037	1,074,507	478,627	291,642	131,166	398,320	10,192,841
2014	7,179,727	1,849,375	1,263,175	496,759	286,638	107,218	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

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

2016-5

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

City of Capitola

Fiscal Year	Secured	Unsecured	SBE Nonunitary	Total Assessed Value	% Change
2007	\$ 1,511,826	\$ 68,819	\$ 1,330	\$ 1,581,975	8.95%
2008	1,624,095	71,157	748	1,696,000	7.21%
2009	1,681,379	73,387	748	1,755,514	3.51%
2010	1,689,396	67,883	889	1,758,168	0.15%
2011	1,701,476	70,118	579	1,772,173	0.80%
2012	1,717,637	66,695	579	1,784,911	0.72%
2013	1,726,023	71,136	83	1,797,242	0.69%
2014	1,784,629	75,387	84	1,860,100	3.50%
2015	1,906,637	81,887	84	1,988,608	6.91%
2016	2,026,035	76,862	83	2,102,980	5.75%

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 2015-16 Combined Tax Rolls

2016-6

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

Category	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Residential	\$ 1,089,341	\$ 1,164,558	\$ 1,212,668	\$ 1,209,657	\$ 1,224,372	\$ 1,241,453	\$ 1,233,173	\$ 1,289,844	\$ 1,413,964	1,515,227
Commercial	327,341	341,720	350,240	363,033	367,656	369,399	387,425	384,916	379,721	392,427
Industrial	13,881	14,558	14,849	15,146	15,520	14,239	13,869	14,079	14,130	14,437
Institutional	14,582	14,905	13,345	14,748	16,950	14,788	15,078	14,662	14,716	15,134
Miscellaneous	5	5	5	114	5	6	6	6	6	6
Recreational	5,171	6,895	9,946	10,145	10,121	10,197	10,401	10,609	8,844	9,705
Vacant	19,184	34,619	30,120	24,165	13,773	13,303	13,370	13,823	14,934	15,263
SBE Nonunitary	1,330	748	748	889	579	579	83	84	84	83
Cross Reference	42,321	46,835	50,206	52,388	53,079	54,252	52,701	56,690	60,322	63,836
Unsecured	68,819	71,157	73,387	67,883	70,118	66,695	71,136	75,387	81,887	76,862
TOTALS	\$ 1,581,975	\$ 1,696,000	\$ 1,755,514	\$ 1,758,168	\$ 1,772,173	\$ 1,784,911	\$ 1,797,242	\$ 1,860,100	\$ 1,988,608	\$ 2,102,980
Exempt	(1,330)	(748)	(748)	(889)	(579)	(579)	(83)	(84)	(84)	(83)
Total Direct Property Tax Rate	0.18133	0.17950	0.18062	0.18468	0.18456	0.17987	0.18035	0.05510	0.05461	0.05456

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 2006-07 - 2015-16 Combined Tax Rolls.

2016-7

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
City Direct Property Tax Rates										
Basic Levy ⁽¹⁾	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
Redevelopment Rate ⁽²⁾	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	(2)	n/a	n/a	n/a
Total Direct Property Tax Rate ⁽³⁾	0.18133	0.17950	0.18062	0.18468	0.18456	0.17987	0.18035	0.05510	0.05461	0.05456
Overlapping Property Tax Rates ⁽⁴⁾										
Santa Cruz High School	0.01367	0.01924	0.02274	0.02798	0.02336	0.02602	0.02615	0.02333	0.02087	0.01961
Soquel Elementary School	0.02114	0.02772	0.02320	0.02364	0.02435	0.02406	0.02435	0.02238	0.02045	0.01846
Live Oak Elementary School	0.05187	0.04776	0.04842	0.04939	0.05246	0.05295	0.05514	0.05383	0.05279	0.04600
Cabrillo College	0.02670	0.03000	0.03324	0.03598	0.03609	0.03896	0.04048	0.04047	0.03694	0.03669
Total Overlapping Property Tax Rate ⁽³⁾	0.11338	0.12472	0.12760	0.13699	0.13626	0.14199	0.14612	0.14001	0.13105	0.12076
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⁾	0.18133	0.17950	0.18062	0.18468	0.18456	0.17987	0.18035	0.05510	0.05461	0.05456
Total Direct & Overlapping Rate	1.11338	1.12472	1.12760	1.13699	1.13626	1.14199	1.14612	1.14001	1.13105	1.12076

NOTES:

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

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

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

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

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

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

2016-8

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

Taxpayer	2016			2007		
	2016 Net Assessed Valuation	Rank	Percent of Total City Net Assessed Valuation	2007 Net Assessed Valuation	Rank	Percent of Total City Net Assessed Valuation
MGP XI Capitola LLC	\$ 68,831,276	1	3.27%			
Target Corporation	\$ 18,192,569	2	0.87%			
Aspromonte Hotels LLC	\$ 17,870,004	3	0.85%			
George Ow Jr Trustees et al	\$ 14,272,297	4	0.68%	\$ 12,831,620	3	0.81%
Santa Cruz Seaside Company	\$ 13,659,889	5	0.65%			
Brown Ranch Properties	\$ 11,379,740	6	0.54%	\$ 10,007,947	5	0.63%
BLAI LP	\$ 10,732,951	7	0.51%			
Melanie Kett Wirtanen Trustee	\$ 8,481,238	8	0.40%			
850 Rosedale LLC	\$ 8,268,039	9	0.39%			
Loma Vista Estates Owners Assoc Inc	\$ 7,203,115	10	0.34%			
Macerich Partnership LP				\$ 63,263,622	1	4.00%
Baskin Properties LLC				\$ 14,258,073	2	0.90%
Paul and Koula Pries				\$ 10,525,108	4	0.67%
Values Pacific				\$ 9,411,967	6	0.59%
Macys West Inc				\$ 9,246,775	7	0.58%
Harry L. and Anna Jenkins				\$ 8,650,535	8	0.55%
Crossroads Associates				\$ 6,604,614	9	0.42%
Sears Roebuck and Company				6,360,744	10	0.40%
	<u>\$ 178,891,118</u>		<u>8.51%</u>	<u>\$ 151,161,005</u>		<u>9.56%</u>
Memo: Gross Assessed Value	\$ 2,102,979,928		100.00%	\$ 1,581,975,060		100.00%

Source: HdL Companies, Santa Cruz County Assessor 2006-07 & 2015-16 Combined Tax Rolls and the SBE Non Unitary Tax Roll

2016-9

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
2007	\$ 2,605,158	\$ 2,605,158	100%	-	\$ 2,605,158	100%
2008	2,715,388	2,715,388	100%	-	2,715,388	100%
2009	2,851,724	2,851,724	100%	-	2,851,724	100%
2010	2,783,546	2,783,546	100%	-	2,783,546	100%
2011	2,813,554	2,813,554	100%	-	2,813,554	100%
2012	1,900,533	1,900,533	100%	-	1,900,533	100%
2013	899,974	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%

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 2016 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.

2016-10

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

TOP 25 SALES TAX TAXPAYERS

As of June 30, 2016

AT&T Mobility
Bed Bath & Beyond
Beverages & More
Chevron Service Station - AJ's Fuel Market
Chevron Service Station - Chevron USA
CVS - combined stores
Gayle's Bakery and Rosticceria
Kohls
Macy's Department Store
Nob Hill General Stores
O'Neill Surf Shop
Orchard Supply Hardware
Ross Stores
Santa Cruz Mazda
Sears Roebuck & Company
Shadowbrook Restaurant
Shell Service Stations
Sierra Utility Sales
Target
Toyota of Santa Cruz
Trader Joe's
Union 76 Service Station
Verizon Wireless
Whole Foods
Zelda's Restaurant

NOTES:

Information presented is as of June, 2016. It is alphabetical and is not indicative of relative nor total sales volume.

Source: California State Board of Equalization

2016-11

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

Fiscal Year Ended June 30	Government/Total Primary Government Activities				Total Outstanding Debt as a % of Total Personal Income	Debt per Capita
	General Obligation Bonds	Lease Revenue Bonds	Other debt	Tot. Gov't./ Primary Gov't. Activities		
2007	\$ -	\$ -	\$ 2,845,520	\$ 2,845,520	0.94%	362
2008	5,040,000	-	2,940,896	7,980,896	2.14%	877
2009	4,670,000	-	2,892,819	7,562,819	1.19%	495
2010	4,265,000	-	2,848,029	7,113,029	2.00%	795
2011	3,830,000	-	2,667,940	6,497,940	2.23%	723
2012	3,375,000	-	2,428,249	5,803,249	2.02%	670
2013	2,890,000	-	1,882,273	4,772,273	1.73%	579
2014	2,375,000	-	3,153,788	5,528,788	1.83%	645
2015	1,830,000	-	3,000,243	4,830,243	1.62%	590
2016	1,255,000	-	3,236,524	4,491,524	1.49%	560

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

Source: City of Capitola Financial Statements

2016-12

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

Fiscal Year Ended June 30	Government/Total Primary Government Activities				Total Outstanding Debt to Personal Income	Debt per Capita
	General Obligation Bonds	Lease Revenue Bonds	Other debt	Tot. Gov't./ Primary Gov't. Activities		
2007	\$ -	\$ -	\$ 2,845,520	\$ 2,845,520	0.94%	362
2008	5,040,000	-	2,940,896	7,980,896	2.14%	877
2009	4,670,000	-	2,892,819	7,562,819	1.19%	495
2010	4,265,000	-	2,848,029	7,113,029	2.00%	795
2011	3,830,000	-	2,667,940	6,497,940	2.23%	723
2012	3,375,000	-	2,428,249	5,803,249	2.02%	670
2013	2,890,000	-	1,882,273	4,772,273	1.73%	579
2014	2,375,000	-	3,153,788	5,528,788	1.83%	645
2015	1,830,000	-	3,000,243	4,830,243	1.62%	590
2016	1,255,000	-	3,236,524	4,491,524	1.49%	560

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 section.

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

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

Source: City of Capitola Financial Statements

2016-13

CITY OF CAPITOLA, CALIFORNIA
Direct & Overlapping Debt
Fiscal Year ended June 30, 2016

2015-16 Assessed Valuation \$ 2,103,306,534

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable ⁽¹⁾</u>	<u>Total Debt 6/30/2016</u>	<u>City's Share of Debt 6/30/2016</u>
Cabrillo Joint Community College District	5.376%	\$ 123,401,026	\$ 6,634,039
Santa Cruz City High School District	11.682%	33,799,048	3,948,405
Live Oak School District	5.996%	13,016,898	780,493
Soquel Union School District	38.988%	9,775,000	3,811,077
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		179,991,972	15,174,014

DIRECT AND OVERLAPPING GENERAL FUND DEBT:

Overlapping General Fund Debt:

Santa Cruz County Certificates of Participation	5.416%	73,987,162	4,007,145
Santa Cruz County Office of Education Certificates of Participation	5.416%	9,910,000	536,726
Live Oak School District Certificates of Participation	5.996%	12,903,973	773,722
Soquel Union School District	38.988%	945,000	368,437
Santa Cruz City Schools Certificates of Participation	11.682%	4,360,000	509,335
City of Capitola General Fund Obligations	100%	4,491,524	4,491,524
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		106,597,659	10,686,889

TOTAL DIRECT DECT

4,491,524

TOTAO OVERLAPPING DEBT

21,369,379

COMBINED TOTAL DEBT

\$ 25,860,903 ⁽²⁾

RATIOS TO 2015-16 ASSESSED VALUATION:

Total Overlapping Tax and Assessment Debt	0.72%
Total Direct Debt	0.21%
Combined Total Debt	1.23%

(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

2016-14

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

0.980354377 0.03490349 0.00331217 0.020855179
1.015257867 1.018570037 1.039425216 1.03

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Assessed Valuation	\$ 1,581,975	\$ 1,696,000	\$ 1,755,514	\$ 1,758,168	\$ 1,772,173	\$ 1,784,911	\$ 1,797,242	\$ 1,860,100	\$ 1,988,608	\$ 2,102,980
RDA Base Valuation	214,599	226,445	234,375	241,401	243,413	238,631	242,272	246,771	256,500	264,195
Adj. assessed valuation	\$ 1,367,376	\$ 1,469,555	\$ 1,521,139	\$ 1,516,767	\$ 1,528,760	\$ 1,546,280	\$ 1,554,970	\$ 1,613,329	\$ 1,732,108	\$ 1,838,785
Debt limit percentage	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Debt limit	205,106	220,433	228,171	227,515	229,314	231,942	233,246	241,999	259,816	275,818
Total net applicable debt										
Gen. obligation bonds	\$ -	\$ 5,040	\$ 4,670	\$ 4,265	\$ 3,830	\$ 3,375	\$ 2,890	\$ 2,375	\$ 1,830	\$ 1,255
Legal debt margin	\$ 205,106	\$ 215,393	\$ 223,501	\$ 223,250	\$ 225,484	\$ 228,567	\$ 230,356	\$ 239,624	\$ 257,986	\$ 274,563

Ratio of Total Net Applicable Debt to Debt Limit	0.00%	2.34%	2.09%	1.91%	1.70%	1.48%	1.25%	0.99%	0.71%	0.46%
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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

33,524

2016-15

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

Fiscal Year Ended June 30,	Other Revenue Bonds				Tax Allocation Bonds			
	Available Revenue	Debt Service			Tax Increment	Debt Service		
		Principal	Interest	Coverage		Principal	Interest	Coverage
2007	-	-	-	n/a	-	-	-	n/a
2008	-	-	-	n/a	-	-	-	n/a
2009	-	-	-	n/a	-	-	-	n/a
2010	-	-	-	n/a	-	-	-	n/a
2011	-	-	-	n/a	-	-	-	n/a
2012	-	-	-	n/a	-	-	-	n/a
2013	-	-	-	n/a	-	-	-	n/a
2014	-	-	-	n/a	-	-	-	n/a
2015	-	-	-	n/a	-	-	-	n/a
2016	-	-	-	n/a	-	-	-	n/a

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

SOURCE: City of Capitola Finance Department

2016-16

CITY OF CAPITOLA
Demographic and Economic Statistics
Last Ten Fiscal Years

Calendar Year	Population	Total Personal Income (In Thousands)	Per Capita Personal Income	Median Age	Unemployment Rate
2006	9,901	\$ 382,055	\$ 38,588	37.0	3.1%
2007	9,922	\$ 405,993	\$ 40,918	37.0	3.2%
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%

NOTES: Figures have been realigned to correctly reflect the calendar years as presented. Calendar 2016 is not complete at June 30, 2016. Therefore years 2006-2015 are shown.

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

2016-17

CITY OF CAPITOLA
Principal Employers - Top Ten
Current year and 2007

Employer	2016			2007		
	Ranking	Number of Employees	% of Total Employment	Ranking	Number of Employees	% of Total Employment
Macy's	1	200	3.51%	9	79	1.21%
Subaru, Toyota, Kia of Santa Cruz	2	190	3.33%	6	100	1.53%
Gayle's Bakery and Rosticceria	3	172	3.02%			
Target	4	149	2.61%			
Whole Foods Market	5	140	2.46%			
Shadowbrook	6	130	2.28%	5	102	1.56%
Pacific Coast Manor	7	130	2.28%			
Trader Joe's	8	104	1.82%	8	85	1.30%
Soquel Union Elem. Schl. Distr. (Cap. Empl. only)	9	94	1.65%			
Kohls	10	90	1.58%			
Sears				1	150	2.30%
SCC Office of Education				2	145	2.22%
Mervyn's LLC				3	140	2.15%
Gottschalks Inc.				4	117	1.79%
Zelda's				7	100	1.53%
Longs Drug Stores (2 locations)				10	76	1.17%
		1399	24.54%		1094	16.78%
Total City Labor Force		5700	100.00%		6520	100.00%

SOURCE: MuniService, LLC (2016), City of Capitola Finance Department phone survey (2007).

2016-18

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

Function	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General government										
City Manager	7.50	7.50	7.50	7.50	7.50	7.75	7.65	7.65	7.65	7.65
Finance	5.25	5.38	4.38	4.38	4.38	4.38	4.38	4.50	4.50	4.50
City Attorney	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	<u>13.75</u>	<u>13.88</u>	<u>12.88</u>	<u>12.88</u>	<u>12.88</u>	<u>13.13</u>	<u>13.03</u>	<u>13.15</u>	<u>13.15</u>	<u>13.15</u>
Police										
Chief, Captain, Sgts.	7.00	7.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Officers	15.00	15.00	15.00	15.00	15.50	15.00	15.00	15.00	15.00	16.00
CSOs	3.00	3.00	3.00	2.00	2.00	2.00	3.00	3.00	2.00	2.00
Parking Enforcement	3.00	3.00	3.00	3.00	2.00	3.00	2.00	3.00	3.00	3.00
Administrative	6.50	6.50	6.50	4.75	4.75	3.75	4.25	4.65	4.65	4.65
	<u>34.50</u>	<u>34.50</u>	<u>33.50</u>	<u>30.75</u>	<u>30.25</u>	<u>29.75</u>	<u>30.25</u>	<u>31.65</u>	<u>30.65</u>	<u>31.65</u>
Public Works										
Streets	8.00	8.33	8.33	7.33	7.33	7.33	7.33	8.00	9.00	9.00
Parks	5.00	5.00	5.00	4.00	4.00	3.00	4.00	4.00	4.00	4.00
Fleet Maintenance	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.50	1.25
	<u>14.00</u>	<u>14.33</u>	<u>14.33</u>	<u>12.33</u>	<u>12.33</u>	<u>11.33</u>	<u>12.33</u>	<u>13.00</u>	<u>14.50</u>	<u>14.25</u>
Recreation										
Supervisor	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	2.00	2.00
Other - full year	2.00	2.00	1.50	1.50	1.50	1.50	2.00	2.00	2.25	2.75
	<u>3.00</u>	<u>3.00</u>	<u>2.50</u>	<u>2.50</u>	<u>2.50</u>	<u>2.50</u>	<u>3.00</u>	<u>3.00</u>	<u>4.25</u>	<u>4.75</u>
Community Development	4.00	4.67	4.67	3.67	3.67	1.67	2.00	2.50	3.00	3.50
Building	2.00	2.00	2.00	1.00	1.50	2.00	2.00	2.00	2.00	2.00
Total City Employees	<u>71.25</u>	<u>72.38</u>	<u>69.88</u>	<u>63.13</u>	<u>63.13</u>	<u>60.38</u>	<u>62.61</u>	<u>65.30</u>	<u>67.55</u>	<u>69.30</u>

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

SOURCE: City of Capitola Finance Department

2016-19

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

INDICATOR	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<u>Police department</u>										
Adult arrests	1,069	1,000	908	850	731	766	693	856	956	904
Calls for service (thousands)	22	21	20	20	19	20	16	20	18	17
<u>Public works</u>										
Miles paved	26	26	26	26	26	26	26	26	26	26
<u>New construction</u>										
Commercial units	3	1	1	1	-	-	-	-	-	1
Valuation (millions)	\$ 5	\$ 1	\$ 1	\$ 13	-	-	-	-	-	\$ 4
Residential units ⁽¹⁾	18	69	122	8	3	7	9	9	3	3
Valuation (millions)	\$ 6	\$ 11	\$ 20	\$ 2	\$ 1	\$ 3	\$ 3	\$ 3	\$ 1	\$ 1
<u>Recreation Revenue (thousands)</u>										
Classes	\$ 356	\$ 378	\$ 336	\$ 319	\$ 325	\$ 329	\$ 298	\$338	\$282	\$275
Sports fees	82	70	71	59	61	60	53	41	32	19
Junior Guard	184	175	194	214	220	241	240	268	312	328
Camp Capitola	76	80	80	79	102	121	94	103	139	129
Aquatics	23	19	-	-	-	-	-	-	-	-
Net Class Revenue	\$ 721	\$ 722	\$ 681	\$ 671	\$ 708	\$ 751	\$ 685	\$ 750	\$ 765	\$ 751
Jade St. Rental	\$ 8	\$ 7	\$ 4	\$ 5	\$ 5	\$ 6	\$ 7	\$ 5	\$ -	\$ -
Net Recreation Rev	\$ 729	\$ 729	\$ 685	\$ 676	\$ 713	\$ 757	\$ 692	\$ 755	\$ 765	\$ 751

(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

2016-20

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

Indicator	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Public works										
Streets (miles)	26	26	26	26	26	26	26	26	26	26
Streetlights	71	71	71	71	71	71	71	71	71	71
Traffic signals	8	8	8	8	8	8	8	8	8	8
Parks and recreation										
Parks	7	7	7	7	7	7	7	7	7	7
Community centers	1	1	1	1	1	1	1	1	1	1
General										
Commercial buildings	2	2	2	2	2	2	2	2	2	2

Source: City of Capitola Public Works Department

2016-21