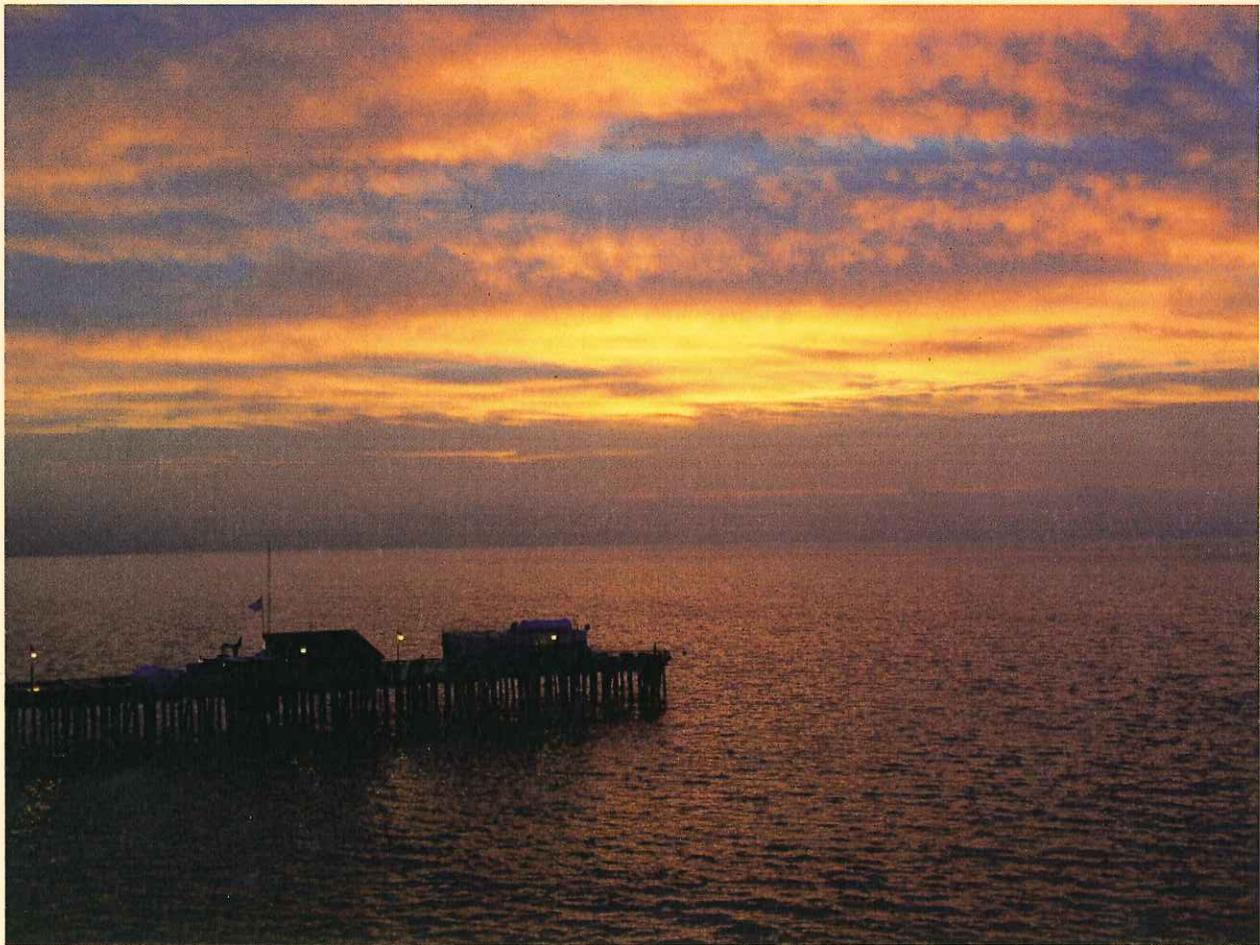


**City of Capitola, California**  
**Comprehensive Annual Financial**  
**Report**



**For the Fiscal Year Ended**  
**June 30, 2010**



# **CITY OF CAPITOLA, CALIFORNIA**

COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Prepared by the Capitola Finance Department



**City of Capitola  
Comprehensive Annual Financial Report  
Year Ended June 30, 2010**

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# **INTRODUCTORY SECTION**

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

December 14, 2010

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

SUBJECT: Comprehensive Annual Financial Report – June 30, 2010

The Comprehensive Annual Financial Report (CAFR) for the City of Capitola for the fiscal year ended June 30, 2010 is hereby submitted.

State law requires that the accounts and fiscal affairs of all municipal entities be examined annually by an independent certified public accountant. The City's independent auditor, Teaman, Ramirez & Smith, Inc., has audited the City's financial statements and issued an unqualified opinion that financial statements for fiscal year ended June 30, 2010 are fairly presented in conformity with generally accepted accounting principles. This opinion, along with the basic financial statements of the City, are hereby submitted and included in the financial section of this report in fulfillment of the above requirement.

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

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

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

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

## **CITY OF CAPITOLA PROFILE**

Capitola, a general law city incorporated January 11, 1949, is an intimate suburban, recreational and tourist beach village of approximately two square miles, located on the northern edge of the Monterey Bay, 35 miles north of Monterey and 75 miles south of San Francisco. The City is home to numerous family-oriented annual events, including the Begonia Festival, celebrating its 58<sup>th</sup> year in 2010 and the Wharf to Wharf Race, celebrating its 38<sup>th</sup> year. The City also sponsors several annual series of events, such as Twilight Concerts at the Beach, Art Shows at the Beach, Movies at the Beach, along with the Capitola Water Festival. The City provides police protection, street, park and facilities maintenance, recreation, building, planning, zoning, administrative, and financial services for Capitola. Independent special districts provide fire protection, water, sewer, and drainage services.

## **FINANCIAL CONDITION**

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

The City's accounting records are maintained on a modified accrual basis. Revenues are recorded when measurable and available and expenditures are recorded when goods or services are received and the liability incurred. The annual budget serves as the foundation for the City of Capitola's financial planning and control. In accordance with the City's Municipal Code, the budget is to be adopted by resolution on or before June 30<sup>th</sup> for the ensuing fiscal year. Expenditures authorized in the final budget resolution are appropriated at the budget unit. Capital projects are budgeted at the individual project level. City Council may appropriate, amend, or transfer funds by an affirmative vote of three Council members at any regular or special Council meeting.

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

## **Local Economy**

The current economic challenges at the international, national, state and local levels continued in fiscal 2009-10. Capitola reacted swiftly to the initial downturn and adapted long term operational changes under the assumption the subpar, unpredictable economy would continue into the future. City leaders worked with employee groups to establish a "16 days over 16 months" furlough plan from March, 2009 to June, 2010, which was quickly implemented. The City also initiated pay and hiring freezes and offered early retirement plans. Additional attention was given, and continues to be given, to control all other expenditures. This has kept the City in reasonably good condition given the surrounding economic climate.

In 2007-08, 48% of Capitola's general fund revenue was from sales tax. That subsequently declined to 40% in 2008-09 and 41% in 2009-10. The initial drop of \$1.6 million or 24% in 2008-09, was followed by a \$200,000 or 4.4% increase in 2009-10. These results include the loss of four of the City's top 10 sales tax revenue contributors. Two major automobile dealerships left the City during this time - one at the end of fiscal 2007-08 and one midway through 2008-09. Those dealerships were replaced by the expansion of one of the existing tenants, and the addition of several new automobile dealerships. Two major retail chains in the City also went out of business - one midway through 2008-09 and one at the end of fiscal 2008-09. The first site was unoccupied for four quarters but reopened with a different national retailer in mid 2009-10. The second site remains empty, but was recently acquired by a major national retail chain and is anticipated to open in fiscal year 2011-12.

Other recent economic development projects include the 2008-09 opening of a national liquor store chain and the 2009-10 openings of a national natural/organic grocery store chain and a family restaurant chain. An 84 room hotel is current in construction, and anticipated to open in late fiscal year 2009-10. All of these projects occurred on sites that had been underperforming or vacant prior to fiscal year 2009-10.

Many smaller and mid-sized businesses and restaurants in Capitola have been negatively affected by the regional economic climate during this period as well. Consumer confidence and spending continue to be low, adding to the lower revenue across all segments of sales tax revenue producers. The City continues to seek redevelopment opportunities that will help to update and upgrade the City's major retail corridor and mall area.

Capitola's relatively fixed property ownership base kept property tax revenues level for the past three fiscal years. Property tax accounted for 12% of 2007-08 revenue and increased slightly in 2008-09 and 2009-10 to 13.4% of general fund revenue. Transient occupancy tax paid by hotels, motels, and vacation rentals within the City of Capitola has remained relatively steady at 4.9% for 2007-08, 2008-09, and 2009-10. The addition of the 84 room hotel in late fiscal year 2009-10 is anticipated to increase transient occupancy tax significantly.

The City has also initiated a General Plan update process. That process will include efforts to identify locations and opportunities to encourage redevelopment within the City. Potential changes which may be considered in the General Plan update to help spur economic development include revised zoning standards, identification of priority public infrastructure improvements and appropriate locations for additional hotel development projects.

### **Long-term Financial Planning**

As the State of California continues to struggle with its finances, accentuated by the general economic meltdown, State borrowing and delay in distribution of tax monies and grant funds have affected City finances. As part of the 2009-10 State Budget package, the California Legislature suspended local agency protections of Proposition 1A and passed a plan in which the State could exercise the right to retain local agency funds to close the State budget gap. Capitola participated in a third party securitization through the California Statewide Communities Development Authority Proposition 1A Securitization bond offering, which provided the City with 8% of 2008-09 property tax revenue, or \$229,040 in anticipation of the State Legislature's suspension of local agency protections.

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

A federal planning grant from the Economic Development Administration has been secured to study the feasibility of developing a parking structure on City property to facilitate coastal access and redevelopment in Capitola Village. The results of this study will be considered by the City Council in early 2011.

To reduce the City's risk that employee retirement costs will increase in the long term, the City has established a contribution cap with all employee bargaining units. The cap sets the maximum percentage of an employee's salary the City will contribute toward retirement costs.

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

## **Cash Management and Investments**

On a fiscal year basis, the City's annual budget balances expenditures and revenue in the General Fund. Due to the timing of revenue receipts, General Fund expenditures outpace revenue for most of the fiscal year. The most significant factor causing the shortfall is the State Triple flip which exchanges and defers 0.25% of taxable sales (currently about \$1 million of City sales tax revenue) with property tax each year. This allows the pledge of a steady revenue stream to the trustee for debt service payments to the bondholders of California Fiscal Recovery Financing Act Bonds. Through the end of fiscal 2009-10 this cash flow was supplemented in the short term from the Contingency Reserve Fund, then from internal service funds. By fiscal year end, all fund balances were returned to positive balances and all operating cash was returned to the originating funds. Similarly, the Workers' Compensation Fund runs negative due to prepayment of annual premiums and is also supplemented throughout the year.

A formal process for this supplemental cash flow was implemented for fiscal 2010-11. Necessary cash is loaned in advance from Contingency Reserve to the General Fund. Per Capitola's Financial Management Policy, the Contingency Reserve was established to "provide a prudent level of financial resources to protect against temporary revenue shortfalls or unanticipated operating costs, and/or to meet short-term cash flow requirements." Although it is anticipated the Contingency Reserve loan will be sufficient to provide operational cash in the General Fund, in some fiscal years the General Fund may temporarily borrow additional funds from Internal Service Funds, particularly in November and December prior to the receipt of Property Tax revenue. It is anticipated that the Contingency Reserve loan to General Fund will be repaid by June 30 each year.

The City's investment policy establishes the priorities in investing the City's temporarily idle funds as safety, liquidity, then earnings. During fiscal 2009-10, cash that was not held by bond fiscal agents or used in conjunction with ongoing daily City business was invested in the California Local Agency Investment Fund (LAIF), consistent with the City's investment policy.

## **Risk Management**

The City is one of ten participants in the Monterey Bay Area Self Insurance Authority (MBASIA), a joint powers agency created pursuant to California Law. The City is exposed to various risks including tort liability, theft, damage or destruction of assets, errors and/or 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 covered losses are lower than its assessment, it does not receive a refund. 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 premiums.

Risk of loss is retained by the City for general liability claims up to \$10,000 per occurrence. The authority pays from \$10,000 to \$1 million of a claim and carries excess loss coverage for general liability claims between \$1 million and \$20,000,000 per insured event. The City is uninsured for losses in excess of \$20,000,000 per event. Unpaid claims at fiscal year end, as reported by the fund, were not material. There was no reduction in the City's insurance coverage as compared to the previous fiscal year, nor have there been any losses exceeding coverage during any of the three previous years. Premium payment amounts are determined by the Board, and are charged to the City's general fund as expenditures when paid. For Workers' Compensation, the City pays all salary costs and the JPA covers medical and legal expenses from \$500,000 to \$5 million. The City is uninsured for costs over \$5 million.

## **Pension and Other Post Employment Benefits**

The City of Capitola contributes to the California Public Employees Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. The City is required to contribute an actuarially determined amount necessary to fund the benefits of its members. The actuarial methods and assumptions used in the determination are those adopted by the CalPERS Board of Administration.

As required by the Governmental Accounting Standards Board (GASB), Capitola implemented GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions". GASB 45 establishes standards for measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Additional detail regarding the City of Capitola's pension and postemployment benefits can be found in *Section II. Financial Section, Basic Financial Statements, Notes to Financial Statements* of this document - *Notes IV. Other Information, C) City Employees' Retirement System and D) Post Employment Benefits*, pages 37-41.

### **Awards and Acknowledgements**

The Certificate for Outstanding Financial Reporting was awarded to the City of Capitola for the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009 by the California Society of Municipal Finance Officers (CSMFO). The City has received this award every year since fiscal 1999-2000 and we believe that the current CAFR meets the Certificate for Outstanding Financial Reporting requirements and have submitted it to CSMFO for this year's award.

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

Respectfully submitted,

Jamie Goldstein  
City Manager

**CITY OF CAPITOLA  
LIST OF PRINCIPAL OFFICIALS  
JUNE 30, 2010**

**ELECTED OFFICIALS**

MAYOR	Sam Storey
VICE MAYOR	Dennis Norton
COUNCIL MEMBER	Bob Begun
COUNCIL MEMBER	Ron Graves
COUNCIL MEMBER	Kirby Nicol
CITY TREASURER	Jacques Bertrand

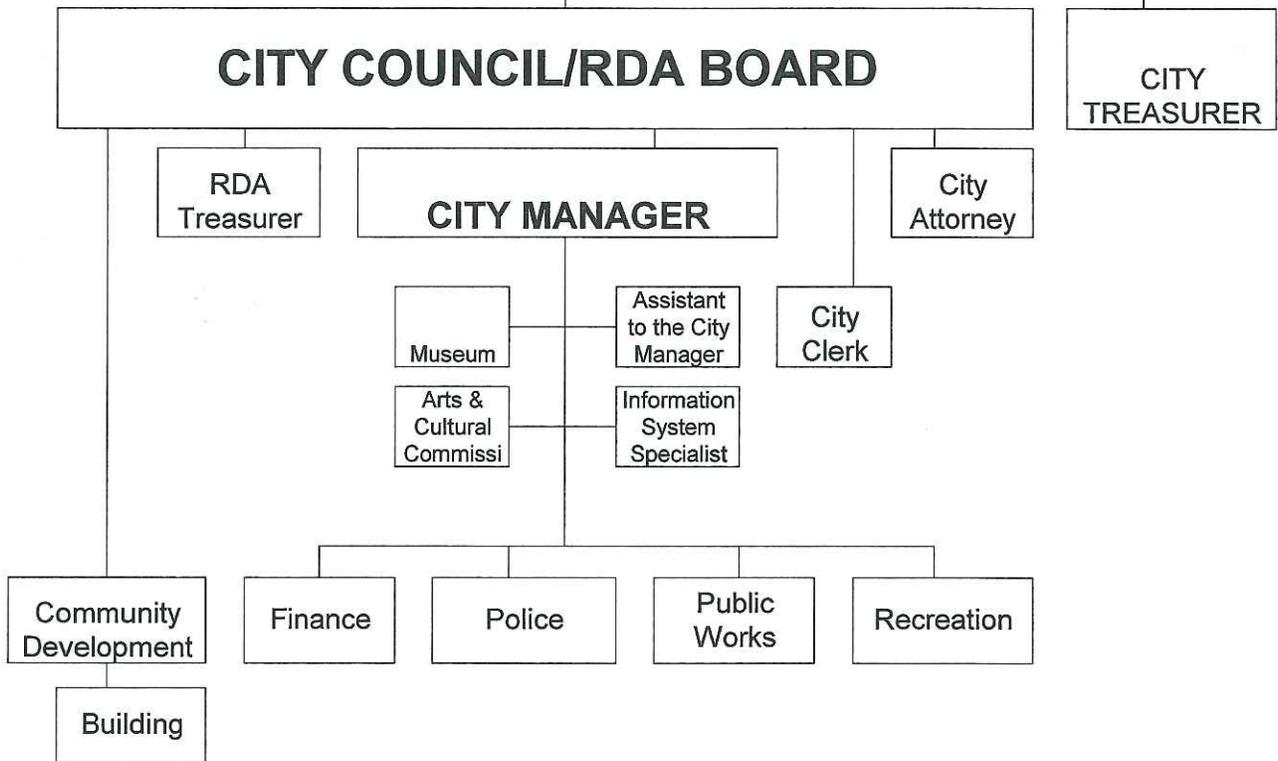
**APPOINTED OFFICIALS**

RDA TREASURER	Debbie Johnson
CITY MANAGER	Rich Hill
CITY ATTORNEY	Atchison, Barisone, Condotti & Kovacevich

**DEPARTMENT DIRECTORS/ADMINISTRATORS**

BUILDING OFFICIAL	Mark Wheeler
CITY CLERK	Pamela Greeninger
COMMUNITY DEVELOPMENT DIRECTOR	Jamie Goldstein
FINANCE DIRECTOR	vacant
POLICE CHIEF	Mike Card
PUBLIC WORKS DIRECTOR	Steve Jesberg

# CITIZENS OF CAPITOLA



*California Society of  
Municipal Finance Officers*

*Certificate of Award*

*Outstanding Financial Reporting for the Fiscal  
Year ending June 30, 2009*

*Presented to the*

*City of Capitola*

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



*Ronnie Campbell*

*Ronnie Campbell, President*

*Jesse Takahashi*

*Jesse Takahashi  
Recognition Committee*

*Dedicated Excellence in Municipal Financial Management*

## **FINANCIAL SECTION**

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Independent Auditors' Report

The Honorable City Council  
City of Capitola, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Capitola, California, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Capitola's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Capitola, California, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2010 on our consideration of the City of Capitola's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The information identified in the accompanying table of contents as *management's discussion and analysis* and *required supplementary information* is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Capitola's basic financial statements. The introductory section, supplementary information, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information, as listed in the table of contents, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Teaman Ramirez & Smith, Inc.*

December 14, 2010

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## Management's Discussion and Analysis

The management of the City of Capitola offers the following narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2010. The information presented here should be considered in conjunction with the additional information provided in the Letter of Transmittal included in the Introductory Section of this document and the basic financial statements that follow this Management Discussion and Analysis.

### **Fiscal Year 2009-10 Financial Highlights**

- The City's total net assets at fiscal year-end were \$21.6 million.
- Total City revenues, including program and general revenues, were \$17.8 million, offset by total expenses of \$16.5 million.
- Governmental Program Revenues were \$6.7 million, while Governmental Program Expenses were \$16.5 million.
- General Fund Revenues were \$12.0 million, offset by General Fund Expenditures of \$10.9 million.

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

### **Overview of the Financial Statements**

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

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

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

***Governmental funds*** are used to account for the same functions as governmental activities in the government-wide financial statements. However, governmental fund financial statements focus on near-term inflows and outflows of spendable resources and the balance of spendable resources available at fiscal year-end. This information may be of use in evaluating a government's near term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, a better understanding of the long-term impact of the City's near-term financial decisions can be gained.

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

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

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

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

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

### Government-Wide Financial Analysis

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

Net assets increased \$1.3 million or 6.3% from 2008-09 to 2009-10. The City's largest investment, net capital assets of \$15.6 million or 72.4% of total net assets, include land, buildings, machinery, equipment, and infrastructure used to provide services to the City's citizens. These funds are not available for future spending. \$1.4 million or 6.4% of the City's net assets are restricted funds with external limitations on their use. The remaining \$4.6 million or 21.2% is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors. A condensed comparative is shown below.

Governmental Net Assets (\$000)		
Governmental Activities	2010	2009
Cash & Investments	\$ 9,904	\$ 10,936
Capital Assets	16,667	16,729
Other Assets	5,986	4,042
Total Assets	\$ 32,557	\$ 31,707
Long-term Debt	\$ 7,373	\$ 7,578
Other Liabilities	3,630	3,854
Total Liabilities	\$ 11,003	\$ 11,432
<b>Net Assets</b>		
Net Capital Assets	\$ 15,598	\$ 15,659
Restricted	1,381	1,180
Unrestricted	4,575	3,435
Total Net Assets	\$ 21,554	\$ 20,274

All revenue for the City of Capitola is governmental revenue. Revenue increased \$1.8 million from 2008-09 to 2009-10, including a major adjustment from the State Board of Equalization that reduced 2008-09 revenue and increased 2009-10 revenue by approximately \$400,000. Major revenue sources are Sales and Use Taxes (28.0%), Charges for Services (27.1%) and Property Taxes (22.8%). Increases were \$1.2 million in operating grants revenue and \$900,000 in charges for services.

Changes in Governmental Net Assets (\$000)		
Revenues:	2010	2009
Program Revenues:		
Charges for services	\$ 4,831	\$ 3,923
Operating Grants & Contributions	1,469	286
Capital Grants & Contributions	388	527
General Revenues:		
Property Taxes	4,066	4,148
Sales and Use Taxes	4,994	4,859
Other Taxes	1,336	1,342
Investment Income	238	394
Other	488	508
Total Revenues	\$ 17,810	\$ 15,987
Expenses:		
General Government	\$ 5,103	\$ 4,482
Public Safety	5,533	5,927
Community Development	2,428	2,218
Cultural and Leisure	1,025	1,035
Transportation	1,932	2,530
Interest on Long-term Debt	509	533
Total Expenses	\$ 16,530	\$ 16,725
Change in Net Assets	\$ 1,280	\$ (738)
Prior Period Adjustment	-	-
Net Assets at Beginning of Year	\$ 20,274	\$ 21,012
Net Assets at End of Year	\$ 21,554	\$ 20,274

City tax revenue was up \$46,000 for the year. Property tax revenue was down 2.0% (\$82,000) from prior year due to the primarily mature, low turnover nature of Capitola real estate. This was more than offset by a \$140,000 increase in Capitola's ¼% local Transaction and Use Tax as a result of the State Board of Equalization adjustment and local residents' participation in the Cash-for-Clunkers program.

Taxes By Type (\$000)		
	2010	2009
Property Tax	\$ 4,066	\$ 4,148
Sales taxes	4,066	4,071
1/4% Transaction & Use Tax	928	788
Transient Occupancy Tax	591	605
Business License Tax	282	278
Franchise Taxes	462	459
Total Tax Revenues	\$ 10,395	\$ 10,349
Total City Revenue	\$ 17,810	\$ 15,987
Sales Tax as a % of Total Tax Revenue	48.0%	47.0%
Sales Tax as a % of Total City Revenue	28.0%	30.4%

Program revenue increased \$2 million or 41.2% primarily due to the \$1.7 million or 96.5% increase in Community Development revenue. Source of the increase was receipt of federal HOME grant funding for Bay Avenue Senior Housing Project. Total expenditures from governmental activities remained flat. As shown below, Public Safety had the highest expenditures with \$5.5 million or 33.5% of total expenditures.

Program Revenues and Expenses - Governmental Activities (\$000)

	2010			2009		
	Expense	Revenue	Net	Expense	Revenue	Net
			Rev/(Exp)			Rev/(Exp)
General Government	\$ 5,103	\$ 822	\$ (4,281)	\$ 4,482	\$ 673	\$ (3,809)
Public Safety	\$ 5,533	\$ 1,274	\$ (4,259)	\$ 5,927	\$ 1,036	\$ (4,891)
Community Development	\$ 2,428	\$ 3,453	\$ 1,025	\$ 2,218	\$ 1,757	\$ (462)
Cultural and Leisure	\$ 1,025	\$ 697	\$ (328)	\$ 1,035	\$ 709	\$ (326)
Transportation	\$ 1,932	\$ 441	\$ (1,491)	\$ 2,530	\$ 561	\$ (1,969)
Total	\$ 16,021	\$ 6,687	\$ (9,334)	\$ 16,192	\$ 4,736	\$ (11,456)
Interest on Long Term Debt	\$ 509	\$ -	\$ (509)	\$ 533	\$ -	\$ (533)
Total	\$ 16,530	\$ 6,687	\$ (9,843)	\$ 16,725	\$ 4,736	\$ (11,989)

**Financial Analysis of Fund Financial Statements**

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

**Major Governmental Funds**

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

*The General Fund* is the chief operating fund of the City. The total fund balance of the General Fund at fiscal year-end was \$6.3 million, a \$257,000 or 4.3% increase over prior year. At June 30, 2010, the unreserved fund balance of the General Fund was \$ 4.3 million. As a measure of General Fund liquidity, it can be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. At June 30, 2010, unreserved fund balance represented 39.2% of total General Fund expenditures, a 6.0% point improvement, while total fund balance represented 57.3% of total General Fund expenditures, a 7.6% point increase over fiscal 2008-09.

Included within the fund balance of the General Fund are the fiscal year-end designations associated with the City Council Designated Reserves, which total \$4 million at June 30, 2010. The designations are as follows:

Designated General Fund		
	2010	2009
Contingency Reserve	\$ 1,247,152	\$ 1,247,152
Emergency Reserves	627,083	627,083
Compensated Absences Fund	116,857	193,475
Information Technology Fund	141,401	123,074
Self Insurance Liability Fund	253,893	201,151
Workers Compensation Fund	174,999	175,150
Stores Fund	25,272	14,757
Equipment Replacement Fund	282,538	255,760
Public Space	256	256
Public Employee Retirement Reserve	520,524	422,698
Disabled Parking	15,186	-
General Plan Update	599,165	542,645
Total General Government	\$ 4,004,326	\$ 3,803,201

*General Fund Budget* comparison is located in the Required Supplementary Information following the Notes to the Financial Statements. Over the course of the year, the City Council revises the City budget for amendments and appropriations to reflect carryovers of unspent contractual obligations and appropriations from the prior year and newly approved appropriations for City decisions that have been made since generation of the budget. General Fund revenue budget of \$12.3 million was decreased by \$348,000 during fiscal 2009-10. Total actual General Fund revenues were \$12.0 million or \$50,100 or 0.4% over the final budget. General Fund operating expenditures budget of \$11.6 million was minimally decreased during 2009-

10. Total actual General Fund operating expenditures were \$10.9 million, which is 6.7% lower than (favorable to) the final amended budget. The overall favorable expenditure variance was the result of a concerted effort to control expenditures during difficult economic times. These included a 4.6% employee furlough program initiated in March, 2009 that ran the entire fiscal 2009-10 year. As a result of the favorable revenue and expenditure performances versus budget, ending Fund Balance for the year was \$450,000 favorable to the final amended budget.

*The Federal HOME Loan Reuse Fund* is for depositing loan payments from recipients of the HOME program loans made within the City. All deposits into this HOME Program Reuse Fund must be used to fund additional affordable housing activities in the City, in accordance with the Federal HOME Program Reuse Guidelines. Currently there are four groups of outstanding home loans recorded in this fund: a set of share loans to assist mobile home park residents purchase their park, First Time Homebuyer Program providing deferred second mortgages, housing rehabilitation loans to bring mobile homes and homes up to standard, and a combination of rehabilitation and acquisition loans to assist residents in the acquisition of their mobile home park. Fiscal 2009-10 activity included \$12,300 in principal and interest revenue from the Wharf Road Manor Acquisition and Rehabilitation Loan.

*The RDA Low Income Housing Fund* is funded from 20% of gross tax increment set aside required under California Redevelopment Law. As required by law, it is segregated in a separate fund and all principal repayments and interest payments for loans and grants are returned to the fund. Current year source of revenue of \$489,000 is primarily tax increment housing set aside. Expenditures were composed of \$76,000 in emergency housing funding, \$55,000 First Time Homebuyer loan, \$31,000 in professional services for mobile home park, \$11,000 in security deposit subsidies, \$11,000 in mobile home park rent subsidies, and \$50,000 in contract administration expense. Total revenues of \$3,900 plus \$485,100 in transfers in were offset by total expenditures of \$242,300 resulting in a \$246,700 increase in fund balance to \$920,570.

*The RDA Debt Service Fund* is funded primarily from Redevelopment Agency tax increment. For 2009-10, expenditures and transfers out were \$422,500 greater than fund revenues of \$2.5million. Pass throughs and related transfers out for 20% housing set aside requirements were \$969,000 and \$485,000, respectively. Supplemental Educational Revenue Augmentation Fund (SERAF) payment of \$703,100 and principal and interest payments of \$324,300 were other statutory and contractual obligations paid. Other expenditures were \$197,100 for Construction in Progress, \$92,200 for securing and site planning for Rispin property, and \$101,100 in general operating expenditures, including tourism/economic development (\$57,000) and county property tax administration fee (31,000).

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

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

*Capital Assets* for governmental activities increased \$886,000 or 2.6% to \$35.3 million at fiscal year-end 2009-10. Net capital assets of \$16.7 million at June 30, 2010 are relatively unchanged from prior year. Additional detail on capital assets can be found in Note III.D. of the notes to the financial statements.

Capital Assets - Governmental Activities (\$000)		
	2010	2009
Land	\$ 4,884	\$ 4,884
Construction in Progress	\$ 871	\$ 1,238
Buildings & Improvements	\$ 3,256	\$ 3,252
Machinery & Equipment	\$ 2,948	\$ 2,645
Infrastructure	\$ 23,372	\$ 22,426
Total Capital Assets	\$ 35,331	\$ 34,445
Accumulated Depreciation	\$ (18,664)	\$ (17,716)
Net Capital Assets	\$ 16,667	\$ 16,729

*Long-term Debt* is summarized in the table below. At June 30, 2010, total long term debt was \$8.0 million, including \$4.3 million remaining on the 10 year 2007 Pension Obligation Bond, \$1million interest only note at 4.75% expiring September, 2014, and a \$101,400 capital lease at 4.20% for a street sweeper that matures October, 2011.

Long Term Debt				
	Balance			Balance
	July 1, 2009	Additions	Reductions	June 30, 2010
2007 Pension Obligation Bond	\$ 4,670,000	\$ -	\$ 405,000	\$ 4,265,000
Capital Leases Payable	101,430	-	32,429	69,001
Notes Payable	1,016,602	-	6,420	1,010,182
Compensated Absences	696,243	56,034	-	752,277
Net OPEB Obligation	-	149,108	-	149,108
RDA Pass Throughs	1,774,787	85,085	91,026	1,768,846
Total	\$ 8,259,062	\$ 290,227	\$ 534,875	\$ 8,014,414

### **Economic Outlook and Next Year's Budget**

The global economic downturn which began in 2007 appears to have stabilized, however consumer confidence continues to be relatively weak and economic activity low as compared to pre-2007 levels. On a county level, Santa Cruz County has lost 4,700 jobs, or 4.6% of the total employment base since 2006. The primary areas of decline, by number of jobs lost, are construction, retail, manufacturing and business services. Notices of default, the first step in the foreclosure process, have quadrupled during the same time period, from 418 in 2006 to 1,643 in calendar 2009. The City of Capitola's job base, which is heavily retail, has had unemployment rise from 2.7% in 2006 to 6.2% in 2009.

The City's adopted 2010-11 budget includes a projection that revenues will increase slightly as compared to fiscal year 2009-10. City management is cautiously optimistic that the economy is slowly picking up. Management is closely monitoring major revenue sources and minimizing expenditures to the extent possible without harming the economic health and function of the City. Significant attention is being given to funding ongoing expenditures with ongoing revenues and limiting use of reserves to one-time or short term projects.

In reacting to the downturn, the City established a furlough program in March, 2009 which extended through the entire fiscal year 2009-10 and included an effective reduction of 4.6% in employee pay rates. The City also instituted a cap on its contribution to employee retirement costs in December 30, 2007. The result of this is that employees bear all retirement cost increases, rather than the City.

General Fund revenues for fiscal year 2010-11 are budgeted at \$12.3 million, \$336,000 above 2009-10 actual of \$12.0 million. Budgeted operating expenditures of \$12.3million are \$451,000 higher than prior year spending.

The City's fiscal management policy is to maintain contingency reserves at 10% of operating expenditures and emergency reserves at 5%. Fiscal 2009-10 ended with these reserves at 10.5% and 5.3% respectively.

This is a particularly important accomplishment in a year in which the economic declines caught many municipalities, corporations, and experts by surprise. For fiscal 2010-11, the City anticipates funding levels of \$1,247,100 for the contingency reserve and \$627,100 for the emergency reserve, maintaining coverage of the \$12,329,500 in operating expenditures at 10.1% and 5.1%.

In 2010, an agreement to redevelop the Rispin Mansion site in the Capitola Redevelopment Area expired. Originally anticipated to create a new facility, improve site infrastructure, attract visitors, add jobs, and increase sales and hotel tax, the RDA is now exploring development/demolition options for the structure.

The City and RDA are participating in the Bay Avenue Senior Housing Project, a 109 unit senior low income housing rehabilitation project in Capitola being developed by a non-profit agency. As part of the \$28 million project, the City provided \$2.3 million in project funding through a \$1.4 million residual receipts loan from the Redevelopment Agency and \$1.9 million grant funding which the City received from the California Department of Housing and Community Development (HCD).

Under the American Recovery and Reinvestment Act, Capitola was awarded and accepted a \$230,000 grant for a Street Rehabilitation Project in February, 2010. The project which totaled \$355,000 was completed in fiscal 2010-10 with additional funding from the Capitola Redevelopment Agency.

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

#### **Requests for Information**

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

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## **BASIC FINANCIAL STATEMENTS**

**City of Capitola**  
**Statement of Net Assets**  
**June 30, 2010**

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 9,903,633
Accounts Receivable (Net of Allowance for Uncollectibles)	122,861
Due from Other Governments	1,493,433
Loans Receivable	4,165,956
Debt Issuance Costs	87,640
Prepays	115,788
Capital Assets:	
Non-depreciable:	
Land	4,883,789
Construction in Progress	871,212
Depreciable:	
Equipment	2,948,211
Buildings and Improvements	3,256,481
Infrastructure	23,372,225
Accumulated Depreciation	<u>(18,664,524)</u>
Total Assets	<u>32,556,705</u>
<b>LIABILITIES</b>	
Accounts Payable	595,429
Accrued Liabilities	394,510
Interest Payable	106,803
Deposits Payable	179,866
Unearned Revenue	1,711,768
Noncurrent Liabilities:	
Due Within One Year	641,529
Due in More Than One Year	<u>7,372,885</u>
Total Liabilities	<u>11,002,790</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	15,598,393
Restricted for:	
Community Development	1,317,373
Transportation	63,166
Unrestricted	<u>4,574,983</u>
Total Net Assets	<u><u>\$ 21,553,915</u></u>

The accompanying notes are an integral part of this statement.

**City of Capitola  
Statement of Activities  
Year Ended June 30, 2010**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental Activities:					
General Government	\$ 5,102,874	\$ 805,684	\$ 16,666	\$	\$ (4,280,524)
Public Safety	5,533,158	1,008,627	265,787		(4,258,744)
Community Development	2,427,571	2,265,980	1,187,028		1,025,437
Culture and Recreation	1,025,289	696,608			(328,681)
Transportation	1,932,234	53,600		387,650	(1,490,984)
Interest on Long-Term Debt	509,056				(509,056)
Total Governmental Activities	<u>\$ 16,530,182</u>	<u>\$ 4,830,499</u>	<u>\$ 1,469,481</u>	<u>\$ 387,650</u>	<u>(9,842,552)</u>

General Revenues:

Taxes:

Property Taxes	4,065,897
Franchise Taxes	461,937
Sales and Use Taxes	3,288,654
0.25% Transaction and Use Taxes	927,983
Transient Occupancy Taxes	591,925
Business License Taxes	281,739
In-Lieu Sales Taxes	777,207
Motor Vehicle In-Lieu, Unrestricted	201,832
Miscellaneous Revenues	287,330
Investment Income	237,926

Total General Revenues 11,122,430

Change in Net Assets 1,279,878

Net Assets - Beginning 20,274,037

Net Assets - Ending \$ 21,553,915

The accompanying notes are an integral part of this statement.

**City of Capitola  
Balance Sheet  
Governmental Funds  
June 30, 2010**

	General	Federal Home Loan Reuse	RDA Low Income Housing	RDA Debt Service
<b>ASSETS</b>				
Cash and Investments	\$ 4,302,128	\$ 5,126	\$ 938,071	\$ 2,771,308
Accounts Receivable	72,996	5	3,404	19,331
Due from Other Governments	1,192,556			208,153
Due from Other Funds	36,837			
Advances to Other Funds	1,968,028			
Loans Receivable		1,903,589	2,100,485	
Prepays	7,088			108,700
	<u>7,088</u>	<u>1,903,589</u>	<u>2,100,485</u>	<u>108,700</u>
Total Assets	<u>\$ 7,579,633</u>	<u>\$ 1,908,720</u>	<u>\$ 3,041,960</u>	<u>\$ 3,107,492</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts Payable	\$ 412,496	\$	\$ 20,905	\$ 40,522
Accrued Liabilities	387,721			
Deferred Revenue	346,768	1,903,589	2,100,485	
Due to Other Funds				
Advances from Other Funds				1,968,028
Deposits Payable	178,866			
	<u>178,866</u>	<u>1,903,589</u>	<u>2,100,485</u>	<u>1,968,028</u>
Total Liabilities	<u>1,325,851</u>	<u>1,903,589</u>	<u>2,121,390</u>	<u>2,008,550</u>
Fund Balances:				
Reserved for:				
Prepays	7,088			108,700
Advances to Other Funds	1,968,028			
Unreserved, Reported In:				
General Fund	4,278,666			
Debt Service Funds				990,242
Special Revenue Funds		5,131	920,570	
Capital Projects Funds				
	<u>4,278,666</u>	<u>5,131</u>	<u>920,570</u>	<u>990,242</u>
Total Fund Balances	<u>6,253,782</u>	<u>5,131</u>	<u>920,570</u>	<u>1,098,942</u>
Total Liabilities and Fund Balances	<u>\$ 7,579,633</u>	<u>\$ 1,908,720</u>	<u>\$ 3,041,960</u>	<u>\$ 3,107,492</u>

The accompanying notes are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
\$ 1,887,000	\$ 9,903,633
27,125	122,861
92,724	1,493,433
	36,837
	1,968,028
161,882	4,165,956
	115,788
<u>\$ 2,168,731</u>	<u>\$ 17,806,536</u>
\$ 121,506	\$ 595,429
6,789	394,510
190,794	4,541,636
36,837	36,837
	1,968,028
1,000	179,866
<u>356,926</u>	<u>7,716,306</u>
	115,788
	1,968,028
	4,278,666
468,186	1,458,428
716,931	1,642,632
626,688	626,688
<u>1,811,805</u>	<u>10,090,230</u>
<u>\$ 2,168,731</u>	<u>\$ 17,806,536</u>

The accompanying notes are an integral part of this statement.

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**City of Capitola**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Assets**  
**June 30, 2010**

Fund balances of governmental funds \$ 10,090,230

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

Capital Assets at Historical Cost	35,331,918
Accumulated Deprecation	<u>(18,664,524)</u>

Net 16,667,394

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. This amount represents interest payable at year-end. (106,803)

In governmental funds, other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 2,829,868

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

Notes Payable	(1,010,182)
RDA Obligations	(1,768,846)
Compensated Absences Payable	(752,277)
Pension Obligation Bonds	(4,265,000)
Capital Leases Payable	(69,001)
Net OPEB Obligation	<u>(149,108)</u>

Total (8,014,414)

Issuance costs net of accumulated amortization were reported as expenditures in the governmental funds. 87,640

Net assets of governmental activities \$ 21,553,915

**City of Capitola**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2010**

	General	Federal Home Loan Reuse	RDA Low Income Housing	RDA Debt Service
<b>REVENUES</b>				
Taxes	\$ 7,688,040	\$	\$	\$ 2,425,564
Licenses & Permits	589,535			
Fines & Forfeitures	803,198			
Intergovernmental	1,090,705			
Charges for Services	1,214,082			
Use of Money and Property	475,348	12,305	3,883	23,837
Other Revenue	162,410			
<b>Total Revenues</b>	<b>12,023,318</b>	<b>12,305</b>	<b>3,883</b>	<b>2,449,401</b>
<b>EXPENDITURES</b>				
Current:				
General Government	2,143,986			2,062,506
Public Safety	5,276,037			
Community Development	767,123	1,953	242,328	
Culture and Recreation	906,222			
Transportation	1,788,985			
Capital Outlay	32,324			
Debt Service:				
Principal				91,026
Interest & Fiscal Charges				233,250
<b>Total Expenditures</b>	<b>10,914,677</b>	<b>1,953</b>	<b>242,328</b>	<b>2,386,782</b>
Excess (Deficiency) of Revenues over Expenditures	1,108,641	10,352	(238,445)	62,619
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer In			485,113	
Transfer Out	(851,449)			(485,113)
<b>Total Other Financing Sources (Uses)</b>	<b>(851,449)</b>	<b>-</b>	<b>485,113</b>	<b>(485,113)</b>
<b>Net Change in Fund Balances</b>	<b>257,192</b>	<b>10,352</b>	<b>246,668</b>	<b>(422,494)</b>
Fund Balances, Beginning	5,996,590	(5,221)	673,902	1,521,436
Fund Balances, Ending	<u>\$ 6,253,782</u>	<u>\$ 5,131</u>	<u>\$ 920,570</u>	<u>\$ 1,098,942</u>

The accompanying notes are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
\$ 171,417	\$ 10,285,021
19,304	608,839
	803,198
1,841,702	2,932,407
165,964	1,380,046
79,469	594,842
	162,410
<u>2,277,856</u>	<u>16,766,763</u>
25,204	4,231,696
165,203	5,441,240
1,326,683	2,338,087
79,679	985,901
227,812	2,016,797
815,316	847,640
443,849	534,875
<u>273,428</u>	<u>506,678</u>
<u>3,357,174</u>	<u>16,902,914</u>
<u>(1,079,318)</u>	<u>(136,151)</u>
851,449	1,336,562
	<u>(1,336,562)</u>
<u>851,449</u>	<u>-</u>
(227,869)	(136,151)
<u>2,039,674</u>	<u>10,226,381</u>
<u>\$ 1,811,805</u>	<u>\$ 10,090,230</u>

The accompanying notes are an integral part of this statement.

**City of Capitola**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**Year Ended June 30, 2010**

Net change in fund balances-total governmental funds \$ (136,151)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital assets of \$887,601 was less than depreciation expense of \$949,011 in the period. (61,410)

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. 534,875

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. This is the change in accrued interest payable. 10,143

In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This represents the change in compensated absences during the year. (56,034)

In governmental funds, notes receivable are offset by deferred revenue as they are not available to pay for current period expenditures. This represents the net change in deferred revenue and unearned revenue from the prior year. 1,235,168

Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as governmental fund expenditures. (149,108)

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

Amortization of Costs of Issuance (12,520)  
Other Long-term Debt Issuance (85,085)

Change in net assets of governmental activities \$ 1,279,878

**City of Capitola**  
**Statement of Fiduciary Assets and Liabilities**  
**Agency Funds**  
**June 30, 2010**

**ASSETS**

Cash and Investments	\$ 35,769
Cash with Fiscal Agent	-
Accounts Receivable	-
	<hr/>
Total Assets	<u>35,769</u>

**LIABILITIES**

Due to Bondholders	35,769
Bond Reserve	-
	<hr/>
Total Liabilities	<u>\$ 35,769</u>

The accompanying notes are an integral part of this statement.

**City of Capitola**  
**Notes to Financial Statements**  
**Year Ended June 30, 2010**

<u>NOTE</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
I	Summary of Significant Accounting Policies	19 - 24
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**City of Capitola**  
**Notes to Financial Statements**  
**Year Ended June 30, 2010**

**I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A) Description of Reporting Entity**

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

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

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

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

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

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

**Government-Wide Financial Statements:** The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

**City of Capitola**  
**Notes to Financial Statements**  
**Year Ended June 30, 2010**

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

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

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

The City reports the following major governmental funds:

General Fund

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

Federal Home Loan Reuse Fund

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

RDA Low Income Housing Fund

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

**City of Capitola**  
**Notes to Financial Statements**  
**Year Ended June 30, 2010**

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

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

RDA Debt Service Fund

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

The City also reports the following fund type:

Fiduciary Funds

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

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

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

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

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

**1) Cash and Investments**

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

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

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

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

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2010**

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

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

**2) Receivables and Payables**

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

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

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

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

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

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

**3) Capital Assets**

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

**City of Capitola**  
**Notes to Financial Statements**  
**Year Ended June 30, 2010**

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

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

**3) Capital Assets - Continued**

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

**4) Deferred Revenue**

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

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

**5) Compensated Absences**

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

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

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2010**

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

**E) Use of Estimates**

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

**F) New Pronouncements**

The provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, will be required to be adopted and implemented by the City for the fiscal year 2010-11.

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

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

The governmental fund balance sheet includes a reconciliation between *fund balances of total governmental funds* and *net assets of governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains “Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.” The details of this \$2,829,868 difference are as follows:

Loans Receivable	\$	1,631,777
Grants Receivable		1,196,676
Developer Fees		1,415
		1,415
	\$	2,829,868

**III) DETAILED NOTES ON ALL FUNDS**

**A) Cash and Investments**

The composition of cash and investments as of June 30, 2010, by fund type is as follows:

	Available For Operations	Restricted	Total
General Fund	\$ 4,302,128	\$ -	\$ 4,302,128
Special Revenue Funds	1,650,343	-	1,650,343
Capital Projects Funds	709,371	-	709,371
Debt Service Funds	-	3,241,791	3,241,791
Fiduciary Funds	-	35,769	35,769
	\$ 6,661,842	\$ 3,277,560	\$ 9,939,402

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2010**

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

**A) Cash and Investments - Continued**

**Classification**

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

Cash and Investments	\$ 9,903,633
Total City Cash and Investments	<u>9,903,633</u>
Cash and Investments	35,769
Cash and Investments with Fiscal Agent	<u>-</u>
Total Cash and Investments in Fiduciary Fund (separate statement)	35,769
Total Cash and Investments	<u><u>\$ 9,939,402</u></u>

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

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

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

**Disclosures Relating to Interest Rate Risk**

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

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

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2010**

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

**A) Cash and Investments - Continued**

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

Investment Type	Carrying Amount	Remaining Maturity (in Months)			
		12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
State Investment Pool – LAIF	\$ 8,307,915	\$ 8,307,915	\$ -	\$ -	\$ -

**Disclosures Relating to Credit Risk**

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

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End		
				AAA	Aa	Not Rated
State Investment Pool - LAIF	\$ 8,307,915	N/A	\$ -	\$ -	\$ -	\$ 8,307,915

**Concentration of Credit Risk**

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

**Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2010**

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

**A) Cash and Investments - Continued**

**Custodial Credit Risk - Continued**

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

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investments in securities through the use of mutual funds or government investment pools (such as LAIF).

**Investment in State Investment Pool**

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

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

Due to/from other funds at June 30, 2010 is as follows:

		DUE FROM	
		Non-Major Funds	Total
DUE TO	General Fund	\$ 36,837	\$ 36,837
	Total	\$ 36,837	\$ 36,837

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

Advances to/from other funds at June 30, 2010 are as follows:

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

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2010**

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

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

The Redevelopment Agency has incurred substantial costs for a proposed expansion of the redevelopment area and amendment of the redevelopment plan. The City has been providing staff and administrative services without compensation to the Agency since the fiscal year 1997/1998. The City and the Agency entered into an agreement to identify the staff and administrative costs due to the City since the fiscal year 1997/1998. The parties agreed that the Agency will pay the City for its past administrative services, plus interest calculated at the Local Agency Investment Fund (LAIF) rate published for the quarter ending March. In June 2006, the City and Agency agreed to amend the interest rate to the greater of the following: a) the interest rate charged by the Public Employees Retirement System for the City's unfunded liability, b) the true interest cost of any obligation bond sold by the City, c) the State of California LAIF rate, or d) 5%. The parties further agreed that the amount owed has been calculated at an overhead rate of fifteen percent of net tax increment, with simple interest. The principal amount of this reimbursement shall be paid as Agency funds become available, but in no event later than twenty-five years. As of June 30, 2010, the Agency owes the City \$618,028.

In July 2003, the City of Capitola sold the Rispin Mansion property to the Redevelopment Agency of Capitola in exchange for a \$1,350,000 note. The parties agreed to calculate interest on the advance at 5% per annum. In June 2006, the City and Agency agreed to amend the interest rate to the greater of the following: a) the interest rate charged by the Public Employees Retirement System for the City's unfunded liability; b) the true interest cost of any pension obligation bond sold by the City; c) the State of California LAIF rate; or d) 5%. The outstanding principal sum of this Note shall be due and payable in full on June 24, 2017 ("Maturity Date"), provided, however, that if the Redevelopment Plan for the Capitola Redevelopment Project is amended to extend the time limit on receipt of tax increment revenues, then the Maturity Date shall automatically be extended until the last date on which the Agency may receive tax increment under the Redevelopment Plan, as amended. Payment of interest is due on a quarterly basis. As of June 30, 2010, the Agency owes the City \$1,350,000. In April 2007, the RDA Board of Directors passed a resolution that credited the RDA cap with \$629,059 as a result of state legislation regarding previous Educational Relief Augmentation Fund (ERAF) payments made by the Capitola Redevelopment Agency.

Interfund transfers for the year ended June 30, 2010 are as follows:

		TRANSFERS IN				Total
		Parking Reserve	RDA Low Income Fund	2007 POB Debt Service	Capital Projects	
TRANSFERS OUT	General Fund	\$ 78,649	\$ -	\$ 622,800	\$ 150,000	\$ 851,449
	RDA Debt Service	-	485,113	-	-	485,113
Total		<u>\$ 78,649</u>	<u>\$ 485,113</u>	<u>\$ 622,800</u>	<u>\$ 150,000</u>	<u>\$ 1,336,562</u>

**City of Capitola**  
**Notes to Financial Statements**  
**Year Ended June 30, 2010**

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

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

Transfers to the Parking Reserve Fund totaled \$78,649 and were made from the General Fund from the increases in parking meter revenues. One half of these increased revenues were to be allocated to the General Fund and one half to the Parking Reserve Fund in the 2009/10 fiscal year.

Transfers to the RDA Low Income Housing Fund totaled \$485,113 and were made from the RDA Debt Service Fund. The California Health and Safety Code requires the Agency project area to deposit 20% of allocated incremental property tax revenues (or 20% of net bond proceeds plus 20% of incremental revenues in excess of debt service payments on the bonds) into a Low/Moderate Income Housing Project Fund. This money is restricted for the purpose of increasing and improving the community's supply of low and moderate income housing. The Agency accounts for these revenues in a special revenue fund.

Transfers to the 2007 POB Debt Service Fund totaled \$622,800 and were transferred from the General Fund. The transfer was made to pay for the debt service on the Pension Obligation Bonds.

Transfers to the Capital Projects Fund totaled \$150,000 and were made from the General Fund for the acquisition or construction of major capital facilities and equipment by the City.

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

The City uses Federal Home Loan Reuse, Housing and CDBG Program Income funds to provide housing rehabilitation loans to eligible applicants. Such loans are made to low and moderate income persons to improve or rehabilitate residences. The City accounts for this program in the Special Revenue Funds. Rehabilitation loans receivable of \$4,004,074 at June 30, 2010 have been reflected in the accompanying financial statements as loans receivable with an offsetting deferred revenue in the fund financial statements.

**D) Capital Assets**

Capital assets activity for the year ended June 30, 2010 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental Activities:</b>				
Capital Assets, Not Depreciated:				
Land	\$ 4,883,789	\$	\$	\$ 4,883,789
Construction in Progress	1,238,186	139,505	(506,479)	871,212
Total Capital Assets Not Depreciated	<u>6,121,975</u>	<u>139,505</u>	<u>(506,479)</u>	<u>5,755,001</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	3,251,481	5,000		3,256,481
Equipment	2,645,251	302,960		2,948,211
Infrastructure	22,425,610	946,615		23,372,225
Total Capital Assets Being Depreciated	<u>28,322,342</u>	<u>1,254,575</u>	<u>-</u>	<u>29,576,917</u>
Less Accumulated Depreciation	<u>(17,715,513)</u>	<u>(949,011)</u>		<u>(18,664,524)</u>
Net Capital Assets Being Depreciated	<u>10,606,829</u>	<u>305,564</u>	<u>-</u>	<u>10,912,393</u>
Net Capital Assets	<u>\$ 16,728,804</u>	<u>\$ 445,069</u>	<u>\$ (506,479)</u>	<u>\$ 16,667,394</u>

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2010**

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

**D) Capital Assets - Continued**

**Depreciation Allocations**

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

Governmental Activities:	
General Government	\$ 800,443
Public Safety	66,546
Cultural and Recreation	31,739
Transportation	<u>50,283</u>
Total Depreciation Expense – Governmental Activities	<u><u>\$ 949,011</u></u>

**E) Long-Term Debt**

**2007 Pension Obligation Bonds**

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

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$ 435,000	\$ 243,255	\$ 678,255
2012	455,000	216,510	671,510
2013	485,000	188,263	673,263
2014	515,000	158,213	673,213
2015	545,000	126,360	671,360
2016	575,000	92,704	667,704
2017	610,000	57,095	667,095
2018	<u>645,000</u>	<u>19,382</u>	<u>664,382</u>
Total	<u>\$ 4,265,000</u>	<u>\$ 1,101,782</u>	<u>\$ 5,366,782</u>

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2010**

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

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

**Capital Leases Payable**

In the 2007-08 fiscal year, the City entered into a Lease Purchase Agreement to lease a Street Sweeper from First Municipal Leasing Corporation for \$165,450. Principal and interest payments with a rate of 4.20% are due annually on October 10 until maturity in 2011.

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$ 33,791	\$ 2,898	\$ 36,689
2012	35,210	1,479	36,689
Total	<u>\$ 69,001</u>	<u>\$ 4,377</u>	<u>\$ 73,378</u>

**Notes Payable**

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

During the 2005-06 fiscal year, the City entered into an energy conservation assistance account loan agreement with the California Energy Resources Conservation and Development Commission (the "Commission"), which provided for a maximum loan of \$40,000, at an interest rate of 4.5 percent per annum. Principal, together with interest thereon, is due and payable in semiannual installments of \$3,548 beginning December 2006. The balance at June 30, 2010 was \$10,182.

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

Fiscal Year Ending June 30,	Principal	Interest
2011	\$ 6,712	\$ 47,884
2012	3,470	47,578
2013	-	47,500
2014	1,000,000	47,500
	<u>\$ 1,010,182</u>	<u>\$ 190,462</u>

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2010**

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

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

**Compensated Absences**

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

City employees accumulate earned but unused benefits that can be converted to cash at termination of employment. The non-current portion of these vested benefits, payable in accordance with various collective bargaining agreements, totals \$752,277 as of June 30, 2010.

**Redevelopment Agency Pass-Through Agreements**

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

County Library Fund and County Special District Funds

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

Principal balance at June 30, 2010	<u>\$ 132,052</u>
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County Library Building Fund

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

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2010**

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

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

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

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

The Agency may prefund any portion of the obligation at any time. "Prefund" means to provide the total amount of funding needed in a particular year to achieve the total Agency obligation as of that fiscal year. The maximum obligation of the Agency through the fiscal year ending June 30, 2018 is \$2,640,000. The Agency has recorded the initial debt of \$1,400,000 as of the 2004-05 fiscal year, which is increased by 5% each year and reduced by the minimum scheduled payment each year. The principal balance at June 30, 2010 is \$1,636,794.

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

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

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

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

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

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

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2010**

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

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

**Changes in Long-Term Debt**

Following is a summary changes in long-term debt during the 2009-2010 fiscal year:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
2007 POB	\$ 4,670,000	\$ -	\$ 405,000	\$ 4,265,000	\$ 435,000
Capital Leases Payable	101,430	-	32,429	69,001	33,791
Notes Payable	1,016,602	-	6,420	1,010,182	6,712
Compensated Absences	696,243	56,034	-	752,277	75,000
Net OPEB Obligation	-	149,108	-	149,108	-
RDA Pass-Throughs	1,774,787	85,085	91,026	1,768,846	91,026
Totals	<u>\$ 8,259,062</u>	<u>\$ 290,227</u>	<u>\$ 534,875</u>	<u>\$ 8,014,414</u>	<u>\$ 641,529</u>

**F) Net Assets and Fund Balances**

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

1) Net Assets

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

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

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

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

2) Fund Balances, Reserves, and Designations

In the fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables less liabilities. Portions of fund balances may be reserved or designated for future expenditures.

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2010**

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

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

Designations:

Included within the fund balance of the General Fund are the fiscal year-end designations associated with the City Council Designated Reserves, which total \$4,004,326 at June 30, 2010. The Designations are as follows:

Council Designations	June 30, 2010
Public Employee Retirement Reserve	\$ 520,524
Contingency Reserve	1,247,152
Information Technology	141,401
Self Insurance Liability	253,893
Workers Compensation	174,999
Stores	25,272
Equipment Replacement	282,538
Compensated Absences	116,857
Emergency Reserves	627,083
Public Space	256
Disabled Parking	15,186
General Plan Update	599,165
Total General Government	\$ 4,004,326

Reserves:

Portions of fund balances have been reserved for specific purposes as follows:

**Reserved for Prepaids** - This reserve is established for prepaid expenditures.

**Reserved for Advances to Other Funds** - This reserve is established for Redevelopment Agency Advances.

**IV) OTHER INFORMATION**

**A) Risk Management**

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

**City of Capitola**  
**Notes to Financial Statements**  
**Year Ended June 30, 2010**

**IV) OTHER INFORMATION - Continued**

**A) Risk Management - Continued**

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

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

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

**B) Joint Ventures**

**Santa Cruz Consolidated Emergency Communications Center**

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

In addition, the Authority and member agencies have entered into a Use Agreement relating to the issuance of the Authority's Santa Cruz County Public Financing Authority 2002 Lease Revenue Refunding Bonds, Series A, in the aggregate principal amount of \$5,760,000. The Agreement obligates the member agencies to pay use payments each year as rental for the use and occupancy of the related facilities.

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2010**

**IV) OTHER INFORMATION - Continued**

**B) Joint Ventures - Continued**

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

<u>Fiscal Year Ending June 30.</u>	<u>Annual Use Payment</u>
2011	\$ 51,068
2012	36,822
2013	37,348
2014	36,879
2015	35,574
2016-2020	185,555
2021-2024	147,253

**Other Activities**

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

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

**Public Employee's Retirement System**

Plan Description

The City of Capitola contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The contract offers a "2.5% at 55" plan for Miscellaneous Plan members and "3% at 50" plan for Safety Plan Members. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of CalPERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, California 95814. The City of Capitola Miscellaneous Plan converted to 2.5% at 55, effective December 30, 2007.

Funding Policy

Active plan members are required to contribute a percentage of their annual covered salary. The City of Capitola pays the member contributions for both the Miscellaneous Plan and the Safety Plan: 7% and 9% respectively. The actual rate for the Miscellaneous Plan is 8%, of which the City pays for 7%, and the employees pay for 1%. The City of Capitola is required to make an additional contribution at an actuarially determined rate. The required employer contribution rates for the fiscal year 2009-10 were 10.658% for the Miscellaneous Plan members and 18.504% for

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2010**

**IV) OTHER INFORMATION - Continued**

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

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

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

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

Fiscal Year	Required Contributions	Percentage Contributed
06/30/08	\$ 248,258	100%
06/30/09	\$ 286,734	100%
06/30/10	\$ 384,507	100%

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

Fiscal Year	Required Contributions	Percentage Contributed
06/30/08	\$ 359,196	100%
06/30/09	\$ 392,074	100%
06/30/10	\$ 383,836	100%

**Public Agency Retirement System**

Overview

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

Plan Description

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

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

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2010**

**IV) OTHER INFORMATION - Continued**

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

**Public Agency Retirement System - Continued**

Contributions

A total annual contribution of 7.5% of covered earnings is contributed to the PARS account for each eligible employee. The City of Capitola contributes 1.3% and the employee contributes 6.2%. During the fiscal year 2009-10 contributions totaled \$30,471: \$5,359 by the City and \$25,112 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 2009-10 differs from the contribution totals provided by PARS in the following table because PARS reports on a calendar year, rather than a fiscal year basis.

Plan Net Assets and Changes in Net Assets

Balance 1/1/09	\$	58,613
Contributions		30,061
Earnings		3,100
Subtotal		91,774
Less: Expenses		(4,107)
Disbursements		(13,662)
Balance 12/31/09	\$	74,005

**D) Post Employment Benefits**

Plan Description

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

Funding Policy

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

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2010**

**IV) OTHER INFORMATION - Continued**

**D) Post Employment Benefits - Continued**

The City is required to contribute the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 1.7% of the annual covered payroll. The City Council, through resolution, determined the City will make contributions on the “pay-as-you-go” method, making contributions to the plan at about the same time and in about the same amount as benefit payments and expenses become due.

Annual OPEB Cost

The City’s annual OPEB cost, net OPEB obligation (asset) and the related information for 2010 were as follows:

Annual Required Contribution	\$ 93,151
Interest on Net Pension Obligation (Asset)	3,285
Adjustment to Annual Required Contribution	(3,097)
Annual OPEB Cost	<u>93,339</u>
Contributions Made	(17,227)
Pension Asset Amortization	-
Increase (Decrease) in Net Pension Obligation (Asset)	<u>76,112</u>
Net Pension Obligation (Asset) Beginning of Year	72,996
Net Pension Obligation (Asset) End of Year	<u><u>\$ 149,108</u></u>

For 2010, the City’s annual OPEB cost (expense) of \$93,339 for CRHP was greater than the ARC by \$188. The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and the two preceding years were as follows:

THREE-YEAR TREND INFORMATION FOR CRHP			
Fiscal Year	Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/10	\$ 93,339	18.5%	\$ 149,108
6/30/09	\$ 87,219	16.3%	\$ 72,996
6/30/08	*	*	*

\* The information for the year ending June 30, 2008 is unavailable. GASB 45 was implemented prospectively in fiscal year 2009.

**City of Capitola  
Notes to Financial Statements  
Year Ended June 30, 2010**

**IV) OTHER INFORMATION - Continued**

**D) Post Employment Benefits - Continued**

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2008, was as follows:

Actuarial Accrued Liability (AAL)	\$	1,043,809
Actuarial Value of Plan Assets	\$	0
Unfunded Actuarial Accrued Liability (UAAL)	\$	1,043,809
Funded Ratio (Actuarial Value of Plan Assets/AAL)		0%
Covered Payroll (Active Plan Members)	\$	3,125,748
UAAL as a Percentage of Covered Payroll		33.34%

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

Actuarial Methods and Assumptions

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

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

Valuation Date	July 1, 2008
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	30 Years as of the Valuation Date
Actuarial Assumptions:	
Investment Rate of Return	4.50%
Projected Salary Increase	3.25%
Health Care Trend Rate	10.00%

**E) Commitments and Contingent Liabilities**

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

**City of Capitola**  
**Notes to Financial Statements**  
**Year Ended June 30, 2010**

**IV) OTHER INFORMATION - Continued**

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

**Other Contingencies**

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

**F) Proposition 1A Borrowing by the State of California**

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California State Legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in-lieu sales tax, and the supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The State is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the City was \$229,040.

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority ("California Communities"), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds ("Prop 1A Bonds") to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The City participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its right under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual - General Fund**  
**Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 8,408,900	\$ 7,375,750	\$ 7,688,040	\$ 312,290
Licenses & Permits	190,000	540,000	589,535	49,535
Fines & Forfeitures	755,000	759,700	803,198	43,498
Intergovernmental	333,700	1,163,723	1,090,705	(73,018)
Charges for Services	2,122,900	1,537,200	1,214,082	(323,118)
Use of Money and Property	439,800	444,800	475,348	30,548
Other Revenue	71,000	152,000	162,410	10,410
Total Revenues	<u>12,321,300</u>	<u>11,973,173</u>	<u>12,023,318</u>	<u>50,145</u>
<b>EXPENDITURES</b>				
Current:				
General Government	2,241,916	2,385,685	2,143,986	241,699
Public Safety	5,597,787	5,570,537	5,276,037	294,500
Community Development	826,091	832,752	767,123	65,629
Culture and Recreation	951,951	943,993	906,222	37,771
Transportation	1,962,922	1,931,241	1,788,985	142,256
Capital Outlay		32,324	32,324	-
Total Expenditures	<u>11,580,667</u>	<u>11,696,532</u>	<u>10,914,677</u>	<u>781,855</u>
Excess (Deficiency) of Revenues over Expenditures	<u>740,633</u>	<u>276,641</u>	<u>1,108,641</u>	<u>832,000</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In			-	-
Transfers Out	(568,900)	(468,900)	(851,449)	(382,549)
Total Other Financing Sources (Uses)	<u>(568,900)</u>	<u>(468,900)</u>	<u>(851,449)</u>	<u>(382,549)</u>
Net Change in Fund Balances	171,733	(192,259)	257,192	449,451
Fund Balances, Beginning	<u>5,996,590</u>	<u>5,996,590</u>	<u>5,996,590</u>	<u>-</u>
Fund Balances, Ending	<u>\$ 6,168,323</u>	<u>\$ 5,804,331</u>	<u>\$ 6,253,782</u>	<u>\$ 449,451</u>

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual - Federal Home Loan Reuse Fund**  
**Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Use of Money and Property	\$ 4,800	\$ 4,800	\$ 12,305	\$ 7,505
Total Revenues	4,800	4,800	12,305	7,505
<b>EXPENDITURES</b>				
Current:				
Community Development	14,500	14,500	1,953	12,547
Total Expenditures	14,500	14,500	1,953	12,547
Excess (Deficiency) of Revenues over Expenditures	(9,700)	(9,700)	10,352	20,052
Fund Balances, Beginning	(5,221)	(5,221)	(5,221)	-
Fund Balances, Ending	<u>\$ (14,921)</u>	<u>\$ (14,921)</u>	<u>\$ 5,131</u>	<u>\$ 20,052</u>

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - RDA Low Income Housing Fund**  
**Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Use of Money and Property	\$ 16,500	\$ 16,500	\$ 3,883	\$ (12,617)
Total Revenues	16,500	16,500	3,883	(12,617)
<b>EXPENDITURES</b>				
Current:				
Community and Development	834,200	827,748	242,328	585,420
Total Expenditures	834,200	827,748	242,328	585,420
Excess (Deficiency) of Revenues over Expenditures	(817,700)	(811,248)	(238,445)	572,803
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	464,460	464,460	485,113	20,653
Total Other Financing Sources (Uses)	464,460	464,460	485,113	20,653
Net Change in Fund Balance	(353,240)	(346,788)	246,668	593,456
Fund Balance, Beginning	673,902	673,902	673,902	-
Fund Balance, Ending	\$ 320,662	\$ 327,114	\$ 920,570	\$ 593,456

**City of Capitola**  
**Schedule of Funding Progress for CRHP**  
**Year Ended June 30, 2010**

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

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

**City of Capitola**  
**Notes to Required Supplementary Information**  
**Year Ended June 30, 2010**

**BUDGETS AND BUDGETARY ACCOUNTING**

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

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

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

**SUPPLEMENTARY INFORMATION**

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - RDA Debt Service Fund**  
**Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 2,322,300	\$ 2,322,300	\$ 2,425,564	\$ 103,264
Use of Money and Property	49,700	49,700	23,837	(25,863)
Total Revenues	<u>2,372,000</u>	<u>2,372,000</u>	<u>2,449,401</u>	<u>77,401</u>
<b>EXPENDITURES</b>				
Current:				
General Government	4,248,500	5,201,480	2,062,506	3,138,974
Capital Outlay	60,000	60,000		60,000
Debt Service:				
Principal	91,000	91,000	91,026	(26)
Interest and Fiscal Charges	208,200	233,200	233,250	(50)
Total Expenditures	<u>4,607,700</u>	<u>5,585,680</u>	<u>2,386,782</u>	<u>3,198,898</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(2,235,700)</u>	<u>(3,213,680)</u>	<u>62,619</u>	<u>3,276,299</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers Out	464,460	(464,460)	(485,113)	(20,653)
Total Other Financing Sources (Uses)	<u>464,460</u>	<u>(464,460)</u>	<u>(485,113)</u>	<u>(20,653)</u>
Net Change in Fund Balance	(1,771,240)	(3,678,140)	(422,494)	3,255,646
Fund Balance, Beginning	<u>1,521,436</u>	<u>1,521,436</u>	<u>1,521,436</u>	<u>-</u>
Fund Balance, Ending	<u>\$ (249,804)</u>	<u>\$ (2,156,704)</u>	<u>\$ 1,098,942</u>	<u>\$ 3,255,646</u>

## **City of Capitola Non-Major Governmental Funds**

### **SPECIAL REVENUE FUNDS**

Special revenue funds are used to account for revenue derived from specific taxes or other dedicated revenue sources (other than for major capital projects) that are restricted by law or administrative action for expenditures for specified purposes.

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

**Gas Tax Fund** - Accounts for receipts and expenditures of gasoline tax revenues as provided by State law.

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

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

**Parking Reserve Fund** - Accounts for the revenues received from the increased rates for parking meter fees.

**Technology Fees Fund** - Accounts for revenues received from technology fees.

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

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

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

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

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

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

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

### **DEBT SERVICE FUNDS**

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

### **CAPITAL PROJECTS FUNDS**

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

**City of Capitola  
Combining Balance Sheet  
Non-Major Governmental Funds  
June 30, 2010**

	Special Revenue				
	Supplemental Law Enforcement	Gas Tax	Wharf	Development Fees	Parking Reserve
<b>ASSETS</b>					
Cash and Investments	\$	\$ 45,102	\$ 41,726	\$	\$ 78,649
Accounts Receivable	8,392		117		
Due from Other Governments	17,473	43,178			
Loans Receivable					
<b>Total Assets</b>	<b>\$ 25,865</b>	<b>\$ 88,280</b>	<b>\$ 41,843</b>	<b>\$ -</b>	<b>\$ 78,649</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts Payable	\$ 96	\$ 23,699	\$ 2,732	\$	\$
Accrued Liabilities	4,492				
Deferred Revenue				1,415	
Due to Other Funds	20,323				
Deposits Payable			1,000		
<b>Total Liabilities</b>	<b>24,911</b>	<b>23,699</b>	<b>3,732</b>	<b>1,415</b>	<b>-</b>
Fund Balances:					
Unreserved:					
Undesignated	954	64,581	38,111	(1,415)	78,649
<b>Total Fund Balances</b>	<b>954</b>	<b>64,581</b>	<b>38,111</b>	<b>(1,415)</b>	<b>78,649</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 25,865</b>	<b>\$ 88,280</b>	<b>\$ 41,843</b>	<b>\$ -</b>	<b>\$ 78,649</b>

<u>Technology Fees</u>	<u>PEG Cable TV Access</u>	<u>Capitola Village and Wharf BIA</u>	<u>CDBG</u>	<u>CDBG Program Income</u>	<u>HOME Grant</u>	<u>Affordable Housing</u>	<u>BEGIN Grant</u>
\$ 3,902	\$ 80,048 112 4,576	\$ 8,667 3,204	\$ 18,747 15,300	\$	\$	\$ 370,305	\$ 60,000
				161,882			
<u>\$ 3,902</u>	<u>\$ 84,736</u>	<u>\$ 11,871</u>	<u>\$ 34,047</u>	<u>\$ 161,882</u>	<u>\$ -</u>	<u>\$ 370,305</u>	<u>\$ 60,000</u>
\$	\$ 1,869	\$ 4,434	\$	\$ 3,493	\$	\$ 2,500	\$
				161,882 8,993	7,521		
<u>-</u>	<u>1,869</u>	<u>4,434</u>	<u>-</u>	<u>174,368</u>	<u>7,521</u>	<u>2,500</u>	<u>-</u>
<u>3,902</u>	<u>82,867</u>	<u>7,437</u>	<u>34,047</u>	<u>(12,486)</u>	<u>(7,521)</u>	<u>367,805</u>	<u>60,000</u>
<u>3,902</u>	<u>82,867</u>	<u>7,437</u>	<u>34,047</u>	<u>(12,486)</u>	<u>(7,521)</u>	<u>367,805</u>	<u>60,000</u>
<u>\$ 3,902</u>	<u>\$ 84,736</u>	<u>\$ 11,871</u>	<u>\$ 34,047</u>	<u>\$ 161,882</u>	<u>\$ -</u>	<u>\$ 370,305</u>	<u>\$ 60,000</u>

Continued

**City of Capitola**  
**Combining Balance Sheet - Continued**  
**Non-Major Governmental Funds**  
**June 30, 2010**

	2007 POB Debt Service	Capital Projects	Total Nonmajor Governmental Funds
<b>ASSETS</b>			
Cash and Investments	\$ 470,483	\$ 709,371	\$ 1,887,000
Accounts Receivable			27,125
Due from Other Governments		27,497	92,724
Loans Receivable			161,882
Total Assets	\$ 470,483	\$ 736,868	\$ 2,168,731
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts Payable	\$	\$ 82,683	\$ 121,506
Accrued Liabilities	2,297		6,789
Deferred Revenue		27,497	190,794
Due to Other Funds			36,837
Deposits Payable			1,000
Total Liabilities	2,297	110,180	356,926
Fund Balances:			
Unreserved:			
Undesignated	468,186	626,688	1,811,805
Total Fund Balances	468,186	626,688	1,811,805
Total Liabilities and Fund Balances	\$ 470,483	\$ 736,868	\$ 2,168,731

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**City of Capitola**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Non-Major Governmental Funds**  
**Year Ended June 30, 2010**

	Special Revenue				
	Supplemental Law Enforcement	Gas Tax	Wharf	Development Fees	Parking Reserve
<b>REVENUES</b>					
Taxes	\$	\$ 171,417	\$	\$	\$
Licenses and Permits					
Intergovernmental	181,621	91,403			
Charges for Services					
Use of Money and Property		200	77,144		
	<u>181,621</u>	<u>263,020</u>	<u>77,144</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>181,621</u>	<u>263,020</u>	<u>77,144</u>	<u>-</u>	<u>-</u>
<b>EXPENDITURES</b>					
Current:					
General Government					
Public Safety	165,203				
Community Development					
Culture and Recreation			72,155		
Transportation		227,812			
Capital Outlay			100,540		
Debt Service:					
Principal		38,849			
Interest & Fiscal Charges		4,936			
	<u>165,203</u>	<u>271,597</u>	<u>172,695</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>165,203</u>	<u>271,597</u>	<u>172,695</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>16,418</u>	<u>(8,577)</u>	<u>(95,551)</u>	<u>-</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In					78,649
Transfers Out					
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>78,649</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>78,649</u>
Net Change in Fund Balances	16,418	(8,577)	(95,551)	-	78,649
Fund Balances, Beginning	(15,464)	73,158	133,662	(1,415)	-
Fund Balances, Ending	<u>\$ 954</u>	<u>\$ 64,581</u>	<u>\$ 38,111</u>	<u>\$ (1,415)</u>	<u>\$ 78,649</u>

<u>Technology Fees</u>	<u>PEG Cable TV Access</u>	<u>Capitola Village and Wharf BIA</u>	<u>CDBG</u>	<u>CDBG Program Income</u>	<u>HOME Grant</u>	<u>Affordable Housing</u>	<u>BEGIN Grant</u>
\$	\$	\$	\$	\$	\$	\$	\$
	19,304						
3,902		69,975	11,848		1,169,180	15,878	
	532	203		116			
<u>3,902</u>	<u>19,836</u>	<u>70,178</u>	<u>11,848</u>	<u>116</u>	<u>1,169,180</u>	<u>15,878</u>	<u>-</u>
	23,704						
		77,351	5,427	20,111	1,176,701	47,093	
<u>-</u>	<u>23,704</u>	<u>77,351</u>	<u>5,427</u>	<u>20,111</u>	<u>1,176,701</u>	<u>47,093</u>	<u>-</u>
<u>3,902</u>	<u>(3,868)</u>	<u>(7,173)</u>	<u>6,421</u>	<u>(19,995)</u>	<u>(7,521)</u>	<u>(31,215)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>3,902</u>	<u>(3,868)</u>	<u>(7,173)</u>	<u>6,421</u>	<u>(19,995)</u>	<u>(7,521)</u>	<u>(31,215)</u>	<u>-</u>
<u>-</u>	<u>86,735</u>	<u>14,610</u>	<u>27,626</u>	<u>7,509</u>	<u>-</u>	<u>399,020</u>	<u>60,000</u>
<u>\$ 3,902</u>	<u>\$ 82,867</u>	<u>\$ 7,437</u>	<u>\$ 34,047</u>	<u>\$ (12,486)</u>	<u>\$ (7,521)</u>	<u>\$ 367,805</u>	<u>\$ 60,000</u>

Continued

**City of Capitola**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Continued**  
**Non-Major Governmental Funds**  
**Year Ended June 30, 2010**

	2007 POB Debt Service	Capital Projects	Total Nonmajor Governmental Funds
<b>REVENUES</b>			
Taxes	\$	\$	\$ 171,417
Licenses and Permits			19,304
Intergovernmental		387,650	1,841,702
Charges for Services		76,209	165,964
Use of Money and Property		1,274	79,469
	<u>-</u>	<u>465,133</u>	<u>2,277,856</u>
<b>EXPENDITURES</b>			
Current:			
General Government	1,500		25,204
Public Safety			165,203
Community Development			1,326,683
Culture and Recreation		7,524	79,679
Transportation			227,812
Capital Outlay		714,776	815,316
Debt Service:			
Principal	405,000		443,849
Interest & Fiscal Charges	268,492		273,428
	<u>674,992</u>	<u>722,300</u>	<u>3,357,174</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(674,992)</u>	<u>(257,167)</u>	<u>(1,079,318)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	622,800	150,000	851,449
Transfers Out			-
	<u>622,800</u>	<u>150,000</u>	<u>851,449</u>
Net Change in Fund Balances	(52,192)	(107,167)	(227,869)
Fund Balances, Beginning	<u>520,378</u>	<u>733,855</u>	<u>2,039,674</u>
Fund Balances, Ending	<u>\$ 468,186</u>	<u>\$ 626,688</u>	<u>\$ 1,811,805</u>

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - Supplemental Law Enforcement Fund**  
**Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 174,200	\$ 174,200	\$ 181,621	\$ 7,421
Total Revenues	<u>174,200</u>	<u>174,200</u>	<u>181,621</u>	<u>7,421</u>
<b>EXPENDITURES</b>				
Current:				
Public Safety	<u>174,100</u>	<u>174,100</u>	<u>165,203</u>	<u>8,897</u>
Total Expenditures	<u>174,100</u>	<u>174,100</u>	<u>165,203</u>	<u>8,897</u>
Excess (Deficiency) of Revenues over Expenditures	100	100	16,418	16,318
Fund Balance, Beginning	<u>(15,464)</u>	<u>(15,464)</u>	<u>(15,464)</u>	<u>-</u>
Fund Balance, Ending	<u><u>\$ (15,364)</u></u>	<u><u>\$ (15,364)</u></u>	<u><u>\$ 954</u></u>	<u><u>\$ 16,318</u></u>

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - Gas Tax Fund**  
**Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 178,400	\$ 178,400	\$ 171,417	\$ (6,983)
Intergovernmental	95,900	95,900	91,403	(4,497)
Use of Money and Property			200	200
Total Revenues	<u>274,300</u>	<u>274,300</u>	<u>263,020</u>	<u>(11,280)</u>
<b>EXPENDITURES</b>				
Current:				
Transportation	267,100	236,538	227,812	8,726
Debt Service:				
Principal	37,000	37,000	38,849	(1,849)
Interest & Fiscal Charges			4,936	(4,936)
Total Expenditures	<u>304,100</u>	<u>273,538</u>	<u>271,597</u>	<u>1,941</u>
Excess (Deficiency) of Revenues over Expenditures	(29,800)	762	(8,577)	(9,339)
Fund Balance, Beginning	<u>73,158</u>	<u>73,158</u>	<u>73,158</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 43,358</u>	<u>\$ 73,920</u>	<u>\$ 64,581</u>	<u>\$ (9,339)</u>

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - Wharf Fund**  
**Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Use of Money and Property	\$ 72,100	\$ 72,100	\$ 77,144	\$ 5,044
Other Revenue				-
Total Revenues	<u>72,100</u>	<u>72,100</u>	<u>77,144</u>	<u>5,044</u>
<b>EXPENDITURES</b>				
Current:				
Culture and Recreation	105,800	105,800	72,155	33,645
Capital Outlay	<u>27,300</u>	<u>125,311</u>	<u>100,540</u>	<u>24,771</u>
Total Expenditures	<u>133,100</u>	<u>231,111</u>	<u>172,695</u>	<u>58,416</u>
Excess (Deficiency) of Revenues over Expenditures	(61,000)	(159,011)	(95,551)	63,460
Fund Balance, Beginning	<u>133,662</u>	<u>133,662</u>	<u>133,662</u>	-
Fund Balance, Ending	<u><u>\$ 72,662</u></u>	<u><u>\$ (25,349)</u></u>	<u><u>\$ 38,111</u></u>	<u><u>\$ 63,460</u></u>

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - Development Fees Fund**  
**Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Charges for Services	\$ 67,000	\$ 67,000	\$	\$ (67,000)
Use of Money and Property	2,200	2,200		(2,200)
Total Revenues	<u>69,200</u>	<u>69,200</u>	<u>-</u>	<u>(69,200)</u>
<b>EXPENDITURES</b>				
Current:				
Community Development				-
Capital Outlay				-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	69,200	69,200	-	(69,200)
Fund Balance, Beginning	<u>(1,415)</u>	<u>(1,415)</u>	<u>(1,415)</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 67,785</u>	<u>\$ 67,785</u>	<u>\$ (1,415)</u>	<u>\$ (69,200)</u>

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - Parking Reserve Fund**  
**Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$	\$	\$	\$ -
Charges for Services				-
Use of Money and Property				-
Total Revenues	-	-	-	-
<b>EXPENDITURES</b>				
Current:				
Transportation		114		114
Total Expenditures	-	114	-	114
Excess (Deficiency) of Revenues over Expenditures	-	(114)	-	114
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	102,800	102,800	78,649	(24,151)
Total Other Financing Sources (Uses)	102,800	102,800	78,649	(24,151)
Net Change in Fund Balances	102,800	102,686	78,649	(24,037)
Fund Balance, Beginning	-	-	-	-
Fund Balance, Ending	\$ 102,800	\$ 102,686	\$ 78,649	\$ (24,037)

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - Technology Fees Fund**  
**Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Charges for Services	\$	\$	\$ 3,902	\$ 3,902
Total Revenues	-	-	3,902	3,902
<b>EXPENDITURES</b>				
Current:				
Transportation				-
Total Expenditures	-	-	-	-
Excess (Deficiency) of Revenues over Expenditures	-	-	3,902	3,902
Fund Balance, Beginning	-	-	-	-
Fund Balance, Ending	\$	\$	\$ 3,902	\$ 3,902

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - PEG Cable TV Access Fund**  
**Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Licenses and Permits	\$ 22,400	\$ 22,400	\$ 19,304	\$ (3,096)
Use of Money and Property	2,700	2,700	532	(2,168)
Total Revenues	<u>25,100</u>	<u>25,100</u>	<u>19,836</u>	<u>(5,264)</u>
<b>EXPENDITURES</b>				
Current:				
General Government	<u>22,400</u>	<u>22,400</u>	<u>23,704</u>	<u>(1,304)</u>
Total Expenditures	<u>22,400</u>	<u>22,400</u>	<u>23,704</u>	<u>(1,304)</u>
Excess (Deficiency) of Revenues over Expenditures	2,700	2,700	(3,868)	(6,568)
Fund Balance, Beginning	<u>86,735</u>	<u>86,735</u>	<u>86,735</u>	<u>-</u>
Fund Balance, Ending	<u><u>\$ 89,435</u></u>	<u><u>\$ 89,435</u></u>	<u><u>\$ 82,867</u></u>	<u><u>\$ (6,568)</u></u>

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - Capitola Village and Wharf BIA Fund**  
**Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Charges for Services	\$ 70,700	\$ 70,700	\$ 69,975	\$ (725)
Use of Money and Property			203	203
Total Revenues	<u>70,700</u>	<u>70,700</u>	<u>70,178</u>	<u>(522)</u>
<b>EXPENDITURES</b>				
Current:				
Community Development	<u>80,000</u>	<u>80,000</u>	<u>77,351</u>	<u>2,649</u>
Total Expenditures	<u>80,000</u>	<u>80,000</u>	<u>77,351</u>	<u>2,649</u>
Excess (Deficiency) of Revenues over Expenditures	(9,300)	(9,300)	(7,173)	2,127
Fund Balance, Beginning	<u>14,610</u>	<u>14,610</u>	<u>14,610</u>	<u>-</u>
Fund Balance, Ending	<u><u>\$ 5,310</u></u>	<u><u>\$ 5,310</u></u>	<u><u>\$ 7,437</u></u>	<u><u>\$ 2,127</u></u>

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - CDBG Fund**  
**Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 980,000	\$ 991,800	\$ 11,848	\$ (979,952)
Total Revenues	980,000	991,800	11,848	(979,952)
<b>EXPENDITURES</b>				
Current:				
Community Development	980,000	981,972	5,427	976,545
Total Expenditures	980,000	981,972	5,427	976,545
Excess (Deficiency) of Revenues over Expenditures	-	9,828	6,421	(3,407)
Fund Balance, Beginning	27,626	27,626	27,626	-
Fund Balance, Ending	\$ 27,626	\$ 37,454	\$ 34,047	\$ (3,407)

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - CDBG Program Income Fund**  
**Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Use of Money and Property	\$ 6,300	\$ 6,300	\$ 116	\$ (6,184)
Total Revenues	<u>6,300</u>	<u>6,300</u>	<u>116</u>	<u>(6,184)</u>
<b>EXPENDITURES</b>				
Current:				
Community Development	6,400	3,600	20,111	(16,511)
Total Expenditures	<u>6,400</u>	<u>3,600</u>	<u>20,111</u>	<u>(16,511)</u>
Excess (Deficiency) of Revenues over Expenditures	(100)	2,700	(19,995)	(22,695)
Fund Balance, Beginning	<u>7,509</u>	<u>7,509</u>	<u>7,509</u>	<u>-</u>
Fund Balance, Ending	<u><u>\$ 7,409</u></u>	<u><u>\$ 10,209</u></u>	<u><u>\$ (12,486)</u></u>	<u><u>\$ (22,695)</u></u>

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - HOME Grant Fund**  
**Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 1,750,000	\$ 1,750,000	\$ 1,169,180	\$ (580,820)
Total Revenues	<u>1,750,000</u>	<u>1,750,000</u>	<u>1,169,180</u>	<u>(580,820)</u>
<b>EXPENDITURES</b>				
Current:				
Community Development	1,753,000	1,795,000	1,176,701	618,299
Total Expenditures	<u>1,753,000</u>	<u>1,795,000</u>	<u>1,176,701</u>	<u>618,299</u>
Excess (Deficiency) of Revenues over Expenditures	(3,000)	(45,000)	(7,521)	37,479
Fund Balance, Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, Ending	<u>\$ (3,000)</u>	<u>\$ (45,000)</u>	<u>\$ (7,521)</u>	<u>\$ 37,479</u>

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - Affordable Housing Fund**  
**Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Charges for Services	\$ 75,000	\$ 75,000	\$ 15,878	\$ (59,122)
Total Revenues	75,000	75,000	15,878	(59,122)
<b>EXPENDITURES</b>				
Current:				
Community Development	113,300	133,300	47,093	86,207
Total Expenditures	113,300	133,300	47,093	86,207
Excess (Deficiency) of Revenues over Expenditures	(38,300)	(58,300)	(31,215)	27,085
Fund Balance, Beginning	399,020	399,020	399,020	-
Fund Balance, Ending	<u>\$ 360,720</u>	<u>\$ 340,720</u>	<u>367,805</u>	<u>\$ 27,085</u>

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - BEGIN Grant Fund**  
**Year Ended June 30, 2010**

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

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - 2007 POB Debt Service Fund**  
**Year Ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Use of Money and Property	\$	\$	\$	\$ -
Total Revenues	-	-	-	-
<b>EXPENDITURES</b>				
Current:				
General Government	2,000	2,000	1,500	500
Debt Service:				
Principal	405,000	405,000	405,000	-
Interest and Fiscal Charges	268,500	268,497	268,492	5
Total Expenditures	675,500	675,497	674,992	505
Excess (Deficiency) of Revenues over Expenditures	(675,500)	(675,497)	(674,992)	505
<b>OTHER FINANCING SOURCES (USES)</b>				
Tranfers In	622,800	622,800	622,800	-
Total Other Financing Sources (Uses)	622,800	622,800	622,800	-
Net Change in Fund Balance	(52,700)	(52,697)	(52,192)	505
Fund Balance, Beginning	520,378	520,378	520,378	-
Fund Balance, Ending	\$ 467,678	\$ 467,681	\$ 468,186	\$ 505

**City of Capitola**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - Capital Projects Fund**  
**Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 387,956	\$ 387,956	\$ 387,650	\$ (306)
Charges for Services	31,000	31,000	76,209	45,209
Use of Money and Property			1,274	1,274
Total Revenues	<u>418,956</u>	<u>418,956</u>	<u>465,133</u>	<u>46,177</u>
<b>EXPENDITURES</b>				
Current:				
Culture and Recreation	16,300	23,300	7,524	15,776
Capital Outlay	<u>721,455</u>	<u>721,455</u>	<u>714,776</u>	<u>6,679</u>
Total Expenditures	<u>737,755</u>	<u>744,755</u>	<u>722,300</u>	<u>22,455</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(318,799)</u>	<u>(325,799)</u>	<u>(257,167)</u>	<u>68,632</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	150,000	150,000	150,000	-
Transfers Out				-
Total Other Financing Sources (Uses)	<u>150,000</u>	<u>150,000</u>	<u>150,000</u>	<u>-</u>
Net Change in Fund Balances	(168,799)	(175,799)	(107,167)	68,632
Fund Balance, Beginning	<u>733,855</u>	<u>733,855</u>	<u>733,855</u>	<u>-</u>
Fund Balance, Ending	<u><u>\$ 565,056</u></u>	<u><u>\$ 558,056</u></u>	<u><u>\$ 626,688</u></u>	<u><u>\$ 68,632</u></u>

**City of Capitola**  
**Combining Statement of Fiduciary Assets and Liabilities**  
**Agency Funds**  
**June 30, 2010**

	Refinance Assessment District	Brookvale Assessment District	Auto Center Assessment District	Total
<b>ASSETS</b>				
Cash and Investments	\$	\$ 15,738	\$ 20,031	\$ 35,769
Cash with Fiscal Agent				-
Accounts Receivable				-
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Total Assets	<u>-</u>	<u>15,738</u>	<u>20,031</u>	<u>35,769</u>
<b>LIABILITIES</b>				
Due to Bond Holders	\$	\$ 15,738	\$ 20,031	\$ 35,769
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Total Liabilities	<u>-</u>	<u>15,738</u>	<u>20,031</u>	<u>35,769</u>

**City of Capitola**  
**Statement of Changes in Fiduciary Net Assets**  
**Agency Funds**  
**Year Ended June 30, 2010**

	Balance at July 1, 2009	Additions	Deletions	Balance at June 30, 2010
<b><u>REFINANCE ASSESSMENT DISTRICT</u></b>				
<b>ASSETS</b>				
Cash and Investments	\$ 195,704	\$	\$ 195,704	\$ -
Cash with Fiscal Agent	401,543		401,543	-
Accounts Receivable	11,063		11,063	-
Total Assets	<u>\$ 608,310</u>	<u>-</u>	<u>\$ 608,310</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ -	\$	\$	\$ -
Due to Bond Holders	359,628		359,628	-
Bond Reserve	248,682		248,682	-
Total Liabilities	<u>\$ 608,310</u>	<u>\$ -</u>	<u>\$ 608,310</u>	<u>\$ -</u>
<b><u>BROOKVALE ASSESSMENT DISTRICT</u></b>				
<b>ASSETS</b>				
Cash and Investments	\$	\$ 15,738	\$	\$ 15,738
Accounts Receivable				-
Total Assets	<u>\$ -</u>	<u>\$ 15,738</u>	<u>\$ -</u>	<u>\$ 15,738</u>
<b>LIABILITIES</b>				
Accounts Payable	\$	\$	\$	\$ -
Due to Bond Holders		15,738		15,738
Bond Reserve				-
Total Liabilities	<u>\$ -</u>	<u>\$ 15,738</u>	<u>\$ -</u>	<u>\$ 15,738</u>
<b><u>AUTO CENTER ASSESSMENT DISTRICT</u></b>				
<b>ASSETS</b>				
Cash and Investments	\$	\$ 20,031	\$	\$ 20,031
Accounts Receivable				-
Total Assets	<u>\$ -</u>	<u>\$ 20,031</u>	<u>\$ -</u>	<u>\$ 20,031</u>
<b>LIABILITIES</b>				
Accounts Payable	\$	\$	\$	\$ -
Due to Bond Holders		20,031		20,031
Bond Reserve				-
Total Liabilities	<u>\$ -</u>	<u>\$ 20,031</u>	<u>\$ -</u>	<u>\$ 20,031</u>

Continued

**City of Capitola**  
**Statement of Changes in Fiduciary Net Assets - Continued**  
**Agency Funds**  
**Year Ended June 30, 2010**

**TOTALS - ALL AGENCY FUNDS**

**ASSETS**

Cash and Investments	\$ 195,704	\$ 35,769	\$ 195,704	\$ 35,769
Cash with Fiscal Agent	401,543		401,543	-
Accounts Receivable	11,063		11,063	-
	<u>608,310</u>	<u>35,769</u>	<u>608,310</u>	<u>35,769</u>
Total Assets	<u>\$ 608,310</u>	<u>\$ 35,769</u>	<u>\$ 608,310</u>	<u>\$ 35,769</u>

**LIABILITIES**

Accounts Payable	\$	\$	\$	\$ -
Due to Bond Holders	359,628	35,769	359,628	35,769
Bond Reserve	248,682		248,682	-
	<u>608,310</u>	<u>35,769</u>	<u>608,310</u>	<u>35,769</u>
Total Liabilities	<u>\$ 608,310</u>	<u>\$ 35,769</u>	<u>\$ 608,310</u>	<u>\$ 35,769</u>

## **STATISTICAL SECTION**

CITY OF CAPITOLA  
Comprehensive Annual Financial Report  
Statistical Section  
Table of Contents  
Fiscal year ended June 30, 2010

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CITY OF CAPITOLA, CALIFORNIA  
 Net Assets by Component  
 Last Eight Fiscal Years  
 (accrual basis of accounting)

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Primary government activities	\$	\$	\$	\$	\$	\$	\$	\$
Invested in capital assets net of related debt	14,533,052	15,551,194	15,006,404	14,571,522	15,650,094	15,636,246	15,659,423	15,598,393
Restricted for								
Debt service	1,379,324	436,491	-	-	-	-	-	-
Community Development	1,590,217	1,742,349	2,156,616	3,310,474	3,633,337	1,717,350	1,106,642	1,317,373
Transportation	-	-	-	41,836	601,540	463,361	73,158	63,166
Public Safety	-	-	-	-	13,818	4,320	-	-
Total Restricted	2,969,541	2,178,840	2,156,616	3,352,310	4,248,695	2,185,031	1,179,800	1,380,539
Unrestricted	3,227,150	3,546,948	1,943,983	4,731,976	5,135,202	3,191,038	3,434,814	4,574,983
Total Primary govt net assets	20,729,743	21,276,982	19,107,003	22,655,808	25,033,991	21,012,315	20,274,037	21,553,915

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

Source: City of Capitola Finance Department

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CITY OF CAPITOLA, CALIFORNIA  
 Changes in Net Assets  
 Last Eight Fiscal Years  
 (accrual basis of accounting)

EXPENSES	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Primary government activities	\$	\$	\$	\$	\$	\$	\$	\$
General government	4,566,816	4,654,130	4,206,288	3,963,341	4,343,363	4,398,218	4,482,326	5,102,874
Public safety	4,297,742	4,253,893	4,541,764	5,350,140	5,733,164	5,297,536	5,926,915	5,533,158
Community development	957,882	1,051,726	4,176,740	1,227,338	1,549,716	2,192,786	2,217,702	2,427,571
Cultural and Leisure	1,518,293	1,385,415	1,475,701	1,510,595	1,596,235	1,658,276	1,035,537	1,025,289
Transportation	1,494,765	1,432,259	1,397,287	1,500,389	1,697,195	1,521,834	2,529,717	1,932,234
Interest on long-term debt	184,529	170,608	171,091	152,089	189,871	589,508	532,701	509,056
Total primary government expenses	13,020,027	12,948,031	15,968,871	13,703,892	15,109,544	15,658,158	16,724,898	16,530,182
<b>PROGRAM REVENUES</b>								
Primary government activities								
Charges for services:								
General government	698,716	1,217,689	1,046,335	724,337	704,859	793,429	658,366	805,684
Public safety	569,094	616,649	608,554	555,527	688,362	736,410	905,263	1,008,627
Community development	353,420	428,732	510,031	1,477,704	1,468,596	1,153,116	1,616,500	2,265,980
Cultural and Leisure	699,505	704,702	769,023	685,472	749,249	726,006	708,426	696,608
Transportation	41,231	32,040	34,447	11,170	17,738	13,135	33,696	53,600
Operating grants and contributions	338,739	301,600	290,607	812,227	1,010,467	1,420,068	285,966	1,469,481
Capital grants and contributions	582,866	496,587	323,840	160,510	514,150	-	527,390	387,650
Total primary govt program revenues	3,283,571	3,797,999	3,582,837	4,426,947	5,153,421	4,842,164	4,735,607	6,687,630
NET PRIMARY GOVT REV/(EXP):	(9,736,456)	(9,150,032)	(12,386,034)	(9,276,945)	(9,956,123)	(10,815,994)	(11,989,291)	(9,842,552)
<b>GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS:</b>								
Primary government activities								
Taxes:								
Sec and Unsec Property taxes	2,396,806	2,656,740	2,902,999	3,464,933	3,915,955	4,033,686	4,147,459	4,065,897
Transaction and Use tax	-	-	208,858	975,377	1,047,714	1,015,944	787,706	927,983
Sales and Use tax	5,300,068	5,394,876	5,234,955	4,132,287	4,174,104	3,939,085	2,857,549	3,288,654
Transient occupancy taxes	492,539	493,364	515,578	543,438	603,997	643,541	605,365	591,925
Franchise taxes	321,027	363,655	390,908	417,451	438,412	437,065	459,042	461,937
Business license tax	274,871	-	-	302,890	325,946	299,394	277,959	281,739
Other taxes	60,717	-	-	-	-	-	-	-
Intergovernmental	593,959	501,686	261,377	1,414,629	1,421,057	1,507,201	1,417,265	979,039
Investment income	365,690	281,245	509,839	225,995	287,069	379,439	394,135	237,926
Other general revenues	11,702	23,992	191,541	108,750	120,052	451,939	304,533	287,330
Transfers	-	-	-	-	-	-	-	-
Total primary government activities	9,817,379	9,715,558	10,216,055	11,585,750	12,334,306	12,707,294	11,251,013	11,122,430
<b>CHANGES IN NET ASSETS:</b>								
Total primary government activities	80,923	565,526	(2,169,979)	2,308,805	2,378,183	1,891,300	(738,278)	1,279,878
<b>NET ASSETS:</b>								
07/01 prior year	20,648,820	20,711,456	21,276,982	19,107,003	22,655,808	25,033,991	21,012,315	20,274,037
06/30/200x	20,729,743	21,276,982	19,107,003	22,655,808	25,033,991	21,012,315	20,274,037	21,553,915
Prior period adjustment	-	-	-	1,240,000	-	(5,912,976)	-	-

NOTES: The City of Capitola has no business-type activities; governmental and primary government figures are the same.  
 Prior period adjustment is Library Fund for 2005-06 and Pension Obligation Bond for 2007-08

Source: City of Capitola Finance Department

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CITY OF CAPITOLA, CALIFORNIA  
Fund Balances of Government Funds  
Last Eight Fiscal Years  
(modified accrual basis of accounting)

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
	\$	\$	\$	\$	\$	\$	\$	\$
<b>GENERAL FUND</b>								
Reserved								
Prepaid	-	-	1,196	-	-	-	20,853	115,788
Advances	618,028	1,968,028	1,968,028	1,968,028	1,968,028	1,968,028	1,968,028	1,968,028
Total Reserved	618,028	1,968,028	1,969,224	1,968,028	1,968,028	1,968,028	1,988,881	2,083,816
Unreserved								
Designated	954,769	1,421,163	2,059,809	3,175,075	3,467,381	3,185,350	2,659,209	2,928,666
Unrestricted	578,170	682,198	886,059	1,339,240	1,342,000	1,350,000	1,350,000	1,350,000
Total Unreserved	1,532,939	2,103,361	2,945,868	4,514,315	4,809,381	4,535,350	4,009,209	4,278,666
Total General Fund	2,150,967	4,071,389	4,915,092	6,482,343	6,777,409	6,503,378	5,998,090	6,362,482
<b>ALL OTHER GOVERNMENT FUNDS</b>								
Reserved								
Low income housing	1,590,217	1,742,349	1,655,280	1,790,164	1,807,669	-	-	-
Debt service	1,379,324	457,941	6,321	38,291	608,444	-	-	-
Total Reserved	2,969,541	2,200,290	1,661,601	1,828,455	2,416,113	-	-	-
Unreserved, reported in:								
Unrestricted	1,820,029	-	-	-	-	-	-	-
Special revenue funds	-	612,680	611,586	713,936	937,554	3,422,865	2,975,558	1,642,632
Capital project funds	-	839,755	194,188	474,807	440,345	1,873,736	1,322,114	626,688
Debt service funds	-	(397,433)	(301,731)	-	-	-	-	1,458,428
Total Unreserved	1,820,029	1,055,002	504,043	1,188,743	1,377,899	5,296,601	4,297,672	3,727,748
Total All Other Govt Funds	4,789,570	3,255,292	2,165,644	3,017,198	3,794,012	5,296,601	4,297,672	3,727,748
TOTAL	6,940,537	7,326,681	7,080,736	9,499,541	10,571,421	11,799,979	10,295,762	10,090,230

Source: City of Capitola Finance Department

2010-3

CITY OF CAPITOLA  
 Changes in Fund Balances of Governmental Funds  
 Last Eight Fiscal Years  
 (modified accrual basis of accounting)

	2003	2004	2005	2006	2007	2008	2009	2010
	\$	\$	\$	\$	\$	\$	\$	\$
<b>REVENUES:</b>								
Taxes	8,846,028	8,908,635	9,253,298	11,375,438	12,047,049	12,008,557	10,239,518	10,285,021
Licenses, permits, and fees	199,589	746,009	834,819	357,259	255,435	269,903	664,514	608,839
Intergovernmental	1,531,972	1,206,150	918,167	750,310	1,224,583	1,121,274	1,745,535	2,932,407
Charges for services	1,503,110	1,405,002	1,577,491	2,091,960	2,263,383	2,466,957	1,743,732	1,380,046
Fines and forfeitures	533,631	575,401	571,264	511,705	639,058	671,668	701,767	803,198
Use of money and property	365,690	440,327	509,839	777,472	971,428	1,045,753	811,611	594,842
Other	208,139	192,602	299,119	85,746	88,687	434,315	177,820	162,410
Total revenues	13,188,159	13,474,126	13,963,997	15,949,890	17,489,623	18,018,427	16,084,497	16,766,763
<b>EXPENSES:</b>								
Current:								
General government	3,711,558	3,698,985	3,437,489	3,265,855	3,582,565	3,671,896	3,591,214	4,231,696
Public safety	4,079,761	4,086,832	4,726,001	5,260,696	5,630,694	5,246,604	5,869,382	5,441,240
Community development	949,508	1,074,691	1,547,188	1,358,540	1,831,423	2,324,254	2,361,533	2,338,087
Cultural and leisure	1,477,379	1,345,556	1,446,014	1,477,705	1,563,949	1,630,039	1,008,727	985,901
Transportation	1,312,281	1,325,546	1,435,550	1,493,339	1,690,172	1,476,103	2,574,732	2,016,797
Capital outlay	630,518	1,640,404	884,584	413,272	1,857,835	1,014,575	1,223,950	847,640
Subtotal	12,161,005	13,172,014	13,476,826	13,269,407	16,156,638	15,363,471	16,629,538	15,861,361
Debt service:								
Principal retirement	1,020,362	958,639	559,138	91,026	91,026	123,102	499,111	534,875
Interest and agent fees	192,446	196,046	173,978	170,652	170,079	470,570	529,446	506,678
Cost of Issuance	-	-	-	-	-	125,200	-	-
Subtotal	1,212,808	1,154,685	733,116	261,678	261,105	718,872	1,028,557	1,041,553
Total expenditures	13,373,813	14,326,699	14,209,942	13,531,085	16,417,743	16,082,343	17,658,095	16,902,914
<b>Excess/(deficiency) of revenues over/(under) expenditures</b>	<b>(185,654)</b>	<b>(852,573)</b>	<b>(245,945)</b>	<b>2,418,805</b>	<b>1,071,880</b>	<b>1,936,084</b>	<b>(1,573,598)</b>	<b>(136,151)</b>
<b>OTHER FINANCING SOURCES/(USES)</b>								
Transfers in	1,979,910	1,624,478	469,414	1,052,862	1,764,355	2,753,600	1,775,395	1,336,562
Transfers out	(1,979,910)	(1,624,478)	(469,414)	(1,052,862)	(1,764,355)	(2,753,600)	(1,775,395)	(1,336,562)
Sale of capital assets	-	1,238,717	-	-	-	165,450	-	-
Issuance of bonds	-	-	-	-	-	5,040,000	-	-
Payment to bond escrow agent	-	-	-	-	-	-	-	-
Total other financing sources/(uses)	-	1,238,717	-	-	-	5,205,450	-	-
<b>Special Items</b>								
Prefunding of PERS liability	-	-	-	-	-	(5,912,976)	-	-
<b>Net change in fund balances</b>	<b>(185,654)</b>	<b>386,144</b>	<b>(245,945)</b>	<b>2,418,805</b>	<b>1,071,880</b>	<b>1,228,558</b>	<b>(1,573,598)</b>	<b>(136,151)</b>
Beginning Fund balance	7,126,191	6,940,537	7,326,681	7,080,736	9,499,541	10,571,421	11,799,979	10,226,381
Changes	(185,654)	386,144	(245,945)	2,418,805	1,071,880	1,228,558	(1,573,598)	(136,151)
Ending Fund balance	6,940,537	7,326,681	7,080,736	9,499,541	10,571,421	11,799,979	10,226,381	10,090,230
Debt service as a percentage of noncapital expenditures	9.97%	8.77%	5.44%	1.97%	1.62%	4.68%	6.19%	6.57%

Source: City of Capitola Finance Department

2010-4

CITY OF CAPITOLA, CALIFORNIA  
 Assessed Value and Estimated Actual Value of Taxable Property  
 Last Thirteen Fiscal Years  
 (\$000)

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

Separate RDA figures are not available

NOTE: RDA figures were included in the City figures for 1998-2004.  
 (1) Secured and unsecured values were combined for 1998.

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

2010-5

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

	Fiscal Year												
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>City Direct Rates</b>													
City basic rate									0.250000%	0.250000%	0.250000%	0.250000%	0.250000%
Redevelopment Agency									0.000000%	0.000000%	0.000000%	0.000000%	0.000000%
Total City Direct Rate									0.250000%	0.250000%	0.250000%	0.250000%	0.250000%
<b>Overlapping Rates</b>													
<u>General Fund</u>													
Santa Cruz County General Fund									1.000000%	1.000000%	1.000000%	1.000000%	1.000000%
<u>Board Governed Districts</u>													
<u>Autonomous Districts</u>													
<u>City</u>													
<u>School Districts</u>													
Soquel Elementary School GO DS 2002 Series A									0.011936%	0.011416%	0.011416%	0.011222%	0.011608%
Soquel Elementary School GO DS 2002 Series B									0.009208%	0.009186%	0.009186%	0.008852%	0.009028%
Soquel Elementary School GO DS 2002 Series C									n/a	0.007113%	0.007113%	0.003123%	0.003007%
Santa Cruz High School GO DS 1998 A&B/2005REF									0.005190%	0.016340%	0.016340%	0.017417%	0.016863%
Santa Cruz High School GO DS 1998 Series C									0.008477%	0.002895%	0.002895%	0.005321%	0.011120%
Cabrillo College GO DS 1998 Series A									0.000214%	0.001075%	0.001075%	n/a	n/a
Cabrillo College GO DS 1998 Series B									0.006081%	0.006259%	0.006259%	0.006463%	0.007056%
Cabrillo College GO DS 1998 Series C									0.001910%	0.002316%	0.002316%	0.002518%	0.003046%
Cabrillo College GO DS 1998 Series D									0.000731%	0.001332%	0.001332%	0.001529%	0.001754%
Cabrillo College GO DS 2004 Series A									0.012362%	0.008221%	0.008221%	0.009212%	0.009878%
Cabrillo College GO DS 2004 Series B									n/a	0.003965%	0.003965%	0.005218%	0.005523%
Cabrillo College GO DS 1998A REF 2004									0.005398%	0.006835%	0.006835%	0.008296%	0.008724%
Total overlapping debt repaid with property taxes									0.061507%	0.076953%	0.076953%	0.079171%	0.087607%
<b>Total Direct Rate</b>									1.061507%	1.076953%	1.076953%	1.079171%	1.087607%

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

2010-6

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

Taxpayer	2010		2001	
	2010 Gross Assessed Valuation	Percent of Total City Gross Assessed Valuation	2001 Gross Assessed Valuation	Percent of Total City Gross Assessed Valuation
		%	\$	%
Macerich Partnership LP	67,573,275	3.77	51,515,530	4.40
Baskin Properties LLC	15,094,921	0.84	12,930,837	1.10
KLA Capitola LLC	14,626,696	0.82		0.00
George Ow, Jr. Trustees et al	11,667,392	0.65	9,773,511	0.84
Brown Ranch Properties	10,016,245	0.56	5,391,713	0.46
Bay Avenue Senior Housing LP	7,630,410	0.43		0.00
Values Pacific	7,569,238	0.42		0.00
Sea Ridge Limited Partnership	7,390,825	0.41		0.00
1100 41st Avenue LLC	7,230,009	0.40		0.00
Macy's West Inc.	6,921,490	0.39	7,130,577	0.61
Dodds Douglas U/M	6,409,310	0.36		0.00
Crossroads Associates	6,101,782	0.34		0.00
Loma Vista Estates Owners Assoc	5,641,412	0.31		0.00
Sears Roebuck & Company	5,613,900	0.31	5,466,006	0.47
Cristina Properties LLC	5,544,954	0.31		0.00
Bochner, Dan Zw/m Jt Etal	-	0.00	10,796,007	0.92
Salvation Army Corporation	-	0.00	8,349,393	0.71
Leavesly Ocean Inn-Vestors	-	0.00	5,693,439	0.49
	<u>185,031,859</u>	<u>10.32</u>	<u>117,047,013</u>	<u>10.00</u>
Memo: Gross Assessed Value	1,793,768,090	100.00	1,170,470,130	100.00

NOTES: Only nine taxpayers are identified for 2001 because Macerich Partnership was identified as two separate entities for the 2001 CAFR.

Source: Santa Cruz County Assessor's Office *Recapitulation of Assessment Rolls and Parcels with Gross Value over \$2,000,000; Residential over \$4,000,000* (2001,2010).

2010-7

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

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
	\$	\$	%		\$	%
1998	1,659,088	1,659,088	100.00	-	1,659,088	100.00
1999	1,654,149	1,654,149	100.00	-	1,654,149	100.00
2000	1,614,781	1,614,781	100.00	-	1,614,781	100.00
2001	1,786,246	1,786,246	100.00	-	1,786,246	100.00
2002	2,618,311	2,618,311	100.00	-	2,618,311	100.00
2003	2,039,535	2,039,535	100.00	-	2,039,535	100.00
2004	2,200,889	2,200,889	100.00	-	2,200,889	100.00
2005	2,268,012	2,268,012	100.00	-	2,268,012	100.00
2006	2,412,712	2,412,712	100.00	-	2,412,712	100.00
2007	2,605,158	2,605,158	100.00	-	2,605,158	100.00
2008	2,715,388	2,715,388	100.00	-	2,715,388	100.00
2009	2,851,724	2,851,724	100.00	-	2,851,724	100.00
2010	2,783,546	2,783,546	100.00	-	2,783,546	100.00

*NOTES: Figures presented include City property taxes and Redevelopment Agency tax increment, as well as amounts collected by the City and Redevelopment Agency that are pass throughs for other agencies. In fiscal year 1993-94, Santa Cruz County adopted the Teeter Plan under which the City of Capitola receives its entire tax levy, regardless of delinquencies as long as it qualifies for the Teeter Plan.*

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

Finance Department

**2010-8**

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

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

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

**2010-9**

CITY OF CAPITOLA, CALIFORNIA

Top 25 Sales Tax Taxpayers

Alphabetical, as of June 30, 2010

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**TOP 25 SALES TAX TAXPAYERS**

AT&T Wireless  
AJ's Fuel Market (Chevron)  
Bed Bath & Beyond  
Beverages & More  
Big 5 Sporting Goods  
Capitola 76 (Union 76)  
Chevron Service Station  
CVS  
Gawfco Enterprises (Union 76)  
Kohls  
Macy's Department Store  
Nob Hill General Stores  
O'Neill Surf Shop  
Orchard Supply Hardware  
Peninsula Petroleum  
Rite Aid Drug Stores  
Ross Stores  
Santa Cruz Mazda  
Save Mart Supermarkets  
Sears Roebuck & Company  
Shadowbrook Restaurant  
Toyota of Santa Cruz  
Trader Joe's  
Verizon Wireless  
Whole Foods

*NOTE: Information presented is as of June 30, 2010. It is alphabetical and is not indicative of relative nor total sales volume.*

Source: California State Board of Equalization

**2010-10**

CITY OF CAPITOLA, CALIFORNIA  
Ratios of Outstanding Debt by Type  
Last Thirteen Fiscal Years  
(\$ unless otherwise noted)

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

(1) The City of Capitola has no business-type activities; governmental and total primary government figures are the same.

(2) In July, 2008, 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 at that point in time.

(3) Other debt figures are composed of the following:

	Tax Anticipation Loan	County Library	RDA Deferred Pass Throughs	Notes Payable	Capital Leases	Total Other Debt
1998	-	-	-	-	-	-
1999	-	-	-	-	-	-
2000	1,000,000	-	-	-	-	1,000,000
2001	1,000,000	-	-	-	-	1,000,000
2002	1,000,000	-	516,225	105,965	88,815	1,711,005
2003	1,000,000	-	594,234	80,545	64,077	1,738,856
2004	1,000,000	-	528,208	137,261	37,853	1,703,322
2005	1,000,000	1,375,000	462,184	81,483	9,741	2,928,408
2006	1,000,000	1,420,000	396,158	70,766	-	2,886,924
2007	1,000,000	1,468,000	330,130	46,890	-	2,845,020
2008	1,000,000	1,521,000	264,105	22,743	-	2,807,848
2009	1,000,000	1,577,000	198,079	-	-	2,775,079
2010	1,000,000	1,636,800	132,054	-	-	2,768,854

(4) Santa Cruz County figures are used for per capita income because it is not available for the City of Capitola as a separate entity. Population figures are for the City of Capitola.

	Santa Cruz County per capita personal income	City of Capitola population
1998	30,600	11,050
1999	33,000	11,136
2000	39,200	10,033
2001	38,600	10,091
2002	37,900	10,089
2003	37,500	10,084
2004	39,800	10,011
2005	41,917	9,914
2006	45,925	9,901
2007	51,669	9,921
2008	51,140	9,988
2009	51,140	10,073
2010	51,140	10,198

NOTE: U.S. Department of Commerce Bureau of Economic Analysis provided data August, 2010 by county. The 2008 figure is used for 2009 and 2010.

Source: City of Capitola Financial Statements, BondLogistix Arbitrage Rebate Analysis

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

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

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

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

U.S. Department of Commerce Bureau of Economic Analysis provided data as of April, 2009 for 2005-2007 by county. The 2007 figure is used for 2008 and 2009.

	Santa Cruz County per capita personal income	City of Capitola population
	\$	
1998	30,600	11,050
1999	33,000	11,136
2000	39,200	10,033
2001	38,600	10,091
2002	37,900	10,089
2003	37,500	10,084
2004	39,800	10,011
2005	41,917	9,914
2006	45,925	9,901
2007	51,669	9,921
2008	51,140	9,988
2009	51,140	10,073
2010	51,140	10,198

Source: City of Capitola Financial Statements

2010-12

CITY OF CAPITOLA, CALIFORNIA

Direct & Overlapping Debt

Fiscal Year end

June 30, 2010

2009-10 Assessed Valuation	\$ 1,758,537,227
Redevelopment Incremental Valuation	<u>\$ 241,401,152</u>
Adjusted Assessed Valuation	\$ 1,517,136,075

	% Applicable (1)	Total Debt 6/30/2010	City's Share of Debt 6/30/2010
<b>OVERLAPPING TAX AND ASSESSMENT DEBT:</b>			
Cabrillo Joint Community College District	5.541%	\$168,076,753	\$9,313,133
Santa Cruz City High School District	14.823	46,959,646	6,960,828
Live Oak School District	9.660	18,739,975	1,810,282
Soquel Union School District	55.799	<u>12,910,000</u>	<u>7,203,651</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		<u>\$246,686,374</u>	<u>\$25,287,894</u>
<b>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</b>			
Santa Cruz County Certificates of Participation	5.602%	\$67,857,442	\$3,801,374
Santa Cruz County Office of Education Certificates of Participation	5.602	11,390,000	638,068
Cabrillo Joint Community College District Certificates of Participation	5.541	2,210,000	122,456
Live Oak School District Certificates of Participation	9.660	15,127,892	1,461,354
Soquel Union School District	55.799	2,470,000	1,378,235
Santa Cruz City Schools Certificates of Participation	14.823	4,680,000	693,716
City of Capitola General Fund Obligations	100.000	375,544	375,544
City of Capitola Pension Obligation Bond	100.000	4,265,000	4,265,000
Monterey Bay Unified Air Pollution Control Authority Certificates of Participation	1.944	2,440,000	47,434
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		<u>\$110,815,878</u>	<u>\$12,783,181</u>
COMBINED TOTAL DEBT		<u>\$ 357,502,252</u>	<u>\$ 38,071,075 (2)</u>

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

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

Ratios to 2009-10 Assessed Valuation	
Total Overlapping Tax and Assessment Debt	1.44%
Ratios to Adjusted Assessed Valuation	
Combined Direct Debt (\$4,640,544)	0.31%
Combined Total Debt	2.51%
STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10	\$0

**2010-13**

CITY OF CAPITOLA  
 Legal Debt Margin Information  
 Last Thirteen Fiscal Years  
 (\$000)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Assessed Valuation	850,103	906,756	975,793	1,039,192	1,124,611	1,200,028	1,286,491	1,471,735	1,600,330	1,714,909	1,781,764	1,775,215	1,793,768
RDA Base Valuation	147,099	145,036	156,563	160,978	173,198	188,349	194,534	202,415	214,599	226,445	234,306	241,324	243,336
Adj. assessed valuation	703,004	761,720	819,230	878,214	951,413	1,011,679	1,091,957	1,269,320	1,385,731	1,488,464	1,547,458	1,533,891	1,550,432
Debt limit percentage	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Debt limit	105,451	114,258	122,885	131,732	142,712	151,752	163,794	190,398	207,860	223,270	232,119	230,084	232,565
Net applicable debt													
Gen. obligation bonds	4,975	4,300	3,595	2,860	2,090	1,280	440	-	-	-	5,040	4,670	4,265
Legal debt margin	100,476	109,958	128,137	128,872	140,622	150,472	163,354	190,398	207,860	223,270	227,079	225,414	228,300
RATIO	4.95%	3.91%	2.81%	2.22%	1.49%	0.85%	0.27%	0.00%	0.00%	0.00%	2.22%	2.07%	1.87%

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

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

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

2010-14

CITY OF CAPITOLA  
Pledged-Revenue Coverage  
Last Thirteen Fiscal Years  
(\$000)

Fiscal Year Ended June 30	Other Revenue Bonds				Tax Allocation Bonds			
	Debt Service				Debt Service			
	Available Revenue	Principal	Interest	Coverage	Tax Increment	Principal	Interest	Coverage
	\$	\$	\$	\$	\$	\$	\$	\$
1998	-	-	-	n/a	-	-	-	n/a
1999	-	-	-	n/a	-	-	-	n/a
2000	-	-	-	n/a	-	-	-	n/a
2001	-	-	-	n/a	-	-	-	n/a
2002	-	-	-	n/a	-	-	-	n/a
2003	-	-	-	n/a	-	-	-	n/a
2004	-	-	-	n/a	-	-	-	n/a
2005	-	-	-	n/a	-	-	-	n/a
2006	-	-	-	n/a	-	-	-	n/a
2007	-	-	-	n/a	-	-	-	n/a
2008	-	-	-	n/a	-	-	-	n/a
2009	-	-	-	n/a	-	-	-	n/a
2010	-	-	-	n/a	-	-	-	n/a

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

SOURCE: City of Capitola financial statements

2010-15

CITY OF CAPITOLA  
 Demographic and Economic Statistics  
 Last Thirteen Fiscal Years

Calendar Year	Population	Per Capita Personal Income \$	Median Age	Unemployment Rate %
1998	11,050	30,600	35	5.7
1999	11,136	33,000	35	5.4
2000	10,033	39,200	35	4.7
2001	10,091	38,600	35	4.2
2002	10,089	37,900	35	4.6
2003	10,084	37,500	38	3.8
2004	10,011	39,800	38	3.4
2005	9,914	41,917	37	3.1
2006	9,901	45,925	37	4.9
2007	9,921	51,669	37	5.3
2008	9,988	51,140	38	7.1
2009	10,073	51,140	38	11.6
2010	10,198	51,140	39	11.4

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

**2010-16**

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

Employer	2010				2001		
	Ranking	Number of Employees	% of Total Employment (2)	Cumulative % of Top Ten	Ranking	Number of Employees	% of Total Employment (2)
Macy's	1	131	(2)	14.8%			
Whole Foods	2	121	(2)	28.5%			
Gayle's	3	110	(2)	41.0%	8	125	(2)
Toyota	4	105	(2)	52.8%			
Shadowbrook	5	81	(2)	61.9%			
Nob Hill	6	70	(2)	69.8%	10	110	(2)
Kohls	7	70	(2)	77.7%			
Sears	8	68	(2)	85.4%	6	170	(2)
New Leaf	9	67	(2)	92.9%			
City of Capitola	10	63	(2)	100.0%	7	160	(2)
Santa Cruz County Office of Education (1)					1	360	(2)
Gottchalks (1)					2	257	(2)
Soquel Elementary School District (1)					3	245	(2)
Mervyn's (1)					4	233	(2)
Spa Fitness					5	200	(2)
Orchard Supply Hardware					9	110	(2)
Memo: Total Top Ten 2010		884	(2)			1565	(2)
Memo: Total Employment (2)		(2)	(2)			(2)	(2)

SOURCE for 2010: 2010 telephone survey

SOURCE for 2001: 2001 City of Capitola Comprehensive Annual Financial Report.

(1) Business no longer located in the City of Capitola.

(2) Total employment not available separately for Capitola.

**2010-17**

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

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

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

SOURCE: City of Capitola Adopted Budgets (2006 - 2008). 2009 - 2010 source is payroll system data.

**2010-18**

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

INDICATOR	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
<b>Police department (calendar years)</b>														
Adult arrests	Data not available			799	780	791	852	877	879	1,069	1,000	908	850	
Calls for service	Data not available			20,591	19,213	19,292	22,422	18,364	21,241	22,196	20,528	19,641	19,993	
<b>Public works</b>														
Miles paved	26	26	26	26	26	26	26	26	26	26	26	26	26	
<b>New construction</b>														
Commercial units (2)	-	1	-	-	-	1	2	-	2	3	1	1	1	
Valuation (\$000) (2)	-	\$2,915	-	-	-	\$ 500	\$ 1,175	-	\$ 4,250	\$ 4,980	\$ 800	\$ 750	\$ 13,187	
Residential units (1)	13	20	11	23	16	9	7	10	17	18	69	122	8	
Valuation (\$000) (1)	\$2,437	\$6,060	\$ 1,985	\$ 3,632	\$ 4,816	\$ 1,807	\$ 2,954	\$ 3,900	\$ 6,275	\$ 5,882	\$ 11,363	\$ 20,392	\$ 1,724	
<b>Recreation Revenue</b>														
Classes	Data not available			\$265,400	\$254,500	\$313,900	\$296,000	\$329,600	\$320,800	\$335,300	\$356,000	\$378,400	\$336,100	\$318,550
Sports fees	Data not available			63,400	80,500	88,400	87,400	79,200	61,400	72,400	81,700	69,700	70,900	58,888
Junior Guard	Data not available			130,400	122,500	147,000	152,200	141,700	171,100	169,400	183,800	175,000	193,800	213,946
Camp Capitola	Data not available			68,700	89,100	83,700	61,300	54,200	70,600	66,700	75,800	80,000	79,700	79,459
Aquatics (3)	Data not available			14,000	20,100	26,700	29,300	24,000	27,100	26,600	23,100	19,700	-	
Net Class Rev	Data not available			\$541,900	\$566,700	\$659,700	\$626,200	\$628,700	\$651,000	\$670,400	\$720,400	\$722,800	\$680,500	\$670,842
Jade St. Rental	Data not available			\$ 18,700	\$ 12,300	\$ 10,000	n/a	\$ 7,500	\$ 16,100	\$ 15,300	\$ 8,100	\$ 6,600	\$ 4,000	\$ 5,212
Net Recreation Rev	Data not available			\$560,600	\$579,000	\$669,700	\$626,200	\$636,200	\$667,100	\$685,700	\$728,500	\$729,400	\$684,500	\$676,054

(1) Residential units and associated valuations are total additional, new or substantially new (by code definition) units.  
 (2) 2010 increase includes Fairfield Hotel  
 (3) Aquatics was discontinued as a City of Capitola Recreation Department offering in late 2007 due to lack of access to the local Community College pool.

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

2010-19

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

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

Source: City of Capitola Public Works Director

**2010-20**