

Comprehensive Annual Financial Report



City of Capitola, California
For Fiscal Year Ended June 30, 2015

CITY OF CAPITOLA, CALIFORNIA

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**City Of Capitola
Comprehensive Annual Financial Report
Year Ended June 30, 2015**

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INTRODUCTORY SECTION

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January 21, 2016

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

SUBJECT: Comprehensive Annual Financial Report - June 30, 2015

The Comprehensive Annual Financial Report (CAFR) for the City of Capitola for the fiscal year ended June 30, 2015 is hereby submitted.

REPORT PURPOSE AND ORGANIZATION

State law requires that the accounts and fiscal affairs of all municipal entities be examined annually by an independent certified public accountant. The City's independent auditor, Rogers, Anderson, Malody, and Scott, LLP has audited the City's financial statements and issued an unqualified opinion that financial statements for fiscal year ended June 30, 2015 are fairly presented in conformity with generally accepted accounting principles (GAAP). This opinion, along with the basic financial statements of the City, are hereby submitted as the CAFR for the City of Capitola for the fiscal year ended June 30, 2015 and included in the financial section of this report in fulfillment of the above requirement.

The independent audit of the financial statements is also typically conducted in conjunction with the federally mandated Single Audit. The standards governing the Single Audit require the independent auditor to report on items beyond fair presentation of the financial statements, including internal controls and compliance with legal requirements involving the administration of federal awards. A Single Audit Report on Federal Award Programs was not required or prepared in FY 14/15 because the City had less than \$500,000 in federal grant expenditures. The City's last required Single Audit Report is available for the year ended June 30, 2012.

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

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

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

CITY OF CAPITOLA PROFILE



The City of Capitola is a small coastal community located in Santa Cruz County that occupies approximately two square miles and serves a population of about 10,146. Located on the northern edge of Monterey Bay, approximately 35 miles north of Monterey and 75 miles south of San Francisco, Capitola enjoys a rich history and offers residents diverse recreational opportunities. Capitola Village is located along a sandy beach with expansive views of Monterey Bay and is home to numerous craft galleries, boutiques, and restaurants. The City is host to numerous events, including the Begonia Festival, Capitola Art and Wine Festival, and the annual Wharf to Wharf race.

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

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

Capitola is also fortunate to have outstanding educational opportunities. In addition, to having the New Brighton Middle School within its City limits, both Cabrillo Community College and the University of California, Santa Cruz are within eight miles of the City. According to the U.S. Census Bureau's 2010 data, 95% of Capitola residents are high school graduates and 41% possess a Bachelor's Degree or higher level degree.

Form of Government

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

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

City Services

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

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

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

Budgetary Policy and Control

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

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

The Successor Agency's two-year budget is incorporated into the City's budget process; however, all obligations are subject to semi-annual approval by the Oversight Board and the Department of Finance, with an annual approval process beginning with fiscal year 2016-17.

Factors Affecting Financial Condition



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

Local Economy

The City of Capitola, like many local governments, was previously challenged due to the economic downturn, State take-aways, and reduced reserves; however Fiscal Year 14/15 marks the third year of continued economic recovery. The budget for core revenues, such as sales, property, and transient occupancy taxes were increased at mid-year by \$139,654 or 1.4% to reflect increased performance, with the combined year-end amounts relatively consistent with the budget. This increased performance,

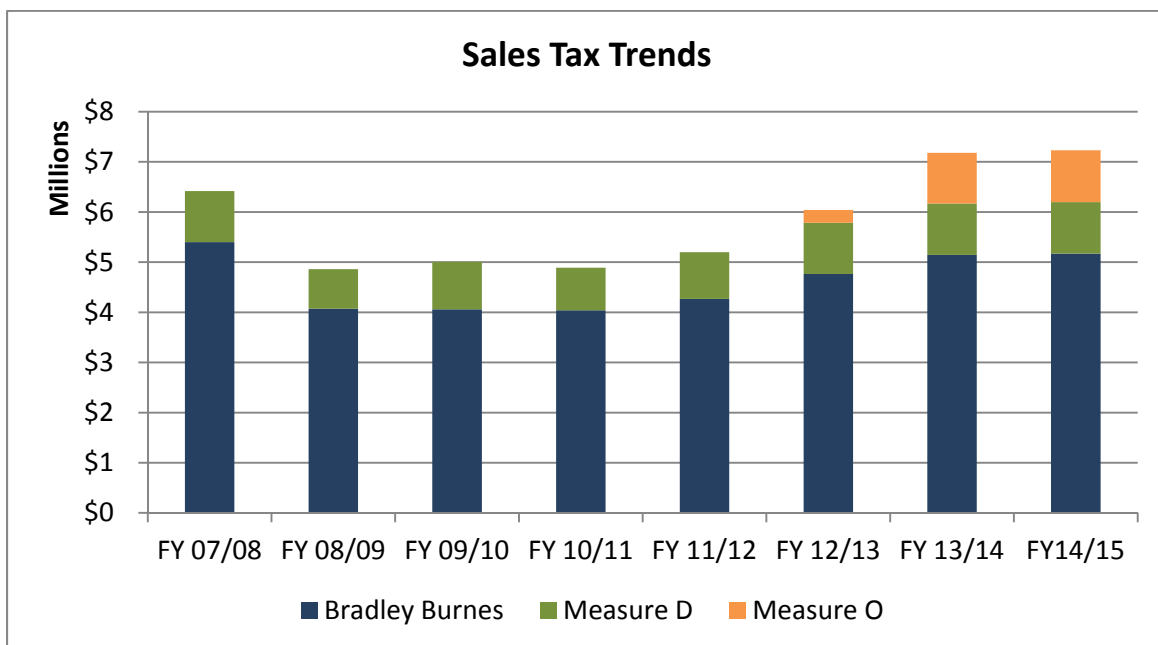
combined with salary and contract savings resulted in a net surplus in the General Fund’s primary operations of \$1,116,129 after reserve contributions and CIP transfers. Cautious optimism was reflected in developing the City’s two-year budget plan, with an emphasis on solidifying the City’s fiscal position, planning for the long-term and implementing capital improvements. All core FY 15/16 revenues are performing relatively consistent with the budget.

The local unemployment rate provides a good indication of the area’s economic stability. In Santa Cruz County, the unemployment rate declined from a five-year high of 12.7% in 2010 to 7.1% in 2015. This reduction was consistent with an overall decline in the State’s unemployment rate. In the City of Capitola, unemployment rates were moderately more favorable with a five-year high of 7.3% in 2011, and a 2015 rate of 5.6%. The effect of increased regional employment is reflected in the growth of sales and hotel occupancy rates.

The three major sources of General Fund revenue include Sales Tax, Property Tax, and Transient Occupancy Tax (TOT). These three revenues account for over 85% of all General Fund Revenues.

Sales tax is the City’s largest source of revenue, accounting for just under 60% of the General Fund Revenues. The City sales tax consists of 1% Bradley Burns; 0.25% Capitola District Tax (Measure D); and a new 0.25% Capitola District Tax (Measure O) that became effective in the last quarter of FY 12/13. In FY 14/15, the combined sales tax receipts of \$7.3 million were 0.27% more than amended budgetary estimates, and \$150,716 higher than the prior year.

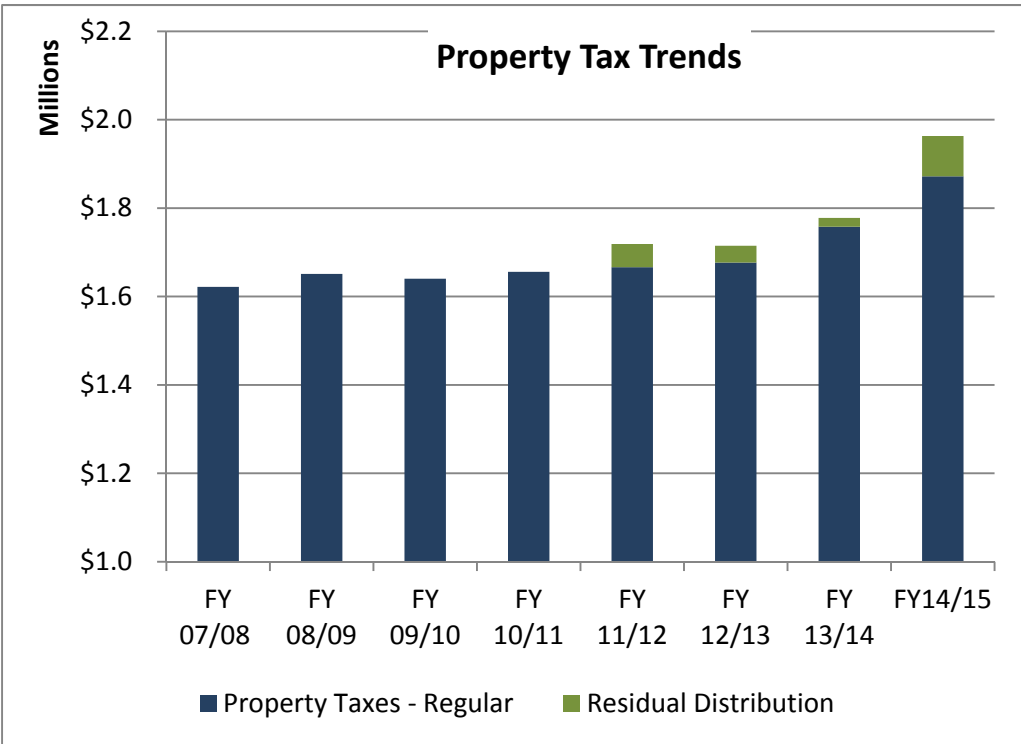
Sales tax receipts typically respond quickly to economic conditions. As displayed in the following chart, sales tax revenues responded to the weakening economy in FY 08/09 after the closure of two auto dealerships and two major department stores. In FY 09/10, the economy began to slowly show signs of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



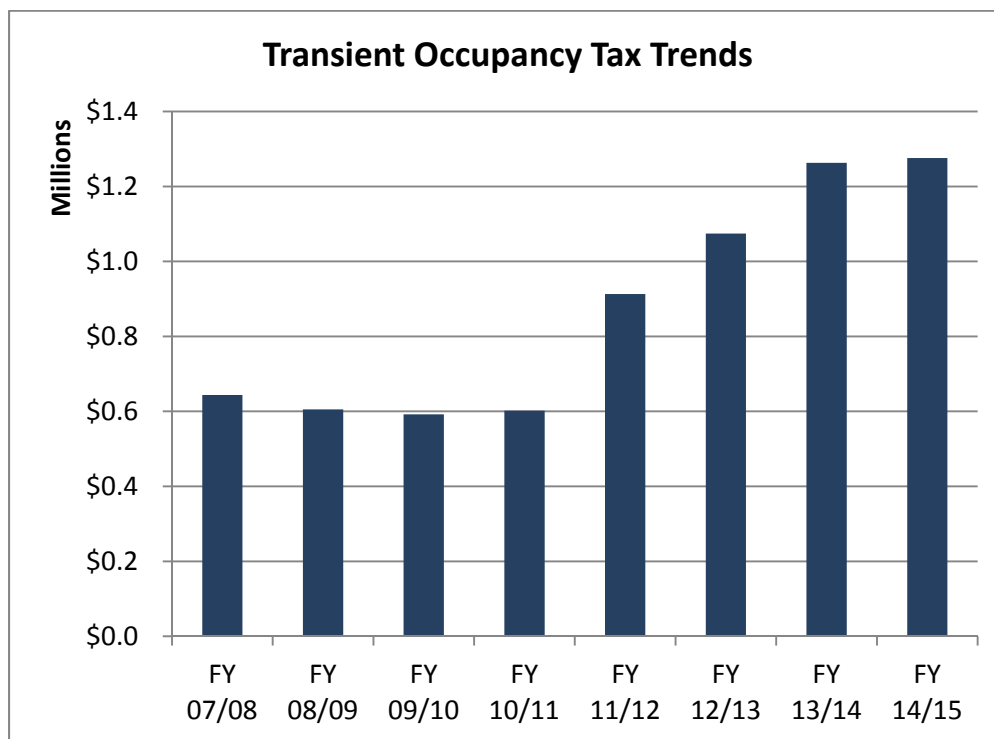
Capitola’s second major source of revenue is property tax. In FY 10/11, the General Fund and the Capitola Redevelopment Agency (RDA) received property tax revenues of \$1.7 million and \$2.4 million, respectively. Due to the dissolution of the RDA, the RDA’s tax increment revenues are distributed to the Successor Agency Private Purpose Trust Fund in amounts that are only sufficient to fund obligations approved by the independent Oversight Board.

In FY 14/15 the General Fund received \$1.87 million in property tax receipts, prior to inclusion of Documentary Transfer Tax and Residual RDA distributions. This base amount was approximately \$114,117 more than the prior year, and within \$58,372 above the final budgeted amount. In FY 11/12, City received \$52,534 in RPTTF revenues with declining receipts in FY 12/13 and FY 13/14 of \$37,928 and \$19,870 respectively before increasing to \$91,392 in FY14/15. These residual distributions are not indicative of a change in property values, but represent the distribution of excess property tax funds, beyond those necessary to fund the Successor Agency obligations, that were redistributed as part of the RDA dissolution process. It is anticipated the City will receive residual distributions of RPTTF revenues in FY 15/16 due to a reduction in required Successor Agency obligations.

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



Transient occupancy tax (TOT) represents over 10% of General Fund revenues. In FY 11/12, TOT revenues increased by \$310,000 over the prior year due to increased economic performance and the addition of a new 84-room major hotel. Economic growth has continued through FY 14/15 with TOT revenues rising by \$188,669 or 1% over the prior year. The City processed a TOT overpayment claim in 2014-15 that reduced the year over year TOT performance. Accounting for the overpayments in the prior year, the City experience a 12.5% increase in TOT collections. This increase can be attributed to increased tourism and potentially an extended warm weather season that prompted vacationers to choose a coastal, rather than mountain destination. In FY 15/16, the City has projected a growth rate of 2%. The first quarter revenues are trending relatively consistent to the budget estimate.



Long-term Financial Planning

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

Planning for Sales Tax Revenues

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

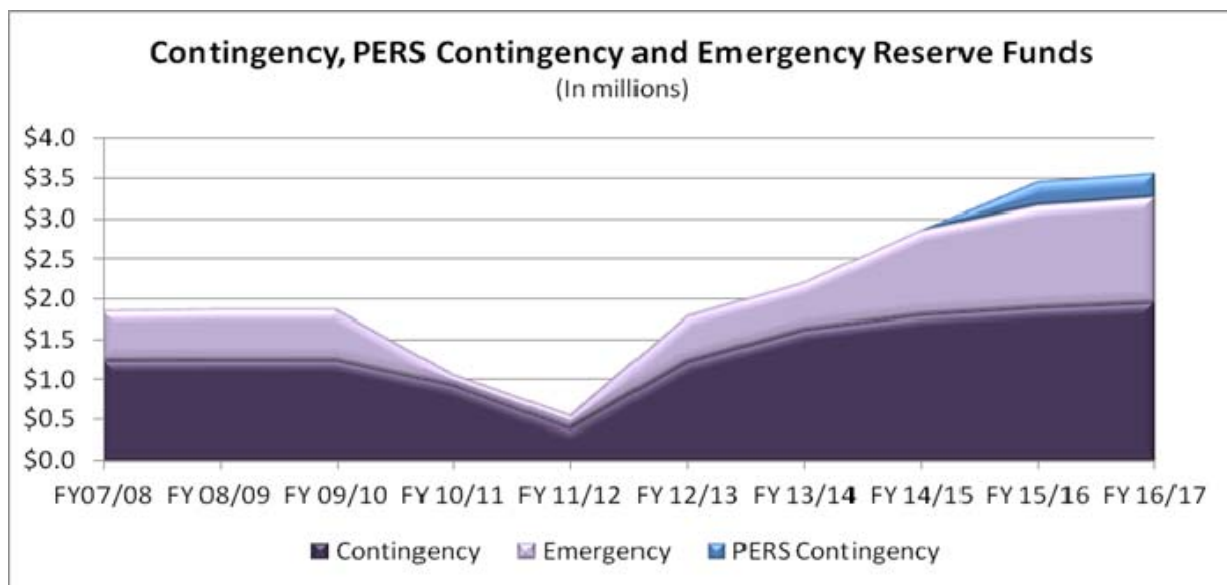
Each of the district taxes is anticipated to yield approximately \$1.25 million in General Fund revenues annually. Due to the April implementation of the new sales tax measure, the FY 12/13 revenues reflect only one quarter or \$254,000 of Measure O receipts. The City's intent is to use the combined sales tax revenues to finance economic recovery efforts until the sunset date of Measure D. It is anticipated the

loss of Measure D revenues could be partially offset by the retirement of a 2007 Pension Obligation Bond, which requires annual debt service payments of \$670,000; increased sales tax revenue, and general economic growth.

Replenishing and Increasing Reserves

In March of 2011, an underground storm drain failed which resulted in damage to the Pacific Cove Mobile Home Park, City Hall, and portions of Capitola Village. As a result, the City paid \$1.4 million in flood related costs over a two-year period; and assumed a \$2.39 million debt to relocate residents of the City-owned mobile home park. This incident reduced the City’s reserves from \$1.87 million in FY 09/10 to \$561,000 in FY 11/12, with an additional \$200,000 spent on related retaining wall repairs in FY 13/14. This incident, along with the economic downturn, emphasized the need to review reserve policy levels to ensure the City was maintaining a sufficient balance to effectively manage unforeseen events.

The City reviewed GFOA’s Best Practice in Determining the Unrestricted Fund Balance in the General Fund and historical finances to determine whether reserve policy levels were adequate. The City’s 2012 Benchmark Report also indicated that Capitola had the lowest reserve to operating expenditure ratios when compared to six comparative cities. In FY 12/13, it was determined that Emergency Reserves would be increased from 5% to 10% of operating expenditures, while Contingency Reserves would be increased from 10% to 15% of operating expenditures. To assist with the funding effort, a five-year plan was developed to use a portion of Measure O tax revenues to fully fund reserves by FY 16/17; however through an additional \$300,000 contribution from an insurance settlement and \$400,000 in General Fund transfers, the reserves are now expected to be fully funded in FY 15/16. The City implemented a new reserve fund in FY 15/16 to fund future PERS retirement cost increases.



Maintain the Facilities Reserve Fund

As part of the FY 14/15 Budget hearings the City established a Facilities Reserve Fund. In recent years maintenance and repairs of City facilities have been deferred due to fiscal constraints. This new fund provides a resource to stabilize long term maintenance expenditures. Examples of projects that could be financed through the fund include replacing roofs, painting exteriors, replacing mechanical/electrical equipment, and maintenance on adjoining parking spaces. A preliminary list of projects at City Hall, the Corporation Yard, Capitola Wharf, Library, and the Rispin Mansion are included in the Summary Section

of the budget. The FY 15/16 proposed budget includes a \$150,000 transfer to the Facility Reserve Fund. A formal funding policy will also be developed in FY 15/16 to assist in implementing long-term maintenance strategies.

Funding Other Post Employment Benefit Obligation (OPEB)

In FY 13/14, the City planned to begin partial funding of an OPEB Trust Fund for retiree medical benefits. The City has historically contributed the Minimum Employer Contribution required under the Public Employees' Medical and Hospital Care Act (PEMHCA). The FY 13/14 annual cost of retiree health care benefits was \$27,000. After evaluating three different providers, the City chose the California Employer's Retirement Benefit Trust Fund (CERBT), which is administered by the same public agency that manages the City's retirement plan. While the City planned to establish the fund with a \$30,000 contribution, a decision was made to fully fund the actuarially determined contribution of \$43,000. The transition from "pay as you go" financing to full funding, reduced the City's long-term liability from \$1,011,800 to \$657,500. In the FY 14/15 Adopted and FY 15/16 Planned Budgets the City has planned to fully fund the annual actuarially determined contribution amount.

Managing Retirement Costs / Acknowledging Employee Commitment

In FY 13/14 all bargaining units agreed to multi-year contracts through June 30, 2018, which capped the City's share of retirement costs for all Employees. Those contracts include cost of living adjustments (COLA) based on the Consumer Price Index.

Recent changes in the CalPERS cost pooling formulas have had a significant negative impact on the City. Those changes will result in 3-5 percent per year increases in CalPERS costs. Understanding that existing employees were already contributing more than the CalPERS-designated "employee share," the City negotiated with employee groups to update the existing contracts to provide a solution to reduce the negative impact on the employees for the remaining terms of the contracts.

The FY 14/15 PERS rate for Classic Tier I and Tier II Safety is 40.165% with employees paying 11.874% and 16.874%, respectively. For the Miscellaneous Group, the rate for Classic Tier I and Tier II is 26.780% and employees pay 10.292% and 15.292%, respectively. FY15/16 proposed PERS Rate reflects employees contributing an additional 1% towards their PERS contributions. The FY 15/16 PERS rate for Classic Tier I and Tier II Safety is 43.51% with employees paying 12.874% and 16.874%, respectively. For the Miscellaneous Group, the rate for Classic Tier I and Tier II is 33.159% and employees pay 11.292% and 15.292%, respectively.

Major Initiatives

Seeking Resolution on City / Successor Agency Loans

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

Department of Finance. While all obligations were certified on the ROPS, the City/Successor Agency Loans were initially disallowed by the Department of Finance.

In June 14, 2012, the Successor Agency and City approved exchanging the \$1.35 million Rispin Property Loan for the original subject property. Due to delays in Department of Finance approval, the City formally accepted the Rispin property in October of 2013, after successfully completing a Long Range Property Management Plan. The City plans to open the park to the public after completing ADA improvements funded by City, grant funds, and RPPTF distributions related to a Rispin Settlement Agreement. A complete discussion of the related Rispin Settlement Agreement is included in Note 18.

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

Receiving Significant Grant Funding

Community Development Block Grant

On October of 2014, the City was awarded a \$500,000 grant to offer Housing Rehabilitation and Homeowner Assistance Programs. Over \$215,000 of the Housing Rehabilitation funds will be used to provide loans to homeowners who earn less than 80% of the median income. These loans will cover health and safety improvements; and energy saving activities such as weatherization, new windows, and installation of solar collection units. The Homebuyer Program will also be directed towards buyers who earn less than 80% of the median income. Over \$195,000 will be used to assist buyers with the purchase of homes in Capitola by providing gap financing above their first mortgage. The remaining funds are provided for delivery and grant administration costs.

Planning for a New Library

In 1999, the City of Capitola developed a temporary 4,320 square foot library at the corner of Clares Street and Wharf Road. The City's former RDA established plans to construct a permanent library building by making annual contributions to a County Trust Fund. The \$2.64 million Redevelopment Agency obligation was fulfilled in FY 14/15; however additional funds will be needed to complete the library construction. In 2016 voters of Santa Cruz County will likely vote for a Community Facilities District tax to fund the Library Master Plan. If successful, Capitola would receive an additional \$8 million towards the construction of a new library.

Developing a Multi-Use Park

In FY13/14, Council approved converting about 1.4 acres of property on the City-owned McGregor site to a multi-use park. The proposed recreational site will include a skate park, bicycle pump track, and a dog park. The FY 14/15 budget appropriated \$165,000 to grade, fence, landscape; and improve the parking lot and related park features. Private sponsors have committed funding to construct a bicycle pump track, Skate Park and the dog park. In FY 14/15 the City appropriated an additional \$50,000 to the skate park to match the \$50,000 in funding from the Monte Foundation to construct an improved skate park with concrete skate elements. The park is expected to open in spring of 2016.

Relevant Financial Policies

Financial Management Policies

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

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

Investment Policy

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

AWARD FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) also awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Capitola's CAFR for the fiscal years ended June 30, 2012 and June 30, 2013. This Certificate of Achievement is a prominent national award recognizing conformance with the highest standards for preparation of State and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Prior to receiving the GFOA Award, the City received the Certificate for Outstanding Financial Reporting for the City of Capitola for the Comprehensive Annual Financial Report (CAFR) by the California Society of Municipal Finance Officers (CSMFO). This award was received consistently since FY 99/00. Once a GFOA Award is received, CSMFO prohibits cities from applying and receiving both awards.

ACKNOWLEDGEMENTS

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

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

Respectfully submitted,



Jamie Goldstein
City Manager

CITY OF CAPITOLA
LIST OF PRINCIPAL OFFICIALS
FOR
FISCAL YEAR ENDED JUNE 30, 2015

ELECTED OFFICIALS

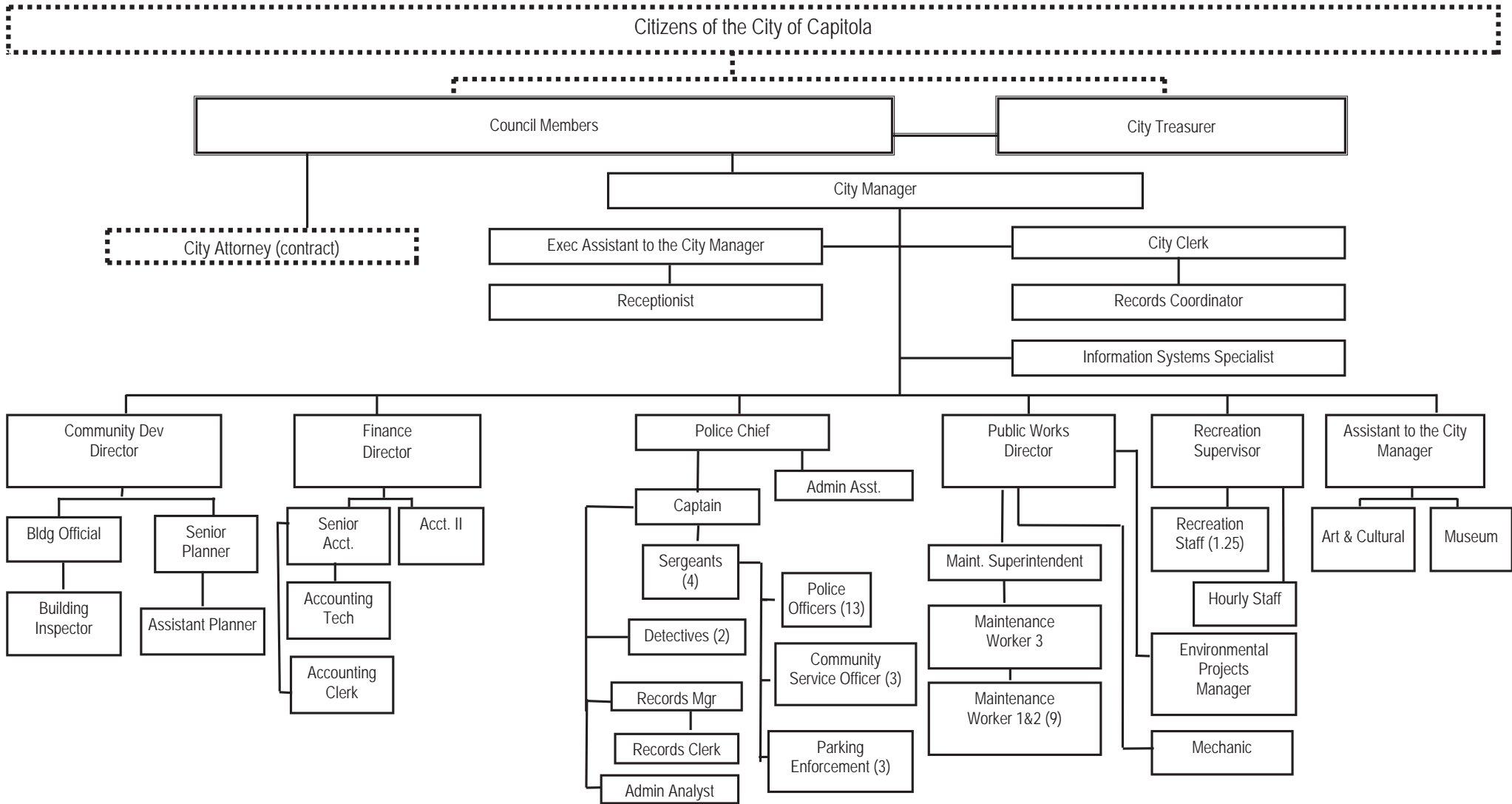
Mayor - Dennis Norton
Vice Mayor - Ed Bottorff
Council Member - Jacques Bertrand
Council Member – Stephanie Harlan
Council Member - Michael Termini
City Treasurer - Christine McBroom

APPOINTED OFFICIALS

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

DEPARTMENT HEADS/ADMINISTRATORS

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





Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**City of Capitola
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

FINANCIAL SECTION

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Scott W. Manno, CPA, CGMA
Leena Shanbhag, CPA, MST, CGMA
Jay H. Zercher, CPA (Partner Emeritus)
Phillip H. Waller, CPA (Partner Emeritus)

DIRECTORS

Bradferd A. Welebir, CPA, MBA

MANAGERS / STAFF

Jenny Liu, CPA, MST
Seong-Hyea Lee, CPA, MBA
Charles De Simoni, CPA
Yiann Fang, CPA
Nathan Statham, CPA, MBA
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INDEPENDENT AUDITOR'S REPORT

The Honorable City Council
City of Capitola, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Capitola, California (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Capitola, California, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the City adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transaction for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the of funding progress for Capitola retiree healthcare plan, the schedule of the City's proportionate share of the plans' net pension liability and related ratios as of the measurement date, the schedule of plan contributions, and budgetary comparison information as noted in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Capitola's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the nonmajor fund budgetary comparison schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2016 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Capitola's internal control over financial reporting and compliance.

Rogers Anderson Maloney & Scott, LLP

San Bernardino, California
January 21, 2016

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Management's Discussion and Analysis

As management of the City of Capitola, California, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2015. Readers are encouraged to consider the information presented here in conjunction with the accompanying letter of transmittal and the basic financial statements.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources, at the close of the most recent fiscal year by \$9.2 million (*net position*).
- The total net position increased by \$1,440,853 from FY 13/14. This included a prior period adjustment of negative \$15,436,035 related to the implementation of GASB Statement No. 68 and the requirement to record the City's long-term net pension obligation as a liability. Additional details can be found in Note 17.
- The City's net capital assets decreased by \$1,292,590 from the prior year.
- The City's long-term liabilities increased by \$11,582,709 from the prior year. This change is mostly due to the implementation of GASB 68. See Notes 6 and 11 for details.

Fund Highlights

- The City's governmental funds reported combined fund balances of \$9.4 million, an increase of \$1,709,937 from the prior year. Of the \$9.4 million fund balance, \$618,478 is reported as nonspendable, \$3.5 million is assigned, and \$4.3 million is unassigned, or available for spending at the City's discretion. An additional \$1.0 million is restricted for specific purposes by their providers through constitutional provisions or by enabling legislation. This is in compliance with Governmental Accounting Standard Board's (GASB) Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions, which is further described in Note 1, Section D10.
- The \$1,709,937 increase in the City's governmental funds reported combined fund balances was primarily the result of sales tax revenue increases in conjunction with reduced expenditures.
- The Unassigned fund balance for the General Fund was \$4.3 million or 36% of the total General Fund operating expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

The government-wide financial statements include the City of Capitola (known as the primary government).

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

Fund Financial Statements

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

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

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

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

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

The basic governmental fund financial statements can be found on pages 20-25 of this report.

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

Notes to the Financial Statements

The Notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 29-69 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information including the City of Capitola's progress in funding the Healthcare Plan, the schedule of the City's proportionate share of the plans' net pension liability and related ratios, the schedule of plan contributions, and budget to actual comparisons, as noted in the table of contents.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City of Capitola, assets exceeded liabilities and deferred inflows of resources by \$9.2 million at the close of the most recent fiscal year.

	Governmental Activities	
	2015	2014
Current and other assets	\$ 19,118,976	\$ 17,224,155
Capital assets	14,943,754	16,236,344
Total Assets	\$ 34,062,730	\$ 33,460,499
Total Deferred Outflows of Resources	1,267,930	-
Other liabilities	1,903,400	1,720,832
Long term liabilities		
Due in one year	808,111	748,591
Due in more than one year	17,360,226	5,837,037
Total Liabilities	20,071,737	8,306,460
Total Deferred Inflows of Resources	6,043,509	1,943,443
Net Position:		
Net investment in capital assets	11,603,977	12,750,861
Restricted	6,992,025	4,503,092
Unrestricted	(9,380,588)	5,956,643
Total Net Position	\$ 9,215,414	\$ 23,210,596

The largest portion of the City's net position, \$11.6 million, is reflected in its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets were not available for future spending.

Although the City of Capitola's investment in capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net position, \$7 million, represented resources that were subject to external restrictions on how they may be used. The remaining (\$9.4) million, of the City's net position, were "unrestricted," and may be used to meet the government's ongoing obligations to citizens and creditors.

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

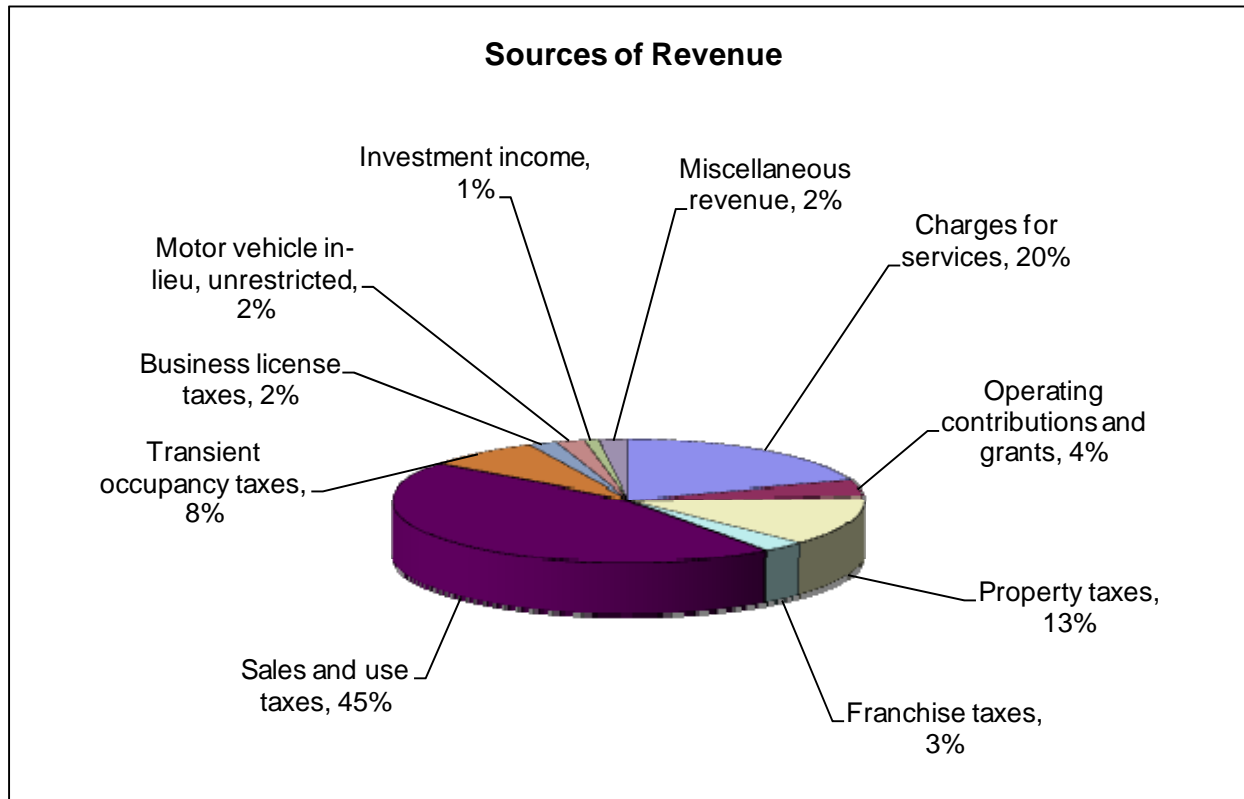
Governmental Activities

Governmental activities increased the City of Capitola's net position by \$1,440,853. The increase is largely due to improved tax revenue collections combined with a decrease in Transportation expenditures. The below chart depicts the changes in FY14/15 from FY 13/14:

	<u>2015</u>	<u>2014</u>
Revenues		
Program revenues:		
Charges for services	\$ 3,335,669	\$ 3,454,623
Operating grants and contributions	656,931	312,633
Capital contributions and grants	12,104	14,928
General revenues:		
Taxes:		
Property taxes	2,041,248	1,849,375
Franchise taxes	507,517	496,759
Sales and use taxes	7,330,443	7,179,727
Transient occupancy taxes	1,275,716	1,263,175
Business license taxes	284,474	286,638
Motor vehicle in-lieu, unrestricted	265,089	327,281
Investment income, unrestricted	118,770	107,218
Miscellaneous revenue	241,714	237,520
Total revenues	<u>16,069,675</u>	<u>15,529,877</u>
Expenses		
General government	3,582,320	3,402,777
Public safety	6,180,594	5,411,550
Community development	808,531	740,990
Culture and recreation	974,379	970,486
Transportation	2,865,807	3,069,903
Interest and other charges	217,191	211,255
Total expenses	<u>14,628,822</u>	<u>13,806,961</u>
Change in Net Position	1,440,853	1,722,916
Ending Net Position	<u><u>\$ 9,215,414</u></u>	<u><u>\$ 23,210,596</u></u>

Revenues

As shown in the in the Statement of Activities, revenues for FY 14/15 were \$16.1 million. The following graph includes program and general revenues and shows the percentage of governmental revenues by source:



These revenues represent an increase of approximately of \$539,798 over the prior year. This was primarily the result of the following factors:

- Property Taxes – Increase of approximately \$200,000 in property tax revenues. This increase was consistent with property valuation increases provided by the County Auditor Controller.
- Sales Tax Revenues – Increase of approximately \$150,000.
- Operating contributions and grants – Increased \$340,000, largely related to reimbursement for State Mandated Costs and Housing Element update grants.

Cost of Services

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

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

	Total Cost of Services	Program Revenues	Net Cost of Services
General government	\$ 3,582,320	\$ 1,239,888	\$ 2,342,432
Public safety	6,180,594	1,072,999	5,107,595
Community development	808,531	791,290	17,241
Culture and recreation	974,379	764,782	209,597
Transportation	2,865,807	135,745	2,730,062
Interest and other charges	217,191	-	217,191
Totals	\$ 14,628,822	\$ 4,004,704	\$ 10,624,118

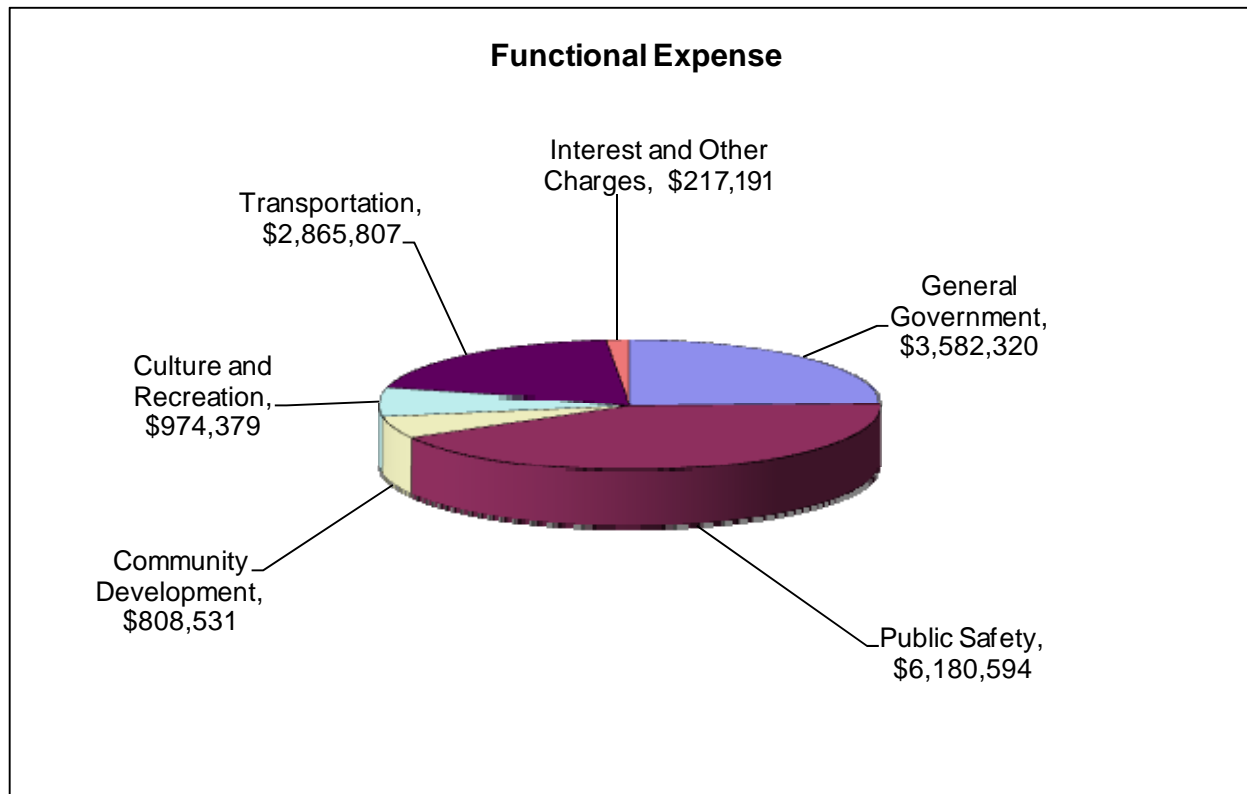
A description of each program is listed below:

- General Government expenses comprise approximately 24% of all government expenses. This includes City Council, City Manager, City Clerk, City Attorney, Finance, Administrative Services, and Risk Management. These programs are offset by parking meter collections, grants, and administrative support fees.
- Public Safety expenses comprise 42% of all governmental expenses. Revenues from fines, citations, grants, and animal services partially offset the cost of this program.
- Community Development expenses comprise approximately 6% of all governmental expenses. Various building and planning fees, along with grant revenues, assist in funding these program costs.
- Culture and Recreation expenses comprise 7% of all governmental expenses. These programs are primarily funded through recreational classes and sports fees.
- Transportation/Public Works expenses comprise 20% of all governmental expenses. This includes street, facility, park, and fleet maintenance; and oversight of the Pacific Cove Mobile Home Relocation Plan. Costs are partially offset by motor vehicle fuel taxes and various fees.
- Interest expense comprises 1% of all governmental expenses. This interest expense is used to pay long-term debt obligations.

Expenses

As shown in the Statement of Activities, expenses increased by \$821,861. This was primarily the result increased personnel costs and a reduction in capital expenditures under Transportation/Public Works.

A distribution of expenses by Function is provided below:



Financial Analysis of the City's Funds

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

Governmental Funds

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

At the end of the current fiscal year, the City of Capitola's governmental funds reported a combined ending fund balance of \$9.4 million, an increase of \$1.7 million in comparison with the prior fiscal year. \$618,478 is reported as nonspendable and \$3.6 million is assigned to the following priorities: Approximately \$1 million allocated to Emergency Reserves, \$481,532 assigned to debt service, and \$2 million assigned to the Capital Projects Fund. An additional \$4.3 million is available for spending at the City's discretion, while \$1.0 million is restricted for specific purposes.

General Fund - The General Fund is the chief operating fund of the City of Capitola. At the end of the current fiscal year, the total fund balance was \$6 million. This represents an increase of \$1.1 million or 22.8% above the prior year. Approximately 72.2% was unassigned fund balance, which was available for spending at the government's discretion. The majority of the nonspendable balance represents a \$618,028 Loan and Cooperative Agreement with the Successor Agency that was used to establish the former Redevelopment Agency. Additional information regarding this agreement can be found in Note 15.

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

	City Budget Documents	General Plan / Open Space / Donations	Emergency / Contingency / Facilities Reserve	Internal Service Fund	Financial Statements
Beginning Fund Balance	\$ 1,707,279	\$ 99,083	\$ 2,205,452	\$ 877,778	\$ 4,889,592
Revenues	14,979,663	111,539	-	-	15,091,202
Expenditures	12,135,232	95,171	7,130	226,459	12,463,992
Net Operating Difference	2,844,431	16,368	(7,130)	(226,459)	2,627,210
Financing Sources/Uses	(2,355,525)	(256)	734,700	110,000	(1,511,081)
Net Change in Fund Balance	488,906	16,112	727,570	(116,459)	1,116,129
Ending Fund Balance	\$ 2,196,185	\$ 115,195	\$ 2,933,022	\$ 761,319	\$ 6,005,721

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

Federal Home Loan Reuse - The Federal Home Loan Reuse Fund receives loan payments from recipients of HOME Program loans and uses these revenues to fund additional affordable housing activities. All housing funded activities must be within the City and be in accordance with the Federal Home Reuse Guidelines. The FY14/15 revenues represent the receipt of principal and interest payments from loan recipients.

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

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

GENERAL FUND BUDGETARY HIGHLIGHTS

A detailed budgetary comparison schedule for the year ended June 30, 2015, is presented as Required Supplementary Information following the notes to the financial statements. This information can be found on page 73. Key budgetary differences are provided below.

Revenues:

Revenues exceeded the Final Budget by approximately \$400,000. The greater than anticipated revenues resulted from approximately \$105,000 in increased property tax collections, \$15,000 in increased sales tax revenue, \$22,000 in franchise tax, \$24,000 in Transient Occupancy Tax, \$87,000 in state grants, \$100,000 in parking revenue, \$25,000 in building permits, and \$15,000 in recreation class revenue.

Expenses:

Expenses prior to transfers were approximately \$500,000 below the Amended budget due to continued expenditure restraint from every department. The General Government expenditures were approximately \$141,000 below budget, with Public Safety below \$158,000, Community Development \$39,000, Recreation \$122,000, and Transportation/Public Works \$65,000, respectively.

Appropriations:

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

Fund Balance:

The General Fund's Ending Fund Balance was \$6,005,721 as of June 30, 2015. This amount was approximately \$1 million greater than the final budget projection based on the revenue and expenditure information noted above. The Unassigned amount identified for Contingency Reserves is provided for reference. An additional discussion of the City's Contingency and Emergency Reserves can be found in the Financial Management Policies section of the Transmittal letter.

Fund balance:	
Nonspendable:	
Prepaid items	\$ 450
Due from successor agency	618,028
Assigned:	
Emergency reserve	1,049,206
Unassigned:	
Contingencies	1,803,946
Unassigned	<u>2,534,091</u>
Total fund balance	<u><u>\$ 6,005,721</u></u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's value of governmental assets (net of accumulated depreciation) at the end of FY 14/15 was \$14,943,754. This investment in capital assets includes land, building, equipment, vehicles, and infrastructure. The infrastructure classification typically includes roads, streets, sidewalks, medians, and bridges. The total decrease in the City's investment in capital assets for the current fiscal year was \$1,292,590 or 8%. This decrease results of transferring ownership of the New Brighton Gymnasium to the School District and current year depreciation. Additional information on the City of Capitola's capital assets can be found in Note 4 to the financial statements.

Governmental Activities

Land	\$ 4,883,789
Buildings and improvements	2,392,272
Equipment	3,442,912
Infrastructure	24,250,498
Construction in progress	2,632,639
Depreciation	<u>(22,658,356)</u>
Total capital assets	<u><u>\$ 14,943,754</u></u>

Long-Term Debt

The City's long-term debt at the end of FY14/15 was \$18,168,337. This represents an increase of \$11,765,277 when compared to the FY 13/14. The significant change is due to the implementation of GASB Statement No. 68 and the requirement to record long-term net pension obligation as a liability. An overview of all long-term obligations is presented below; while comprehensive information can be found in Note 6.

Governmental Activities

Bonds payable:	
2007 POB bonds	\$ 1,830,000
Loans payable:	
Capital lease payable - Pacific Cove financing	1,658,324
Capital lease payable - Beach & Village financing	1,317,460
Notes payable	24,459
Compensated absences	752,924
Net OPEB obligation	363,993
Net pension liability	<u>12,221,177</u>
 Total long-term debt	 <u>\$ 18,168,337</u>

ECONOMIC FACTORS, NEXT YEAR'S BUDGETS, AND RATES

On June 11, 2015, the Council adopted the FY 15/16 Budget, with a total appropriation of \$20.8 million, and a General Fund appropriation of \$15.5 million. Adequate resources were projected to be available to fund the proposed expenditures. The General Fund budget reflects a conservative growth estimate with projected increases to sales tax revenues at 2.5%, transient occupancy tax revenues at 2%; and property tax revenues at approximately 3%. Over \$1.2 million in Measure O sales tax receipts were appropriated with an equivalent amount of expenditures that are consistent with the ballot's stated priorities. The Measure O priorities include CIP/Street projects, reserves, and public safety initiatives.

The City has negotiated contracts with all bargaining units through FY 17/18 which include cost of living adjustments (COLA's) equivalent to changes in the Consumer Pricing Index (CPI). The City implemented caps on pension costs prior to the FY 15/16 Budget but modified the cap to ensure employees didn't experience large decreases in net pay due to the projected contribution rate increases. Employees continue to pick up a portion of the Employee share of the pension costs.

Prospects for the Future

Measure O sales tax revenues are projected to fully fund reserves at their increased levels in FY 15/16; while also allowing the City to fund over \$2 million in CIP projects over the next two years. The City's initial five-year projections estimated conservative increases in core revenues to be relatively consistent with CPI-based cost of living adjustments. If this balanced approach were maintained, the City projected that operational functions would not be impacted by the \$1 million loss of Measure D revenues. These multi-year projections are currently being revisited as a result of risk pool changes to the PERS Classic retirement plans and the projected increase in the City's Unfunded Actuarial Liability annual payments.

Opportunities for development include completion of the City and sponsor-funded McGregor Multi-Use Recreational Site, capital improvements at Rispin/Peery Park, and a roundabout on Bay Avenue.

The City has successfully completed all current RDA dissolution and Assembly Bill 1484 (AB 1484) reporting and audit requirements; and received approval to begin the repayment on the \$618,028 loan made to the former RDA. The City previously had not incorporated the recognition of principal payments or interest revenues in financial forecasts; however the City will include the approximately \$115,000 annual payment for the next four fiscal years. Additional information can be found in the transmittal letter, as well as Note 15.

Local, State, and National Economy

In 2008, events in the local, state, and national economies led to a significant downturn in financial markets. In FY 11/12, there were beginning signs of economic recovery, with increased sales tax, TOT tax, and an increasing demand for building/planning services. This trend continued through FY 14/15, with Capitola's annual sales tax and transient occupancy tax increasing year over year; increased home sales and prices; and a reduction in unemployment rates. This trend is consistent with the statewide economic conditions.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

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CITY OF CAPITOLA
Statement of Net Position
June 30, 2015

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 8,868,633
Accounts receivable, net of allowance for uncollectibles	95,316
Due from other governments	1,649,871
Due from successor agency	618,028
Loans receivable	7,886,678
Prepays	450
Capital assets:	
Non-depreciable:	
Land	4,883,789
Construction in progress	2,632,639
Depreciable:	
Equipment	3,442,912
Buildings and improvements	2,392,272
Infrastructure	24,250,498
Accumulated depreciation	<u>(22,658,356)</u>
Total Assets	<u>34,062,730</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Pension related	<u>1,267,930</u>
 LIABILITIES	
Accounts payable	630,275
Accrued liabilities	423,125
Interest payable	76,596
Deposits payable	349,734
Unearned revenue	423,670
Noncurrent liabilities:	
Due within one year	808,111
Due in more than one year	<u>17,360,226</u>
Total Liabilities	<u>20,071,737</u>
 DEFERRED INFLOWS OF RESOURCES	
Pension related	4,268,489
Other	<u>1,775,020</u>
Total Deferred Inflows of Resources	<u>6,043,509</u>
 NET POSITION	
Net investment in capital assets	11,603,977
Restricted for:	
Public safety	101,271
Transportation	393,408
Community development	6,356,728
Culture and recreation	140,618
Unrestricted	<u>(9,380,588)</u>
Total Net Position	<u>\$ 9,215,414</u>

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

CITY OF CAPITOLA
Statement of Activities
Year Ended June 30, 2015

	Program Revenues				Net (Expense)
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Revenue and Changes in Net Position
Expenses					
Governmental activities:					
General government	\$ 3,582,320	\$ 1,012,172	\$ 227,716	\$ -	\$ (2,342,432)
Public safety	6,180,594	806,225	254,670	12,104	(5,107,595)
Community development	808,531	632,427	158,863	-	(17,241)
Culture and recreation	974,379	764,782	-	-	(209,597)
Transportation	2,865,807	120,063	15,682	-	(2,730,062)
Interest and other charges	217,191	-	-	-	(217,191)
Total Governmental Activities	\$ 14,628,822	\$ 3,335,669	\$ 656,931	\$ 12,104	(10,624,118)
General Revenues:					
Taxes:					
Property taxes					2,041,248
Franchise taxes					507,517
Sales and use taxes					7,330,443
Transient occupancy taxes					1,275,716
Business license taxes					284,474
Motor vehicle in-lieu, unrestricted					265,089
Investment income, unrestricted					118,770
Miscellaneous revenue					241,714
Total General Revenues					12,064,971
Change in Net Position					1,440,853
Net Position, Beginning of Year, as Restated (note 17)					7,774,561
Net Position, End of Year					\$ 9,215,414

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

GOVERNMENTAL FUNDS

Major Governmental Funds

GENERAL FUND

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

SPECIAL REVENUE FUNDS

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

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

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

CAPITAL PROJECTS FUND

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

Non-Major Governmental Funds

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

CITY OF CAPITOLA
Governmental Funds
Balance Sheet
June 30, 2015

	General	Special Revenue Fund Federal Home Loan Reuse
ASSETS		
Cash and investments	\$ 5,253,367	\$ 83,630
Accounts receivable	66,201	-
Due from other governments	1,646,989	-
Due from successor agency	618,028	-
Due from other funds (note 3)	58,690	-
Loans receivable	-	3,885,753
Prepays	450	-
	\$ 7,643,725	\$ 3,969,383
LIABILITIES		
Accounts payable	\$ 486,309	\$ -
Accrued liabilities	423,125	-
Unearned revenue	423,670	-
Due to other funds	-	-
Deposits payable	304,900	-
	1,638,004	-
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue	-	3,885,753
FUND BALANCES		
Nonspendable	618,478	-
Restricted	-	83,630
Assigned	1,049,206	-
Unassigned	4,338,037	-
	6,005,721	83,630
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 7,643,725	\$ 3,969,383

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

Special Revenue Fund	Capital Projects Fund	Non-Major Governmental Funds	Totals
Capitola Housing Successor	Capital Projects		
\$ 92,369	\$ 2,117,486	\$ 1,321,781	\$ 8,868,633
-	3,250	25,865	95,316
-	-	2,882	1,649,871
-	-	-	618,028
-	-	-	58,690
3,675,262	-	325,663	7,886,678
-	-	-	450
<u>\$ 3,767,631</u>	<u>\$ 2,120,736</u>	<u>\$ 1,676,191</u>	<u>\$ 19,177,666</u>
\$ 3,226	101,969	\$ 38,771	\$ 630,275
-	-	-	423,125
-	-	-	423,670
-	-	58,690	58,690
-	43,834	1,000	349,734
<u>3,226</u>	<u>145,803</u>	<u>98,461</u>	<u>1,885,494</u>
<u>3,675,262</u>	<u>-</u>	<u>325,663</u>	<u>7,886,678</u>
-	-	-	618,478
89,143	-	811,975	984,748
-	1,974,933	481,532	3,505,671
-	-	(41,440)	4,296,597
<u>89,143</u>	<u>1,974,933</u>	<u>1,252,067</u>	<u>9,405,494</u>
<u>\$ 3,767,631</u>	<u>\$ 2,120,736</u>	<u>\$ 1,676,191</u>	<u>\$ 19,177,666</u>

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CITY OF CAPITOLA
Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Position
June 30, 2015

Fund balances of governmental funds	\$	9,405,494
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets net of depreciation have not been included in governmental fund activity:		
Capital assets		37,602,110
Accumulated depreciation		(22,658,356)
Pension related deferred inflows and outflows of resources are not reported in the governmental funds:		
Deferred outflows		1,267,930
Deferred inflows		(4,268,489)
Accrued interest payable for the current portion of interest due on long-term debt has not been reported in the governmental funds.		
		(76,596)
Long-term debt has not been included in the governmental fund activity:		
Notes payable		(24,459)
Bonds payable		(1,830,000)
Capital lease financing		(1,658,324)
Lease-back financing		(1,317,460)
Net pension liability		(12,221,177)
Compensated absences		(752,924)
Net OPEB Obligation		(363,993)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.		
Long-term receivables		6,111,658
Net position of governmental activities	\$	9,215,414

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

CITY OF CAPITOLA
Governmental Fund Types
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2015

	General	Special Revenue Fund Federal Home Loan Reuse
REVENUES		
Taxes	\$ 11,154,924	\$ -
Licenses and permits	567,554	-
Fines and forfeitures	756,553	-
Intergovernmental	486,028	-
Charges for services	1,989,666	-
Use of money and property	63,095	27,123
Other revenue	73,382	-
	<u>15,091,202</u>	<u>27,123</u>
EXPENDITURES		
Current:		
General government	2,417,219	-
Public safety	5,717,266	-
Community development	672,015	3,200
Culture and recreation	907,144	-
Transportation	2,322,793	-
Capital outlay	-	-
Debt service:		
Principal	-	-
Interest and fiscal charges	-	-
	<u>12,036,437</u>	<u>3,200</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>3,054,765</u>	<u>23,923</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	-	-
Transfers out	(1,938,636)	-
	<u>(1,938,636)</u>	<u>-</u>
Net Change in Fund Balances	1,116,129	23,923
Fund Balances, Beginning of Year	4,889,592	59,707
Fund Balances, End of Year	<u>\$ 6,005,721</u>	<u>\$ 83,630</u>

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

Special Revenue Fund	Capital Projects Fund	Non-Major Governmental Funds	Totals
Capitola Housing Successor	Capital Projects		
\$ -	\$ -	\$ 260,910	\$ 11,415,834
-	43,578	18,003	629,135
-	-	-	756,553
-	-	184,633	670,661
-	-	88,481	2,078,147
43,987	-	93,893	228,098
-	20,000	39,002	132,384
<u>43,987</u>	<u>63,578</u>	<u>684,922</u>	<u>15,910,812</u>
-	15,385	9,924	2,442,528
-	264,912	199,686	6,181,864
39,466	-	108,412	823,093
-	-	71,147	978,291
-	22,068	232,441	2,577,302
-	137,225	132,960	270,185
-	-	698,545	698,545
-	-	229,067	229,067
<u>39,466</u>	<u>439,590</u>	<u>1,682,182</u>	<u>14,200,875</u>
<u>4,521</u>	<u>(376,012)</u>	<u>(997,260)</u>	<u>1,709,937</u>
-	1,069,900	1,021,497	2,091,397
-	-	(152,761)	(2,091,397)
<u>-</u>	<u>1,069,900</u>	<u>868,736</u>	<u>-</u>
4,521	693,888	(128,524)	1,709,937
84,622	1,281,045	1,380,591	7,695,557
<u>\$ 89,143</u>	<u>\$ 1,974,933</u>	<u>\$ 1,252,067</u>	<u>\$ 9,405,494</u>

CITY OF CAPITOLA
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2015

Net change in fund balances - total governmental funds \$ 1,709,937

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

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

Capital outlays, net of disposals	(153,205)
Depreciation	(1,139,385)

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

698,545

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

Change in pension related items	214,299
Change in OPEB	(2,499)

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

Change in compensated absences payable	(57,578)
Change in accrued interest expense	11,876

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

Grant revenues	158,863
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Change in net position of governmental activities	\$ 1,440,853
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The accompanying notes are an integral part of these financial statements.

CITY OF CAPITOLA
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2015

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and investments	<u>\$ 216,970</u>	<u>\$ 36,419</u>
Total Assets	<u>216,970</u>	<u>\$ 36,419</u>
LIABILITIES		
Deposits	-	\$ 36,419
Long-term liabilities (note 15):		
Due within one year	114,871	-
Due in more than one year	<u>503,157</u>	<u>-</u>
Total Liabilities	<u>618,028</u>	<u>\$ 36,419</u>
NET POSITION (DEFICIT)		
Held in trust for successor agency and other purposes	<u>(401,058)</u>	
Total Net Position (Deficit)	<u>\$ (401,058)</u>	

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

CITY OF CAPITOLA
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2015

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
RPTTF distributions	<u>\$ 472,789</u>
Total Additions	<u>472,789</u>
 DEDUCTIONS	
Administrative expenses	150,000
Enforceable obligations	<u>281,184</u>
Total Deductions	<u>431,184</u>
Change in Net Position	41,605
Net Position (Deficit), Beginning of Year, as Restated	<u>(442,663)</u>
Net Position (Deficit), End of Year	<u><u>\$ (401,058)</u></u>

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

City of Capitola
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Year Ended June 30 2015

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CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Description of Reporting Entity

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

B) Basis of Presentation

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

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

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

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

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

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

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

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

The City reports the following major governmental funds:

General Fund

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

Federal Home Loan Reuse Fund

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

Capitola Housing Successor Fund

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

Capital Projects Fund

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

The City also reports the following:

Agency Funds

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

Private Purpose Trust Funds

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

D) Assets, Liabilities, and Net Position or Equity

1) Cash and Investments

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

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

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

1) Cash and Investments, (continued)

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

2) Receivables and Payables

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

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

3) Property Taxes

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

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

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

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

4) Capital Assets

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

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

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

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

5) Prepaid Items

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

6) Deferred Outflows/Inflows of Resources

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

7) Compensated Absences

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

8) Reclassifications and Eliminations

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

9) Use of Estimates

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

10) Fund Equity

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

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

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

10) Fund Equity (continued)

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

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

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

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

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

11) Implementation of New Pronouncement

The Governmental Accounting Standards Board (GASB) has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pension plans, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

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

11) Implementation of New Pronouncement (continued)

GASB has issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

These pronouncements have been implemented for purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense/expenditures. Information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

12) Pension Plans

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

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

Valuation Date (VD)	June 30, 2013
Measurement Date (MD)	June 30, 2014
Measurement Period (MP)	July 1, 2013 to June 30, 2014

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

2) CASH AND INVESTMENTS

Cash and investments held by the City at June 30, 2015 are classified in the accompanying financial statement as follows:

Statement of Net Position:	
Cash and investments	\$ 8,868,633
Statement of Fiduciary Net Position:	
Cash and investments	<u>253,389</u>
Total cash and investments	<u><u>\$ 9,122,022</u></u>

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

Petty cash	\$ 1,450
Demand deposits	4,005,082
Investments	<u>5,115,490</u>
Total cash and investments	<u><u>\$ 9,122,022</u></u>

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

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

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

Authorized Investment Type *	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U. S. Treasury Bills	5 years	60%	None
Negotiable Certificates of Deposit (CD)	1 year	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$50,000,000
Guaranteed Investment Contracts	15 months	None	None

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

2) CASH AND INVESTMENTS, (continued)

Disclosures Relating to Interest Rate Risk

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

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

Investment Type	Remaining Maturity				Total
	12 months or less	13 to 24 months	25 to 60 months	More than 60 months	
Local Agency Investment Fund	\$ 5,115,490	\$ -	\$ -	\$ -	\$ 5,115,490
Total	<u>\$ 5,115,490</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,115,490</u>

Investment with Fair Values Highly Sensitive to Interest Rate Fluctuations

During the fiscal year ended June 30, 2015, the City did not hold any investments that were highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

Disclosures Relating to Credit Risk

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

Investment Type	Total	Minimum Legal Rating	Exempt From Disclosure	Not Rated
Local Agency Investment Fund	\$ 5,115,490	N/A	N/A	\$ 5,115,490
Total	<u>\$ 5,115,490</u>			<u>\$ 5,115,490</u>

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

2) CASH AND INVESTMENTS, (continued)

Concentration of Risk

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

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., brokerdealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2015 the City had deposits with financial institutions in excess of federal depository insurance limits by \$4,812,191 that were held in collateralized accounts.

Investment in State Investment Pool

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

The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based on the City's pro rata share of the fair value provided by LAIF (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded as an amortized cost basis.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

3) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Due To/From Other Funds

Due to/from other funds at June 30, 2015 is as follows:

Due from other funds	Due to other funds	Amount
General Fund	Non-Major governmental funds	\$ 58,690

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

Interfund Transfers

Interfund transfers for the year ended June 30, 2015 are as follows:

Transfers Out	Transfers In		Total
	Capital Projects Fund	Non-Major Governmental Funds	
General Fund	\$ 1,069,900	\$ 868,736	\$ 1,938,636
Non-Major Governmental Funds	-	152,761	152,761
Total	\$ 1,069,900	\$ 1,021,497	\$ 2,091,397

The General Fund transferred \$768,479 in debt service payments to Non-Major Funds, including \$667,554 to the Pension Obligation Bond Fund, \$85,860 to the Pacific Cove Debt Financing Fund; and \$15,065 to the Beach & Village Lot II Debt Financing Fund. Additional General Fund transfers included \$100,000 to the Parking Reserve. Additional transfers to the Pacific Cove Debt Financing Fund for debt service payments originated from the following Non-Major Funds: Parking Reserve for \$100,000, SCCACT for \$2,761 and the Affordable Housing Trust for \$50,000.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

4) CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2015 is as follows:

	Beginning balance	Additions	Deletions	Ending balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 4,883,789	\$ -	\$ -	\$ 4,883,789
Construction in progress	2,632,639	-	-	2,632,639
Total capital assets, not being depreciated	7,516,428	-	-	7,516,428
Capital assets, being depreciated:				
Equipment	3,214,014	228,898	-	3,442,912
Building and improvements	3,090,083	41,287	(739,098)	2,392,272
Infrastructure	24,257,833	-	(7,335)	24,250,498
Total capital assets, being depreciated	30,561,930	270,185	(746,433)	30,085,682
Less accumulated depreciation for:				
Equipment	(2,133,307)	(361,809)	-	(2,495,116)
Building and improvements	(1,608,573)	(59,105)	323,043	(1,344,635)
Infrastructure	(18,100,134)	(718,471)	-	(18,818,605)
	(21,842,014)	(1,139,385)	323,043	(22,658,356)
Total capital assets, being depreciated, net	8,719,916	(869,200)	(423,390)	7,427,326
Total governmental activities capital assets, net of accumulated depreciation	<u>\$ 16,236,344</u>	<u>\$ (869,200)</u>	<u>\$ (423,390)</u>	<u>\$ 14,943,754</u>

Depreciation Allocations

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

Governmental Activities:	
General government	\$ 702,643
Public safety	97,889
Cultural and recreation	18,858
Transportation	319,995
	<u>319,995</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,139,385</u>

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

5) OTHER ASSETS

Due from Successor Agency

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

The City and RDA entered into a Cooperation Agreement for the RDA to repay the City at a 5% simple interest rate, with interest payments due annually. In June 2006, the City and RDA agreed to amend the interest rate to the greater of the following: a) the interest rate charged by the Public Employees Retirement System for the City's unfunded liability; b) the true interest cost of any obligation bond sold by the City; c) the State of California LAIF rate, or d) 5%. The principal amount of the reimbursement was originally to be paid as Agency funds become available, but in no event later than twenty-five years from the Agreement date. As of June 30, 2015, the principal owed to the City is \$618,028.

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

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

5) OTHER ASSETS, (continued)

Housing and Community Development Loan Program

The City uses Federal Home Loan Reuse, Affordable Housing and CDBG Program Income funds to provide housing loans to eligible applicants. Such loans are made to low and moderate income households to improve or rehabilitate residences. The City accounts for this program in the Special Revenue Funds. Total detail of loans receivable of \$7.9 million at June 30, 2015, is listed below:

	CDBG Program Income	Federal Home Loan Reuse	Affordable Housing	Capitola Housing Successor	Total
Individual Loans	\$ 146,850	\$ 547,739	\$ -	\$ 722,186	\$ 1,416,775
Bay Avenue Senior Apartments	-	3,143,334	-	1,628,170	4,771,504
Castle Mobile Home Park	-	-	178,813	1,324,906	1,503,719
Wharf Road Manor	-	194,680	-	-	194,680
Totals	<u>\$ 146,850</u>	<u>\$ 3,885,753</u>	<u>\$ 178,813</u>	<u>\$ 3,675,262</u>	<u>\$ 7,886,678</u>

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

6) LONG TERM DEBT

A summary of changes in long-term debt for the fiscal year ended June 30, 2015 was as follows:

	Beginning balance	Additions*	Reductions	Ending balance	Due Within One Year
2007 POB Bonds	\$ 2,375,000	\$ -	\$ (545,000)	\$ 1,830,000	\$ 575,000
Capital Lease - Cove Financing	1,751,489	-	(93,165)	1,658,324	96,195
Beach & Village Lot II Financing	1,372,500	-	(55,040)	1,317,460	56,284
Note Payable	29,799	-	(5,340)	24,459	5,340
Compensated Absences	695,346	407,717	(350,139)	752,924	75,292
Net OPEB Obligation	361,494	2,499	-	363,993	-
Net Pension Liability	-	12,221,177	-	12,221,177	-
Totals	<u>\$ 6,585,628</u>	<u>\$12,631,393</u>	<u>\$ (1,048,684)</u>	<u>\$18,168,337</u>	<u>\$ 808,111</u>

* Additions to net pension liability resulted from the implementation of GASB Statement No. 68.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

6) LONG TERM DEBT, (continued)

2007 Pension Obligation Bonds

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

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 575,000	\$ 92,704	\$ 667,704
2017	610,000	57,095	667,095
2018	645,000	19,382	664,382
Total	<u>\$ 1,830,000</u>	<u>\$ 169,181</u>	<u>\$ 1,999,181</u>

Capital Leases Payable - Pacific Cove Debt Financing

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

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

6) LONG TERM DEBT, (continued)

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

Future lease payments under the capital lease as of June 30, 2015 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 96,195	\$ 68,871	\$ 165,066
2017	99,347	65,719	165,066
2018	102,602	62,464	165,066
2019	105,963	59,103	165,066
2020	109,435	55,631	165,066
2021-2025	603,367	221,962	825,329
2026-2029	541,415	101,507	642,922
Total	<u>\$ 1,658,324</u>	<u>\$ 635,257</u>	<u>\$ 2,293,581</u>

Capital Leases Payable - Beach & Village Lot II Financing

On March 14, 2014, the City of Capitola executed a \$1,372,500 low-interest loan with the California Infrastructure and Economic Development Bank (IBank). This loan is considered a lease-lease back obligation with the General Fund as the source of repayment; and the City Public Works Corporation Yard serving as the leased asset. The loan term is 20 years at a fixed 2.26% interest rate. Loan proceeds are being used for the construction of new parking lot in the vacant Pacific Cove Mobile Home Park, which includes construction of a walkway to the adjacent lot, restroom renovations, installation of signage, and the placement of paystations in the two City parking lots.

Future lease payments under the capital lease as of June 30, 2015 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 56,284	\$ 33,091	\$ 89,375
2017	57,556	31,636	89,192
2018	58,857	30,148	89,005
2019	60,187	28,626	88,813
2020	61,547	27,069	88,616
2021-2025	329,238	110,747	439,985
2026-2030	368,162	66,217	434,379
2031-2032	325,629	17,393	343,022
Total	<u>\$ 1,317,460</u>	<u>\$ 344,927</u>	<u>\$ 1,662,387</u>

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

6) LONG TERM DEBT, (continued)

Note Payable

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

Compensated Absences

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

City employees accumulate earned but unused benefits that can be converted to cash at termination of employment. The non-current portion of these vested benefits, payable in accordance with various collective bargaining agreements, totals \$752,924 as of June 30, 2015.

7) FUND BALANCE CLASSIFICATIONS

The details of the fund balances as of June 30, 2015 are presented below:

	General Fund	Federal Home Loan Reuse	Capitola Housing Successor	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
Nonspendable:						
Prepays	\$ 450	\$ -	\$ -	\$ -	\$ -	\$ 450
Due from successor agency	618,028	-	-	-	-	618,028
Restricted for:						
Public Safety	-	-	-	-	101,271	101,271
Transportation	-	-	-	-	417,867	417,867
Community Development	-	83,630	89,143	-	152,219	324,992
Culture and Recreation	-	-	-	-	140,618	140,618
Assigned to:						
Debt Service	-	-	-	-	481,532	481,532
Other Capital Projects	-	-	-	1,974,933	-	1,974,933
Emergency Reserve	1,049,206	-	-	-	-	1,049,206
Unassigned:						
Contingencies	1,803,946	-	-	-	-	1,803,946
Unassigned	2,534,091	-	-	-	(41,440)	2,492,651
Total	\$ 6,005,721	\$ 83,630	\$ 89,143	\$ 1,974,933	\$ 1,252,067	\$ 9,405,494

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

8) OTHER REQUIRED DISCLOSURES

Deficit Fund Balances

The following funds reported deficit fund balances at June 30, 2015:

CDBG Program Income	\$ (3,069)
Beach & Village Lot II Debt Financing	(38,371)

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

9) RISK MANAGEMENT

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

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

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

9) RISK MANAGEMENT, (continued)

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

10) JOINT VENTURES

Santa Cruz Consolidated Emergency Communications Center

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

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

10) JOINT VENTURES, (continued)

Santa Cruz Consolidated Emergency Communications Center, (continued)

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

Fiscal Year Ending June 30,	Annual Use Payment
2016	\$ 34,256
2017	34,450
2018	33,989
2019	34,085
2020	34,141
2021-2025	170,767
2026-2030	171,088
2031-2034	136,972
Total	\$ 649,748

Other Activities

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

11) DEFINED BENEFIT PENSION PLANS (PERS)

General information about the pension plans

Plan descriptions

The Plans are cost-sharing, multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plans regarding number of employees covered, benefit provisions, assumptions (for funding, but not account purposes), and membership information are listed in the June 30, 2013 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report. The actuarial valuation report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications, at www.calpers.ca.gov.

Benefits provided

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

The Plans operate under the provisions of the California Public Employees' Retirement Law (PERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by the CalPERS Board of Administration. The Plans' authority to establish and amend the benefit terms are set by the PERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the CalPERS Board.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

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

General information about the pension plans, (continued)

The Plans' provisions and benefits in effect at June 30, 2014 (measurement date), are summarized as follows:

	Miscellaneous	
	Classic	PEPRA
	Prior to January 1, 2013	On or after January 1, 2013
Membership date	2.5% @ 55	2.0% @ 62
Benefit formula	5 years service	5 years service
Benefit vesting schedule	monthly for life	monthly for life
Benefit payments	50-55	52-67
Retirement age	2%-2.5%	1.0%-2.5%
Monthly benefits, as a % of eligible compensation	8.0%	6.25%
Required employee contribution rates	15.68%	6.25%
Required employer contribution rates		

	Safety	
	Classic	PEPRA
	Prior to January 1, 2013	On or after January 1, 2013
Membership date	3.0% @ 50	2.7% @ 57
Benefit formula	5 years service	5 years service
Benefit vesting schedule	monthly for life	monthly for life
Benefit payments	50	50-57
Retirement age	3.0%	2.0%-2.7%
Monthly benefits, as a % of eligible compensation	9.0%	11.50%
Required employee contribution rates	26.15%	11.50%
Required employer contribution rates		

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2014 (the measurement date), the average active employee contribution rates for the respective miscellaneous, miscellaneous PEPRA, safety, safety PEPRA plans are 8.0, 6.25, 9.0, and 11.5 percent of annual pay, and the employer's contribution rates are 15.68, 6.25, 26.15 and 11.5 percent of annual payroll. Employer contribution rates may change if plan contracts are amended.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

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

Contributions, (continued)

Employer Contributions for the measurement period ended June 30, 2014 for the respective miscellaneous and safety plans are \$228,018 and \$589,215. The actual employer payments of \$228,018 for miscellaneous plans and \$589,215 for safety plans made to CalPERS by the City during the measurement period ended June 30, 2014 differed from the City's proportionate share of the employer's contributions of \$705,524 for miscellaneous plans and \$804,076 for safety plans by \$477,506 and \$214,861, which are being amortized over the expected average remaining service lifetime in the Public Agency Cost-Sharing Multiple Employer Plan.

Net pension liability

The City's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

Actuarial methods and assumptions used to determine total pension liability

For the measurement period ended June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and June 30, 2014 total pension liabilities were based on the following actuarial methods and assumptions:

	<u>Miscellaneous</u>	<u>Safety</u>
Valuation Date	June 30, 2013	June 30, 2013
Measurement Date	June 30, 2014	June 30, 2014
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Asset Valuation Method	Actuarial Value of Assets	Actuarial Value of Assets
Actuarial Assumptions		
Discount Rate	7.50%	7.50%
Inflation	2.75%	2.75%
Salary Increases (1)	Varies by Entry Age and Service	Varies by Entry Age and Service
Investment Rate of Return (2)	7.50%	7.50%
Mortality Rate Table (3)	Derived using CALPERS' membership data for all Funds	Derived using CALPERS' membership data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

(1) Annual increases vary by category, entry age, and duration of service
(2) Net pension plan investment and administrative expenses; includes inflation
(3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience report.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

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

Net pension liability, (continued)

Actuarial methods and assumptions used to determine total pension liability (continued)

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount rate

The discount rate used to measure the total pension liability was 7.50 percent for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan. Refer to the *sensitivity of the net pension liability to changes in the discount rate* section of this note, which provides information on the sensitivity of the net pension liability to changes in the discount rate.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

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

Net pension liability, (continued)

Discount rate, (continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The following table reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

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

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

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

Net pension liability, (continued)

Pension plan fiduciary net position

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

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

Proportionate share of net pension liability

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

Miscellaneous Plan:

	Increase (Decrease)		
	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2013 (VD)	\$ 30,041,897	\$ 22,371,551	\$ 7,670,346
Balance at: 6/30/2014 (MD)	\$ 31,829,680	\$ 26,090,262	\$ 5,739,418
Net changes during 2013-14	\$ 1,787,783	\$ 3,718,711	\$ (1,930,928)

Safety Plan:

	Increase (Decrease)		
	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2013 (VD)	\$ 33,269,101	\$ 24,686,179	\$ 8,582,922
Balance at: 6/30/2014 (MD)	\$ 34,883,131	\$ 28,401,372	\$ 6,481,759
Net changes during 2013-14	\$ 1,614,030	\$ 3,715,193	\$ (2,101,163)

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

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

Proportionate share of net pension liability (continued)

The City's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The City's proportion of the net pension liability was determined by CalPERS using the output from the Actuarial Valuation System and the fiduciary net position, as provided in the CalPERS Public Agency Cost-Sharing Allocation Methodology Report, which is a publicly available report that can be obtained at CalPERS' website under Forms and Publications, at www.calpers.ca.gov. The City's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Proportionate Share - June 30, 2013	0.23409%	0.17940%
Proportionate Share - June 30, 2014	0.23223%	0.17280%
Change - Increase (Decrease)	-0.00186%	-0.00660%

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

The following presents the City's proportionate share of the net pension liability for the Plans as of the measurement date, calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50 percent) or 1 percentage-point higher (8.50 percent) than the current rate:

	Discount Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
Miscellaneous Plans' Net Pension Liability	\$ 9,962,030	\$ 5,739,418	\$ 2,235,050
Safety Plans' Net Pension Liability	\$ 11,154,268	\$ 6,481,759	\$ 2,631,813

Subsequent events

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

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

Proportionate share of net pension liability, (continued)

Recognition of gains and losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

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

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

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

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

The EARSL for the Plans for the 2013-14 measurement period is 3.8 years, which was obtained by dividing the total service years of 460,700 (the sum of remaining service lifetimes of the active employees) by 122,789 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

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

Miscellaneous

As of the start of the measurement period (July 1, 2013), the net pension liability for the respective miscellaneous plans is \$7,670,346 (the net pension liability of the Miscellaneous Risk Pool as of June 30, 2013 is \$3,276,668,431).

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

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

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

Miscellaneous, (continued)

For the measurement period ending June 30, 2014 (the measurement date), the City incurred a pension expense of \$146,815 for the Miscellaneous Plans (the pension expense for the risk pool for the measurement period is \$239,824,465). A complete breakdown of the pension expense is as follows:

Miscellaneous Plans

Description	Risk Pool Amounts	Employer's Share	Percentage of Employer's Share
Service Cost	\$ 338,829,351	\$ 547,396	0.15261%
Interest on the Total Pension Liability	921,162,366	2,236,322	0.18710%
Recognized Differences between Expected and Actual Experience	-	-	N/A
Recognized Changes of Assumptions	-	-	N/A
Employee Contributions	(159,834,203)	(500,777)	0.10076%
Projected Earnings on Pension Plan Investments	(678,133,636)	(1,667,521)	0.17860%
Recognized Differences between Projected and Actual Earnings on Plan Investments	(182,199,413)	(448,026)	0.17860%
Other Changes in Fiduciary Net Position	-	-	N/A
Recognized Portion of Adjustment due to Differences in Proportions	-	105,081	N/A
Recognized Differences Between Contributions and Proportionate Share of Contributions	-	(125,660)	N/A
Subtotal: Employer's Share of Expense Components	<u>\$ 239,824,465</u>	146,815	0.06122%
Changes of Benefit Terms	-	-	
Employer's Proportionate Share of Pension Expense		<u>\$ 146,815</u>	

Note: Plan administrative expenses are not displayed in the above pension expense tables. Since the expected investment return of 7.50 percent is net of administrative expenses, administrative expenses are excluded from the above tables, but implicitly included as part of investment earnings.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

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

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

Safety

As of the start of the measurement period (July 1, 2013), the net pension liability for the respective miscellaneous plans is \$8,582,922 (the net pension liability of the Safety Risk Pool as of June 30, 2013 is \$4,784,321,560).

For the measurement period ending June 30, 2014 (the measurement date), the City incurred a pension expense of \$536,850 for the Safety Plans (the pension expense for the risk pool for the measurement period is \$351,644,102). A complete breakdown of the pension expense is as follows:

Safety Plans

Description	Risk Pool Amounts	Employer's Share	Percentage of Employer's Share
Service Cost	\$ 369,638,880	\$ 636,571	0.17221%
Interest on the Total Pension Liability	1,251,259,652	2,463,334	0.19687%
Recognized Differences between Expected and Actual Experience	-	-	N/A
Recognized Changes of Assumptions	-	-	N/A
Employee Contributions	(131,938,305)	(212,805)	0.16129%
Projected Earnings on Pension Plan Investments	(897,207,655)	(1,828,222)	0.20377%
Recognized Differences between Projected and Actual Earnings on Plan Investments	(240,108,470)	(489,264)	0.20377%
Other Changes in Fiduciary Net Position	-	-	N/A
Recognized Portion of Adjustment due to Differences in Proportions	-	23,778	N/A
Recognized Differences Between Contributions and Proportionate Share of Contributions	-	(56,542)	N/A
Subtotal: Employer's Share of Expense Components	<u>\$ 351,644,102</u>	536,850	0.15267%
Changes of Benefit Terms	-	-	
Employer's Proportionate Share of Pension Expense		<u>\$ 536,850</u>	

Note: Plan administrative expenses are not displayed in the above pension expense tables. Since the expected investment return of 7.50 percent is net of administrative expenses, administrative expenses are excluded from the above tables, but implicitly included as part of investment earnings.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

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

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

As of June 30, 2015, the City has deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ -	\$ -
Changes of Assumptions	-	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(3,749,162)
Adjustment due to Differences in Proportions	360,804	-
Net Difference between Contributions and Proportionate Share of Contributions	9,162	(519,327)
Pension Contributions Subsequent to Measurement Date	897,964	-
	\$ 1,267,930	\$ (4,268,489)

These amounts above are net of outflows and inflows recognized in the 2013-14 measurement period expense. The \$897,964 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources, Net
2015	\$ (990,633)
2016	\$ (990,633)
2017	\$ (979,965)
2018	\$ (937,292)
2019	\$ -
Thereafter	\$ -

Payable to the pension plan

At June 30, 2015, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

12) PUBLIC AGENCY RETIREMENT PLAN

Overview

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

Plan Description

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

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

Contributions

A total annual contribution of 7.5% of covered earnings is contributed to the PARS account for each eligible employee. The City of Capitola contributes 1.3% and the employee contributes 6.2%. During the fiscal year ending June 30, 2014, contributions totaled \$20,400. This included contributions of \$3,487 by the City and \$16,913 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 2013-14 differs from the contribution totals provided by PARS in the following table because PARS reports on a calendar year, rather than a fiscal year basis.

Plan Net Position and Changes in Net Position

Balance 1/1/14	\$	67,737
Contributions		21,324
Earnings		375
Subtotal		89,436
Less: Expenses		(4,741)
Disbursements		(21,804)
Balance 12/31/14	\$	62,891

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

13) OTHER POST EMPLOYMENT BENEFITS

Plan Description

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

Funding Policy

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

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

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

13) OTHER POST EMPLOYMENT BENEFITS, (continued)

Annual OPEB Cost

The City's annual OPEB cost, net OPEB obligation and the related information for 2015 were as follows:

	Total
Annual required contribution	\$ 72,000
Interest on net OPEB obligation	27,112
Adjustments to annual required contribution	(24,613)
Annual OPEB cost (expense)	74,499
Contributions made	(72,000)
Increase in net OPEB obligation	2,499
Net OPEB obligation - beginning of year	361,494
Net OPEB obligation - end of year	\$ 363,993

For 2015, the City's annual OPEB cost (expense) of \$74,499 for CRHP was more than the ARC by \$2,499. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 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
6/30/2013	\$ 93,835	27%	\$ 359,713
6/30/2014	72,946	98%	361,494
6/30/2015	74,499	97%	363,993

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2013, the most recent actuarial valuation date, was as follows:

Actuarial Accrued Liability (AAL)	\$ 657,500
Actuarial Value Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 657,500
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll (Active Plan Members)	\$ 4,821,600
UAAL as a Percentage of Covered Payroll	13.64%

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

13) OTHER POST EMPLOYMENT BENEFITS, (continued)

Actuarial Methods and Assumptions

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

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

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

Valuation Date	July 1, 2013
Actuarial Cost Method	Projected Unit Credit Method
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	24 Years as of the Valuation Date
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Projected Salary Increase	3.00%
Health Care Trend Rate	4.00%
Inflation Rate	3.00%

14) COMMITMENTS AND CONTINGENT LIABILITIES

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

15) SUCCESSOR AGENCY TO THE FORMER CAPITOLA REDEVELOPMENT AGENCY

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

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

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

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

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

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

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

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

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

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

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

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

Long-Term Debt

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

The debt of the Successor Agency as of June 30, 2015 is as follows:

	Beginning Balance	Additions	Reductions	Ending balance	Due Within One Year
Advances Payable -					
Due to the City	\$ 618,028	\$ -	\$ -	\$ 618,028	\$ 114,871
RDA Pass-Throughs	445,119	-	(445,119)	-	-
Totals	<u>\$ 1,063,147</u>	<u>\$ -</u>	<u>\$ (445,119)</u>	<u>\$ 618,028</u>	<u>\$ 114,871</u>

Due to the City

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

16) RISKS AND UNCERTAINTIES

Grants

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

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

16) RISKS AND UNCERTAINTIES, (continued)

City/Successor Agency Obligations

Deductions (expenses) incurred by the Successor Agency for the year ended June 30, 2014 (and subsequent years in which the Successor Agency is in operation) are subject to review by various State agencies and the County in which the Successor Agency resides. If any expenses incurred by the Successor Agency are disallowed by the State agencies or County, the City, acting as the Successor Agency could be liable for the repayment of the disallowed costs from either its own funds or by the State withholding remittances normally paid to the City. Over the last fiscal year, the Successor Agency has been successful in receiving funding for all approved obligations, with the exception of City/RDA loans. The amount, if any, of expenses that may be disallowed by the State agencies or County cannot be determined at this time as to be immaterial or not.

The City and the Successor Agency plan to pursue reinstatement of the \$618,028 Loan and Repayment Agreement through the AB 1484 reinstatement process. The Successor Agency and Oversight Board approved the reinstatement of the loan at a reduced interest rate on the most recent Recognized Obligation Payment Schedule (ROPS). This reinstatement was initially met with denial from the Department of Finance due to timing; however they have suggested that the Successor Agency reapply for reinstatement within the legislatively determined timeline. Health and Safety Code Section 34191.4 (b) (2) (A), also limits the maximum annual repayment amount to one-half of the increase between the amount distributed to the taxing entities in that fiscal year and the amount distributed to taxing entities in the 2012-13 base year. City will begin to receiving payments on the reentered Loan and Repayment Agreement in 2015-16.

17) CHANGE IN ACCOUNTING PRINCIPLE AND PRIOR PERIOD RESTATEMENT

Change in Accounting Principle

As discussed in Note 1, the City implemented GASB Statement No. 68 effective July 1, 2014. GASB Statement No. 68, among other provisions, amended prior guidance with respect to the reporting of pensions. GASB Statement No. 68, establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the City's net pension liability was not previously recorded on the statement of net position. GASB Statement No. 68 requires that accounting changes adopted to conform to the provisions of the Statement be applied retroactively by restating financial statements. The cumulative effects of applying the provisions of GASB Statements No. 68 and 71 have been reported as a restatement of beginning net position for the year ended June 30, 2015 in accordance with the Statements.

CITY OF CAPITOLA
Notes to Financial Statements
Year Ended June 30, 2015

17) CHANGE IN ACCOUNTING PRINCIPLE AND PRIOR PERIOD RESTATEMENT,
 (continued)

Accordingly, beginning net position on the Statement of Activities for the year ended June 30, 2015 has been restated for changes related to GASB Statement No. 68 as follows:

GOVERNMENT WIDE STATEMENTS

Net position - beginning, as previously reported	\$ 23,210,596
Change in accounting principle	<u>(15,436,035)</u>
Net position - beginning, as restated	<u><u>\$ 7,774,561</u></u>

Prior Period Restatement

The beginning balance of RDA Pass-Throughs was restated to adjust the estimated liability at June 30, 2014 to actual as a result of the liability being paid in full in fiscal year 2014-15.

Accordingly, beginning net position on the Statement of Changes in Fiduciary Net Position for the year ended June 30, 2015 has been restated as follows:

FUND FINANCIAL STATEMENTS

Private Purpose Trust Fund

Net position - beginning, as previously reported	\$ (455,288)
Prior period restatement	<u>12,625</u>
Net position - beginning, as restated	<u><u>\$ (442,663)</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CAPITOLA
Required Supplementary Information
Year Ended June 30, 2015

Schedule of Funding Progress for Capitola Retiree Healthcare Plan

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B - A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B - A) / C]
7/1/2008	\$ -	\$ 1,043,809	\$ 1,043,809	\$ -	\$ 3,125,748	33.39%
7/1/2011	-	1,006,309	1,006,309	-	4,686,029	21.48%
7/1/2013	-	657,500	657,500	-	4,821,600	13.64%

CITY OF CAPITOLA
Required Supplementary Information
Year Ended June 30, 2015

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

	Measurement Date June 30, 2014	
	Miscellaneous	Safety
Plan's Proportion of the Net Pension Liability	0.09224%	0.10417%
Plan's Proportionate Share of the Net Pension Liability	\$ 5,739,418	\$ 6,481,759
Plan's Covered-Employee Payroll ¹	\$ 3,073,877	\$ 2,241,843
Plan's Proportionate Share of the Net Pension Liability as a percentage of its Covered-Employee Payroll	192.26%	289.13%
Plan's Proportion of the Fiduciary Net Position ²	0.24522%	0.75717%
Plan's Share of Risk Pool Fiduciary Net Position ²	\$ 26,090,262	\$ 28,401,372
Plan's Additional Payments to Side Fund During Measurement Period	\$ -	\$ -
Plan's Proportionate Share of the Fiduciary Net Position (<i>sum of the two preceding lines</i>)	\$ 26,090,262	\$ 28,401,372
Plan's Proportionate Share of the Fiduciary Net Position as a percentage of the Plan's Total Pension Liability	165.00%	81.42%
Plan's Proportionate Share of Aggregate Employer Contributions ³	\$ 705,524	\$ 804,076

¹ Covered-Employee Payroll represented above is based on the total payroll of employees that are provided pensions through the pension plan in accordance with GASB 68.

² The term Fiduciary Net Position (FNP) as used in this line denotes the aggregate risk pool's FNP at June 30, 2014 less the sum of all employers' additional side fund contributions made during the measurement period.

³ The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the Measurement Period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of Fiduciary Net Position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

* Measurement period 2013-14 (fiscal year 2014-15) was the first year of implementation, therefore, only one year is shown.

CITY OF CAPITOLA
Required Supplementary Information
Year Ended June 30, 2015

Schedule of Plan Contributions
Last 10 Years*

	Measurement Period	
	2013-14	
	Miscellaneous	Safety
Actuarially Determined Contribution	\$ 238,600	\$ 609,409
Contributions in Relation to the Actuarially Determined Contribution	(238,600)	(609,409)
Contribution Deficiency (Excess)	\$ -	\$ -
 Covered-Employee Payroll ¹	 \$ 3,073,877	 \$ 2,241,843
Contributions as a Percentage of Covered-Employee Payroll	7.76%	27.18%

¹ Covered-Employee Payroll represented above is based on the total payroll of employees that are provided pensions through the pension plan in accordance with GASB 68.

* Measurement period 2013-14 (fiscal year 2014-15) was the first year of implementation, therefore, only one year is shown.

Notes to Schedule:

Change in Benefit Terms: None

Change in Assumptions: None

GENERAL FUND

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

CITY OF CAPITOLA
Required Supplementary Information
General Fund
Budgetary Comparison Schedule
Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 10,817,700	\$ 10,990,554	\$ 11,154,924	\$ 164,370
Licenses and permits	535,250	530,250	567,554	37,304
Fines and forfeitures	718,800	718,800	756,553	37,753
Intergovernmental	323,500	405,498	486,028	80,530
Charges for services	1,846,600	1,906,100	1,989,666	83,566
Use of money and property	51,800	51,960	63,095	11,135
Other revenue	70,400	76,525	73,382	(3,143)
Total revenues	<u>14,364,050</u>	<u>14,679,687</u>	<u>15,091,202</u>	<u>411,515</u>
Expenditures:				
Current:				
General government	2,434,398	2,434,069	2,417,219	16,850
Public safety	5,968,947	6,017,340	5,717,266	300,074
Community development	665,330	739,122	672,015	67,107
Culture and recreation	958,725	953,624	907,144	46,480
Transportation	2,417,429	2,381,868	2,322,793	59,075
Total expenditures	<u>12,444,829</u>	<u>12,526,023</u>	<u>12,036,437</u>	<u>489,586</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,919,221</u>	<u>2,153,664</u>	<u>3,054,765</u>	<u>901,101</u>
Other financing sources (uses):				
Transfers out	<u>(1,810,425)</u>	<u>(1,939,839)</u>	<u>(1,938,636)</u>	<u>1,203</u>
Net change in fund balance	108,796	213,825	1,116,129	902,304
Fund balance, beginning	<u>4,889,592</u>	<u>4,889,592</u>	<u>4,889,592</u>	<u>-</u>
Fund balance, ending	<u>\$ 4,998,388</u>	<u>\$ 5,103,417</u>	<u>\$ 6,005,721</u>	<u>\$ 902,304</u>

SPECIAL REVENUE FUNDS

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

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

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

CITY OF CAPITOLA
Federal Home Loan Reuse Fund
Major Special Revenue Fund
Budgetary Comparison Schedule
Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Use of money and property	\$ 12,300	\$ 12,300	\$ 27,123	\$ 14,823
Total revenues	12,300	12,300	27,123	14,823
Expenditures:				
Community development	3,200	3,200	3,200	-
Total expenditures	3,200	3,200	3,200	-
Net change in fund balance	9,100	9,100	23,923	14,823
Fund balance, beginning	59,707	59,707	59,707	-
Fund balance, ending	<u>\$ 68,807</u>	<u>\$ 68,807</u>	<u>\$ 83,630</u>	<u>\$ 14,823</u>

**CITY OF CAPITOLA
 Capitola Housing Successor
 Major Special Revenue Fund
 Budgetary Comparison Schedule
 Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Use of money and property	\$ -	\$ 31,759	\$ 43,987	\$ 12,228
Total revenues	-	31,759	43,987	12,228
Expenditures:				
Community development	45,000	75,000	39,466	35,534
Total expenditures	45,000	75,000	39,466	35,534
Net change in fund balance	(45,000)	(43,241)	4,521	47,762
Fund balance, beginning	84,622	84,622	84,622	-
Fund balance, ending	\$ 39,622	\$ 41,381	\$ 89,143	\$ 47,762

CAPITAL PROJECTS FUND

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

**CITY OF CAPITOLA
Capital Projects Fund
Major Capital Projects Fund
Budgetary Comparison Schedule
Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Licenses and permits	\$ 67,500	\$ 57,500	\$ 43,578	\$ (13,922)
Other revenue	-	67,000	20,000	(47,000)
Total revenues	67,500	124,500	63,578	(60,922)
Expenditures:				
General government	9,000	14,000	15,385	(1,385)
Public Safety	-	300,000	264,912	35,088
Transportation	38,300	39,300	22,068	17,232
Capital outlay	-	883,200	137,225	745,975
Total expenditures	47,300	1,236,500	439,590	796,910
Excess (deficiency) of revenues over (under) expenditures	20,200	(1,112,000)	(376,012)	735,988
Other financing sources (uses):				
Transfers in	864,900	1,109,897	1,069,900	(39,997)
Total other financing sources (uses)	864,900	1,109,897	1,069,900	(39,997)
Net change in fund balance	885,100	(2,103)	693,888	695,991
Fund balance, beginning	1,281,045	1,281,045	1,281,045	-
Fund balance, ending	\$ 2,166,145	\$ 1,278,942	\$ 1,974,933	\$ 695,991

CITY OF CAPITOLA
Notes to Required Supplementary Information
Year Ended June 30, 2015

BUDGETS AND BUDGETARY ACCOUNTING

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

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

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

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

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

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

FUNDS	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
Non-Major Governmental:			
Gas Tax	\$ 234,675	\$ 237,778	\$ (3,103)
Parking Reserve	15,000	17,410	(2,410)
Capitola Village and Wharf BIA	67,200	69,985	(2,785)
Affordable Housing	15,000	16,618	(1,618)

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

SUPPLEMENTARY INFORMATION

NON-MAJOR FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

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

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

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

NON-MAJOR FUNDS, (CONTINUED)

DEBT SERVICE FUNDS

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

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

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

CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Balance Sheet
June 30, 2015

	SPECIAL REVENUE FUNDS		
	Supplemental Law Enforcement	Gas Tax	Wharf
ASSETS			
Cash and investments	\$ 99,752	\$ 106,626	\$ 88,030
Accounts receivable	17,040	-	8,825
Due from other governments	1,729	-	-
Loans receivable	-	-	-
	-	-	-
Total Assets	\$ 118,521	\$ 106,626	\$ 96,855
LIABILITIES			
Accounts payable	\$ -	\$ 23,415	\$ 1,997
Due to other funds	17,250	-	-
Deposits payable	-	-	1,000
	-	-	1,000
Total Liabilities	17,250	23,415	2,997
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	-	-	-
	-	-	-
FUND BALANCES			
Restricted	101,271	83,211	93,858
Assigned	-	-	-
Unassigned	-	-	-
	-	-	-
Total Fund Balances (Deficit)	101,271	83,211	93,858
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 118,521	\$ 106,626	\$ 96,855

SPECIAL REVENUE FUNDS

Parking Reserve	Technology Fees	PEG Cable TV Access	Capitola Village and Wharf BIA	CDBG
\$ 4,252	\$ 50,154	\$ 55,579	\$ 7,551	\$ 30,659
-	-	-	-	-
-	-	1,153	-	-
-	-	-	-	-
<u>\$ 4,252</u>	<u>\$ 50,154</u>	<u>\$ 56,732</u>	<u>\$ 7,551</u>	<u>\$ 30,659</u>
\$ -	\$ -	\$ 6,646	\$ 6,713	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	6,646	6,713	-
-	-	-	-	-
4,252	50,154	50,086	838	30,659
-	-	-	-	-
-	-	-	-	-
<u>4,252</u>	<u>50,154</u>	<u>50,086</u>	<u>838</u>	<u>30,659</u>
<u>\$ 4,252</u>	<u>\$ 50,154</u>	<u>\$ 56,732</u>	<u>\$ 7,551</u>	<u>\$ 30,659</u>

CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Balance Sheet
June 30, 2015

	SPECIAL REVENUE FUNDS	
	CDBG Program Income	Affordable Housing
ASSETS		
Cash and investments	\$ -	\$ 67,242
Accounts receivable	-	-
Due from other governments	-	-
Loans receivable	146,850	178,813
 Total Assets	\$ 146,850	\$ 246,055
LIABILITIES		
Accounts payable	\$ -	\$ -
Due to other funds	3,069	-
Deposits payable	-	-
 Total Liabilities	3,069	-
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue	146,850	178,813
FUND BALANCES		
Restricted	-	67,242
Assigned	-	-
Unassigned	(3,069)	-
 Total Fund Balances (Deficit)	(3,069)	67,242
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 146,850	\$ 246,055

DEBT SERVICE FUNDS

Beach & Village Lot II Debt Financing	Pacific Cove Debt Financing	2007 POB Debt Service	Total Non-Major Governmental Funds
\$ -	\$ 330,404	\$ 481,532	\$ 1,321,781
-	-	-	25,865
-	-	-	2,882
-	-	-	325,663
<u>\$ -</u>	<u>\$ 330,404</u>	<u>\$ 481,532</u>	<u>\$ 1,676,191</u>
\$ -	\$ -	\$ -	\$ 38,771
38,371	-	-	58,690
-	-	-	1,000
<u>38,371</u>	<u>-</u>	<u>-</u>	<u>98,461</u>
-	-	-	325,663
-	330,404	-	811,975
-	-	481,532	481,532
<u>(38,371)</u>	<u>-</u>	<u>-</u>	<u>(41,440)</u>
<u>(38,371)</u>	<u>330,404</u>	<u>481,532</u>	<u>1,252,067</u>
<u>\$ -</u>	<u>\$ 330,404</u>	<u>\$ 481,532</u>	<u>\$ 1,676,191</u>

CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Year Ended June 30, 2015

	<u>SPECIAL REVENUE FUNDS</u>		
	Supplemental Law Enforcement	Gas Tax	Wharf
REVENUES			
Taxes	\$ -	\$ 260,910	\$ -
Licenses and permits	-	-	-
Intergovernmental	184,633	-	-
Charges for services	-	-	-
Use of money and property	342	208	92,210
Other revenue	-	39,002	-
	<u>184,975</u>	<u>300,120</u>	<u>92,210</u>
Total Revenues			
EXPENDITURES			
Current:			
General government	-	-	-
Public safety	199,686	-	-
Community development	-	-	-
Culture and recreation	-	-	71,147
Transportation	-	232,441	-
Capital outlay	-	-	-
Debt service:			
Principal	-	5,337	-
Interest and fiscal charges	-	-	-
	<u>199,686</u>	<u>237,778</u>	<u>71,147</u>
Total Expenditures			
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(14,711)</u>	<u>62,342</u>	<u>21,063</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	<u>(2,761)</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(2,761)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(17,472)	62,342	21,063
Fund Balances (Deficit), Beginning of Year	<u>118,743</u>	<u>20,869</u>	<u>72,795</u>
Fund Balances (Deficit), End of Year	<u>\$ 101,271</u>	<u>\$ 83,211</u>	<u>\$ 93,858</u>

SPECIAL REVENUE FUNDS

Parking Reserve	Technology Fees	PEG Cable TV Access	Capitola Village and Wharf BIA	CDBG
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	18,003	-	-
-	-	-	-	-
-	11,122	-	64,075	-
-	-	120	72	-
-	-	-	-	-
-	11,122	18,123	64,147	-
-	-	5,673	-	-
-	-	-	-	-
-	9,409	-	69,985	11,800
-	-	-	-	-
-	-	-	-	-
17,410	-	5,476	-	-
-	-	-	-	-
-	-	-	-	-
17,410	9,409	11,149	69,985	11,800
(17,410)	1,713	6,974	(5,838)	(11,800)
100,000	-	-	-	-
(100,000)	-	-	-	-
-	-	-	-	-
(17,410)	1,713	6,974	(5,838)	(11,800)
21,662	48,441	43,112	6,676	42,459
<u>\$ 4,252</u>	<u>\$ 50,154</u>	<u>\$ 50,086</u>	<u>\$ 838</u>	<u>\$ 30,659</u>

CITY OF CAPITOLA
Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Year Ended June 30, 2015

	<u>SPECIAL REVENUE FUNDS</u>	
	<u>CDBG Program Income</u>	<u>Affordable Housing</u>
REVENUES		
Taxes	\$ -	\$ -
Licenses and permits	-	-
Intergovernmental	-	-
Charges for services	-	13,284
Use of money and property	-	-
Other revenue	-	-
	<hr/>	<hr/>
Total Revenues	-	13,284
	<hr/>	<hr/>
EXPENDITURES		
Current:		
General government	-	-
Public safety	-	-
Community development	600	16,618
Culture and recreation	-	-
Transportation	-	-
Capital outlay	-	-
Debt service:		
Principal	-	-
Interest and fiscal charges	-	-
	<hr/>	<hr/>
Total Expenditures	600	16,618
	<hr/>	<hr/>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(600)	(3,334)
	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES)		
Transfers in	-	-
Transfers out	-	(50,000)
	<hr/>	<hr/>
Total Other Financing Sources (Uses)	-	(50,000)
	<hr/>	<hr/>
Net Change in Fund Balances	(600)	(53,334)
Fund Balances (Deficit), Beginning of Year	<hr/>	<hr/>
	(2,469)	120,576
Fund Balances (Deficit), End of Year	<hr/>	<hr/>
	\$ (3,069)	\$ 67,242
	<hr/>	<hr/>

DEBT SERVICE FUNDS

<u>Beach & Village Lot II Debt Financing</u>	<u>Pacific Cove Debt Financing</u>	<u>2007 POB Debt Service</u>	<u>Total Non-Major Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 260,910
-	-	-	18,003
-	-	-	184,633
-	-	-	88,481
194	747	-	93,893
-	-	-	39,002
<u>194</u>	<u>747</u>	<u>-</u>	<u>684,922</u>
2,751	-	1,500	9,924
-	-	-	199,686
-	-	-	108,412
-	-	-	71,147
-	-	-	232,441
110,074	-	-	132,960
55,040	93,168	545,000	698,545
30,809	71,898	126,360	229,067
<u>198,674</u>	<u>165,066</u>	<u>672,860</u>	<u>1,682,182</u>
<u>(198,480)</u>	<u>(164,319)</u>	<u>(672,860)</u>	<u>(997,260)</u>
85,860	165,065	670,572	1,021,497
-	-	-	(152,761)
<u>85,860</u>	<u>165,065</u>	<u>670,572</u>	<u>868,736</u>
(112,620)	746	(2,288)	(128,524)
<u>74,249</u>	<u>329,658</u>	<u>483,820</u>	<u>1,380,591</u>
<u>\$ (38,371)</u>	<u>\$ 330,404</u>	<u>\$ 481,532</u>	<u>\$ 1,252,067</u>

CITY OF CAPITOLA
Supplemental Law Enforcement Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Intergovernmental	\$ 175,070	\$ 175,070	\$ 184,633	\$ 9,563
Use of money and property	100	100	342	242
Total revenues	<u>175,170</u>	<u>175,170</u>	<u>184,975</u>	<u>9,805</u>
Expenditures:				
Current:				
Public safety	136,770	243,705	199,686	44,019
Total expenditures	<u>136,770</u>	<u>243,705</u>	<u>199,686</u>	<u>44,019</u>
Excess (deficiency) of revenues over (under) expenditures	<u>38,400</u>	<u>(68,535)</u>	<u>(14,711)</u>	<u>53,824</u>
Other financing sources (uses):				
Transfers out	<u>(2,800)</u>	<u>(2,800)</u>	<u>(2,761)</u>	<u>39</u>
Total other financing sources (uses)	<u>(2,800)</u>	<u>(2,800)</u>	<u>(2,761)</u>	<u>39</u>
Net change in fund balance	35,600	(71,335)	(17,472)	53,863
Fund balance, beginning	<u>118,743</u>	<u>118,743</u>	<u>118,743</u>	<u>-</u>
Fund balance, ending	<u><u>\$ 154,343</u></u>	<u><u>\$ 47,408</u></u>	<u><u>\$ 101,271</u></u>	<u><u>\$ 53,863</u></u>

CITY OF CAPITOLA
Gas Tax Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 261,725	\$ 295,978	\$ 260,910	\$ (35,068)
Use of money and property	-	150	208	58
Other revenue	-	39,002	39,002	-
Total revenues	<u>261,725</u>	<u>335,130</u>	<u>300,120</u>	<u>(35,010)</u>
Expenditures:				
Current:				
Transportation	279,725	229,275	232,441	(3,166)
Debt service:				
Principal	-	5,400	5,337	63
Total expenditures	<u>279,725</u>	<u>234,675</u>	<u>237,778</u>	<u>(3,103)</u>
Net change in fund balance	(18,000)	100,455	62,342	(38,113)
Fund balance, beginning	<u>20,869</u>	<u>20,869</u>	<u>20,869</u>	<u>-</u>
Fund balance, ending	<u>\$ 2,869</u>	<u>\$ 121,324</u>	<u>\$ 83,211</u>	<u>\$ (38,113)</u>

**CITY OF CAPITOLA
Wharf Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Use of money and property	\$ 84,850	\$ 94,370	\$ 92,210	\$ (2,160)
Total revenues	84,850	94,370	92,210	(2,160)
Expenditures:				
Current:				
Culture and recreation	84,850	73,400	71,147	2,253
Total expenditures	84,850	73,400	71,147	2,253
Net change in fund balance	-	20,970	21,063	93
Fund balance, beginning	72,795	72,795	72,795	-
Fund balance, ending	\$ 72,795	\$ 93,765	\$ 93,858	\$ 93

**CITY OF CAPITOLA
Parking Reserve Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:	\$ -	\$ -	\$ -	\$ -
Expenditures:				
Current:				
Capital outlay	-	15,000	17,410	(2,410)
Total expenditures	-	15,000	17,410	(2,410)
Excess (deficiency) of revenues over (under) expenditures	-	(15,000)	(17,410)	(2,410)
Other financing sources (uses):				
Transfers in	100,000	100,000	100,000	-
Transfers out	(100,000)	(100,000)	(100,000)	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	-	(15,000)	(17,410)	(2,410)
Fund balance, beginning	21,662	21,662	21,662	-
Fund balance, ending	<u>\$ 21,662</u>	<u>\$ 6,662</u>	<u>\$ 4,252</u>	<u>\$ (2,410)</u>

**CITY OF CAPITOLA
Technology Fees Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Charges for services	\$ 9,650	\$ 9,100	\$ 11,122	\$ 2,022
Total revenues	9,650	9,100	11,122	2,022
Expenditures:				
Current:				
Community development	10,000	10,000	9,409	591
Total expenditures	10,000	10,000	9,409	591
Net change in fund balance	(350)	(900)	1,713	2,613
Fund balance, beginning	48,441	48,441	48,441	-
Fund balance, ending	<u>\$ 48,091</u>	<u>\$ 47,541</u>	<u>\$ 50,154</u>	<u>\$ 2,613</u>

**CITY OF CAPITOLA
PEG Cable TV Access Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Licenses and permits	\$ 19,000	\$ 18,000	\$ 18,003	\$ 3
Use of money and property	50	75	120	45
Total revenues	<u>19,050</u>	<u>18,075</u>	<u>18,123</u>	<u>48</u>
Expenditures:				
Current:				
General government	10,000	6,000	5,673	327
Capital outlay	<u>20,000</u>	<u>12,000</u>	<u>5,476</u>	<u>6,524</u>
Total expenditures	<u>30,000</u>	<u>18,000</u>	<u>11,149</u>	<u>6,851</u>
Net change in fund balance	(10,950)	75	6,974	6,899
Fund balance, beginning	<u>43,112</u>	<u>43,112</u>	<u>43,112</u>	<u>-</u>
Fund balance, ending	<u><u>\$ 32,162</u></u>	<u><u>\$ 43,187</u></u>	<u><u>\$ 50,086</u></u>	<u><u>\$ 6,899</u></u>

CITY OF CAPITOLA
Capitola Village and Wharf BIA Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for services	\$ 65,000	\$ 65,000	\$ 64,075	\$ (925)
Use of money and property	-	50	72	22
 Total revenues	<u>65,000</u>	<u>65,050</u>	<u>64,147</u>	<u>(903)</u>
Expenditures:				
Current:				
Community development	<u>64,700</u>	<u>67,200</u>	<u>69,985</u>	<u>(2,785)</u>
 Total expenditures	<u>64,700</u>	<u>67,200</u>	<u>69,985</u>	<u>(2,785)</u>
 Net change in fund balance	300	(2,150)	(5,838)	(3,688)
 Fund balance, beginning	<u>6,676</u>	<u>6,676</u>	<u>6,676</u>	<u>-</u>
 Fund balance, ending	<u>\$ 6,976</u>	<u>\$ 4,526</u>	<u>\$ 838</u>	<u>\$ (3,688)</u>

**CITY OF CAPITOLA
CDBG Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ -	\$ 146,000	\$ -	\$ (146,000)
Total revenues	-	146,000	-	(146,000)
Expenditures:				
Current:				
Community development	-	163,000	11,800	151,200
Total expenditures	-	163,000	11,800	151,200
Net change in fund balance	-	(17,000)	(11,800)	5,200
Fund balance, beginning	42,459	42,459	42,459	-
Fund balance, ending	<u>\$ 42,459</u>	<u>\$ 25,459</u>	<u>\$ 30,659</u>	<u>\$ 5,200</u>

CITY OF CAPITOLA
Affordable Housing Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Charges for services	\$ 12,000	\$ 12,000	\$ 13,284	\$ 1,284
Total revenues	12,000	12,000	13,284	1,284
Expenditures:				
Current:				
Community development	15,000	15,000	16,618	(1,618)
Total expenditures	15,000	15,000	16,618	(1,618)
Excess (deficiency) of revenues over (under) expenditures	(3,000)	(3,000)	(3,334)	(334)
Other financing sources (uses):				
Transfers out	(50,000)	(50,000)	(50,000)	-
Total other financing sources (uses)	(50,000)	(50,000)	(50,000)	-
Net change in fund balance	(53,000)	(53,000)	(53,334)	(334)
Fund balance, beginning	120,576	120,576	120,576	-
Fund balance, ending	\$ 67,576	\$ 67,576	\$ 67,242	\$ (334)

CITY OF CAPITOLA
Beach & Village Lot II Debt Financing
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Use of money and property	\$ -	\$ 220	\$ 194	\$ (26)
Total revenues	-	220	194	(26)
Expenditures:				
Current:				
General government	-	2,751	2,751	-
Capital outlay	-	110,074	110,074	-
Debt service:				
Principal	70,550	55,040	55,040	-
Interest and fiscal charges	14,890	30,810	30,809	1
Total expenditures	85,440	198,675	198,674	1
Excess (deficiency) of revenues over (under) expenditures	(85,440)	(198,455)	(198,480)	(25)
Other financing sources:				
Transfers in	85,860	85,660	85,860	200
Total other financing sources	85,860	85,660	85,860	200
Net change in fund balance	420	(112,795)	(112,620)	175
Fund balance, beginning	74,249	74,249	74,249	-
Fund balance (deficit), ending	\$ 74,669	\$ (38,546)	\$ (38,371)	\$ 175

CITY OF CAPITOLA
Pacific Cove Debt Financing Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Use of money and property	\$ -	\$ 450	\$ 747	\$ 297
Total revenues	-	450	747	297
Expenditures:				
Debt service:				
Principal	108,175	93,168	93,168	-
Interest and fiscal charges	56,890	71,898	71,898	-
Total expenditures	165,065	165,066	165,066	-
Excess (deficiency) of revenues over (under) expenditures	(165,065)	(164,616)	(164,319)	297
Other financing sources:				
Transfers in	165,065	165,065	165,065	-
Total other financing sources	165,065	165,065	165,065	-
Net change in fund balance	-	449	746	297
Fund balance, beginning	329,658	329,658	329,658	-
Fund balance, ending	\$ 329,658	\$ 330,107	\$ 330,404	\$ 297

**CITY OF CAPITOLA
2007 POB Debt Service Fund
Non-Major Governmental Fund
Budgetary Comparison Schedule
Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:	\$ -	\$ -	\$ -	\$ -
Expenditures:				
General government	1,500	1,500	1,500	-
Debt service:				
Principal	545,000	545,000	545,000	-
Interest and fiscal charges	126,400	126,360	126,360	-
Total expenditures	<u>672,900</u>	<u>672,860</u>	<u>672,860</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(672,900)</u>	<u>(672,860)</u>	<u>(672,860)</u>	<u>-</u>
Other financing sources:				
Transfers in	<u>674,200</u>	<u>674,200</u>	<u>670,572</u>	<u>(3,628)</u>
Total other financing sources	<u>674,200</u>	<u>674,200</u>	<u>670,572</u>	<u>(3,628)</u>
Net change in fund balance	1,300	1,340	(2,288)	(3,628)
Fund balance, beginning	<u>483,820</u>	<u>483,820</u>	<u>483,820</u>	<u>-</u>
Fund balance, ending	<u><u>\$ 485,120</u></u>	<u><u>\$ 485,160</u></u>	<u><u>\$ 481,532</u></u>	<u><u>\$ (3,628)</u></u>

CITY OF CAPITOLA
Statement of Changes in Fiduciary Assets and Liabilities
Fiduciary Funds – Agency Funds
Year Ended June 30, 2015

	Balance June 30, 2014	Additions	Deductions	Balance June 30, 2015
<u>BROOKVALE ASSESSMENT DISTRICT</u>				
Assets				
Cash and investments	\$ 15,983	\$ 39	\$ -	\$ 16,022
Total assets	<u>\$ 15,983</u>	<u>\$ 39</u>	<u>\$ -</u>	<u>\$ 16,022</u>
Liabilities				
Deposits	\$ 15,983	\$ 39	\$ -	\$ 16,022
Total liabilities	<u>\$ 15,983</u>	<u>\$ 39</u>	<u>\$ -</u>	<u>\$ 16,022</u>
<u>AUTO CENTER ASSESSMENT DISTRICT</u>				
Assets				
Cash and investments	\$ 20,342	\$ 55	\$ -	\$ 20,397
Total assets	<u>\$ 20,342</u>	<u>\$ 55</u>	<u>\$ -</u>	<u>\$ 20,397</u>
Liabilities				
Deposits	\$ 20,342	\$ 55	\$ -	\$ 20,397
Total liabilities	<u>\$ 20,342</u>	<u>\$ 55</u>	<u>\$ -</u>	<u>\$ 20,397</u>
<u>TOTALS - ALL AGENCY FUNDS</u>				
Assets				
Cash and investments	\$ 36,325	\$ 94	\$ -	\$ 36,419
Total assets	<u>\$ 36,325</u>	<u>\$ 94</u>	<u>\$ -</u>	<u>\$ 36,419</u>
Liabilities				
Deposits	\$ 36,325	\$ 94	\$ -	\$ 36,419
Total liabilities	<u>\$ 36,325</u>	<u>\$ 94</u>	<u>\$ -</u>	<u>\$ 36,419</u>

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CITY OF CAPITOLA
Comprehensive Annual Financial Report
Statistical Section (Unaudited)
Table of Contents
Fiscal year ended June 30, 2015

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

Financial Trends

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

- 2015- 1 Net Position by Component
- 2015- 2 Changes in Net Position
- 2015- 3 Fund Balances of Government Funds
- 2015- 4 Changes in Fund Balances of Governmental Funds
- 2015- 5 General Revenues By Source

Revenue Capacity

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

- 2015- 6 Net Taxable Assessed Value History
- 2015- 7 Assessed Value of Taxable Property
- 2015- 8 Direct & Overlapping Property Tax Rates
- 2015- 9 Top Ten Property Taxpayers
- 2015- 10 Property Tax Levies & Collections
- 2015- 11 Top 25 Sales Tax Taxpayers

Debt Capacity

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

- 2015- 12 Ratios of Outstanding Debt by Type
- 2015- 13 Ratios of General Bonded Debt Outstanding
- 2015- 14 Direct and Overlapping Debt
- 2015- 15 Legal Debt Margin Information
- 2015- 16 Pledged-Revenue Coverage

Demographic and Economic Information

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

- 2015- 17 Demographic and Economic Statistics
- 2015- 18 Principal Employers - Top Ten
- 2015- 19 Full-time and Part-time City Employees by Function

Operating Information

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

- 2015- 20 Operating Indicators by Function
- 2015- 21 Capital Asset Statistics by Function

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

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

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

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

Source: City of Capitola Finance Department

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

EXPENSES:	Fiscal Year				
	2006	2007	2008	2009	2010
Primary government activities					
General government	\$ 3,963	\$ 4,343	\$ 4,398	\$ 4,482	\$ 5,103
Public safety	5,350	5,733	5,298	5,927	5,533
Community development	1,227	1,550	2,193	2,218	2,428
Culture and recreation	1,511	1,596	1,658	1,035	1,025
Transportation	1,501	1,697	1,522	2,530	1,932
Interest and other charges	152	190	589	533	509
Total primary government expenses	\$ 13,704	\$ 15,109	\$ 15,658	\$ 16,725	\$ 16,530
PROGRAM REVENUES:					
Primary government activities					
Charges for services:					
General government	\$ 724	\$ 705	\$ 794	\$ 658	\$ 806
Public safety	556	688	736	905	1,009
Community development	1,478	1,469	1,153	1,617	2,266
Culture and recreation	685	749	726	709	696
Transportation	11	18	13	34	53
Operating grants and contributions	812	1,010	1,420	286	1,469
Capital grants and contributions	161	514	-	527	388
Total primary govt program revenues	\$ 4,427	\$ 5,153	\$ 4,842	\$ 4,736	\$ 6,687
NET PRIMARY GOVT REV/(EXP)	\$ (9,277)	\$ (9,956)	\$ (10,816)	\$ (11,989)	\$ (9,843)
GENERAL REVENUES AND OTHER					
CHANGES IN NET POSITION:					
Primary government activities					
Taxes:					
Property Taxes	\$ 3,465	\$ 3,916	\$ 4,034	\$ 4,147	\$ 4,066
Transaction and Use Tax (.25%)	975	1,048	1,016	788	928
Sales and Use tax	4,132	4,174	3,939	2,858	3,289
Transient occupancy taxes	543	604	644	605	592
Franchise taxes	418	438	437	459	462
Business license tax	303	326	299	278	282
Other taxes	-	-	-	-	-
Intergovernmental	1,415	1,421	1,507	1,417	979
Investment income	226	287	379	394	238
Other general revenues	109	120	452	305	287
Transfers	-	-	-	-	-
Extraordinary Item	-	-	-	-	-
Total primary government activities	\$ 11,586	\$ 12,334	\$ 12,707	\$ 11,251	\$ 11,123
CHANGES IN NET POSITION:					
Total primary government activities	\$ 2,309	\$ 2,378	\$ 1,891	\$ (738)	\$ 1,280

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

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

Source: City of Capitola Finance Department

		Fiscal Year							
		2011	2012	2013	2014	2015*			
\$	5,453	\$	4,851	\$	4,862	\$	3,403	\$	3,582
	5,422		5,491		5,411		5,412		6,181
	2,068		3,471		727		741		809
	995		1,010		1,398		970		974
	2,445		2,556		2,456		3,070		2,866
	448		419		288		211		217
\$	<u>16,831</u>	\$	<u>17,798</u>	\$	<u>15,142</u>	\$	<u>13,807</u>	\$	<u>14,629</u>
\$	759	\$	1,059	\$	948	\$	1,109	\$	1,012
	902		759		732		782		806
	1,077		1,145		523		683		633
	655		751		685		749		765
	54		166		145		131		120
	1,040		3,131		2,292		313		657
	421		-		3		15		12
\$	<u>4,908</u>	\$	<u>7,011</u>	\$	<u>5,328</u>	\$	<u>3,782</u>	\$	<u>4,005</u>
\$	<u>(11,923)</u>	\$	<u>(10,787)</u>	\$	<u>(9,814)</u>	\$	<u>(10,025)</u>	\$	<u>(10,624)</u>
\$	4,107	\$	2,993	\$	1,778	\$	1,849	\$	2,041
	850		932		1,510		-		-
	3,002		3,322		4,531		2,036		7,330
	602		913		1,074		1,263		1,276
	477		483		479		497		508
	267		281		292		287		284
	-		-		-		-		-
	1,323		947		241		327		265
	185		190		131		107		119
	289		309		497		238		242
	-		-		-		-		-
	(795)		380		1,118		-		-
\$	<u>10,307</u>	\$	<u>10,750</u>	\$	<u>11,651</u>	\$	<u>6,604</u>	\$	<u>12,065</u>
\$	<u>(1,616)</u>	\$	<u>(37)</u>	\$	<u>1,837</u>	\$	<u>(3,421)</u>	\$	<u>1,441</u>

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

	Fiscal Year														
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015					
GENERAL FUND															
Reserved															
Prepaid	\$ -	\$ -	\$ -	\$ 21	\$ 116	Represented below per GASB 54									
Advances	1,968	1,968	1,968	1,968	1,968										
Total Reserved	\$ 1,968	\$ 1,968	\$ 1,968	\$ 1,989	\$ 2,084										
Unreserved															
Designated	\$ 3,175	\$ 3,467	\$ 3,185	\$ 2,659	\$ 2,928										
Unrestricted	1,340	1,342	1,350	1,350	1,350										
Total Unreserved	\$ 4,515	\$ 4,809	\$ 4,535	\$ 4,009	\$ 4,278										
Fund Balance GASB 54															
Nonspendable						\$ 1,973	\$ 1,970	\$ 2,024	\$ 620	\$ 618					
Restricted						-	-	-	-	-					
Committed						-	-	-	-	-					
Assigned						-	-	570	584	1,129					
Unassigned						2,786	2,608	2,846	3,686	4,258					
Total General Fund	\$ 6,483	\$ 6,777	\$ 6,503	\$ 5,998	\$ 6,362	\$ 4,759	\$ 4,578	\$ 5,440	\$ 4,890	\$ 6,005					
ALL OTHER GOVERNMENT FUNDS															
Reserved						Represented below per GASB 54									
Low income housing	\$ 1,790	\$ 1,808	\$ -	\$ -	\$ -										
Debt service	38	608	-	-	-										
Total Reserved	\$ 1,828	\$ 2,416	\$ -	\$ -	\$ -										
Unreserved, reported in:															
Unrestricted	\$ -	\$ -	\$ -	\$ -	\$ -										
Special revenue funds	714	938	3,423	2,976	1,643										
Capital project funds	475	440	1,874	1,322	627										
Debt service funds	-	-	-	-	1,458										
Total Unreserved	\$ 1,189	\$ 1,378	\$ 5,297	\$ 4,298	\$ 3,728										
Fund Balance GASB 54															
Nonspendable						\$ 109	\$ 586	\$ -	\$ -	\$ -					
Restricted						1,705	1,858	1,497	1,043	985					
Committed						-	-	-	-	-					
Assigned						1,564	1,045	1,046	1,764	2,456					
Unassigned						(19)	(148)	(19)	(2)	(41)					
Total All Other Govt Funds	\$ 3,017	\$ 3,794	\$ 5,297	\$ 4,298	\$ 3,728	\$ 3,359	\$ 3,341	\$ 2,524	\$ 2,805	\$ 3,400					
TOTAL	\$ 9,500	\$ 10,571	\$ 11,800	\$ 10,296	\$ 10,090	\$ 8,118	\$ 7,919	\$ 7,964	\$ 7,695	\$ 9,405					

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

Source: City of Capitola Finance Department

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

	Fiscal Year					
	2006	2007	2008	2009	2010	2011
REVENUES:						
Taxes	\$ 11,375	\$ 12,047	\$ 12,008	\$ 10,239	\$ 10,285	\$ 10,335
Licenses & permits	357	255	270	664	609	474
Intergovernmental	750	1,225	1,121	1,745	2,932	2,426
Fines and forfeitures	512	639	672	702	803	702
Charges for services	2,092	2,263	2,467	1,744	1,380	1,278
Use of money and property	778	971	1,046	812	595	492
Other	86	89	434	178	163	173
Total revenues	<u>\$ 15,950</u>	<u>\$ 17,489</u>	<u>\$ 18,018</u>	<u>\$ 16,084</u>	<u>\$ 16,767</u>	<u>\$ 15,880</u>
EXPENSES:						
Current:						
General government	\$ 3,266	\$ 3,583	\$ 3,672	\$ 3,591	\$ 4,232	\$ 4,483
Public safety	5,261	5,631	5,246	5,869	5,441	5,468
Community development	1,358	1,831	2,324	2,362	2,338	1,986
Culture and recreation	1,478	1,564	1,630	1,009	986	1,009
Transportation	1,493	1,690	1,476	2,575	2,017	2,294
Capital outlay	413	1,858	1,015	1,224	847	665
Subtotal	<u>\$ 13,269</u>	<u>\$ 16,157</u>	<u>\$ 15,363</u>	<u>\$ 16,630</u>	<u>\$ 15,861</u>	<u>\$ 15,905</u>
Debt service:						
Debt issuance costs	\$ -	\$ -	\$ 125	\$ -	\$ -	\$ -
Principal retirement	91	91	123	499	535	704
Interest and agent fees	171	170	471	529	507	447
Subtotal	<u>\$ 262</u>	<u>\$ 261</u>	<u>\$ 719</u>	<u>\$ 1,028</u>	<u>\$ 1,042</u>	<u>\$ 1,151</u>
Total expenditures	<u>\$ 13,531</u>	<u>\$ 16,418</u>	<u>\$ 16,082</u>	<u>\$ 17,658</u>	<u>\$ 16,903</u>	<u>\$ 17,056</u>
Excess/(deficiency) of revenues over/(under) expenditures	<u>\$ 2,419</u>	<u>\$ 1,071</u>	<u>\$ 1,936</u>	<u>\$ (1,574)</u>	<u>\$ (136)</u>	<u>\$ (1,176)</u>
OTHER FINANCING SOURCES/(USES):						
Sale of capital assets	\$ -	\$ -	\$ 166	\$ -	\$ -	\$ -
Transfers in	1,053	1,764	2,754	1,775	1,337	1,945
Transfers out	(1,053)	(1,764)	(2,754)	(1,775)	(1,337)	(1,945)
Issuance of bonds	-	-	5,040	-	-	-
Payment to bond escrow agent	-	-	-	-	-	-
Total other financing sources/(uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,206</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Special Items						
Flood Disaster loss/recovery	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (795)
Prefunding of PERS liability	-	-	(5,913)	-	-	-
Gain/Loss on RDA dissolution	-	-	-	-	-	-
Net change in fund balances	<u>\$ 2,419</u>	<u>\$ 1,071</u>	<u>\$ 1,229</u>	<u>\$ (1,574)</u>	<u>\$ (136)</u>	<u>\$ (1,971)</u>
Beginning fund balance, as restated	\$ 7,081	\$ 9,500	\$ 10,571	\$ 11,800	\$ 10,226	\$ 10,090
Changes in fund balance	2,419	1,071	1,229	(1,574)	(136)	(1,971)
Ending fund balance	<u>\$ 9,500</u>	<u>\$ 10,571</u>	<u>\$ 11,800</u>	<u>\$ 10,226</u>	<u>\$ 10,090</u>	<u>\$ 8,119</u>
Debt Service as a percentage of non-capital expenditures						
Total Expenditures	\$ 13,531	\$ 16,418	\$ 16,082	\$ 17,658	\$ 16,903	\$ 17,056
Capitalized Portion of Capital Outlay	502	2,049	958	1,220	888	430
Total Non-Capitalized Expenditures	<u>\$ 13,029</u>	<u>\$ 14,369</u>	<u>\$ 15,124</u>	<u>\$ 16,438</u>	<u>\$ 16,015</u>	<u>\$ 16,626</u>
Debt service: Principal & Interest	262	261	594	1,028	1,042	1,151
Debt service as a percentage of noncapital expenditures	2.01%	1.82%	3.93%	6.25%	6.51%	6.92%

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

Source: City of Capitola Finance Department

Fiscal Year			
2012	2013	2014	2015
\$ 9,878	\$ 9,607	\$ 11,112	\$ 11,416
630	520	703	629
2,755	837	637	757
724	688	731	671
1,907	1,862	2,053	2,078
403	235	219	228
90	238	128	132
<u>\$ 16,387</u>	<u>\$ 13,987</u>	<u>\$ 15,583</u>	<u>\$ 15,911</u>
\$ 4,034	\$ 3,865	\$ 2,749	\$ 2,443
5,436	5,369	5,838	5,917
3,458	712	722	823
1,041	1,118	966	978
2,204	2,157	2,782	2,577
757	551	3,328	535
<u>\$ 16,930</u>	<u>\$ 13,772</u>	<u>\$ 16,385</u>	<u>\$ 13,273</u>
\$ 43	\$ 38	12	-
673	1,031	616	699
394	320	210	229
<u>\$ 1,110</u>	<u>\$ 1,389</u>	<u>\$ 838</u>	<u>\$ 928</u>
<u>\$ 18,040</u>	<u>\$ 15,161</u>	<u>\$ 17,223</u>	<u>\$ 14,201</u>
\$ (1,653)	\$ (1,174)	\$ (1,640)	\$ 1,710
\$ 2,390	\$ 99	\$ -	\$ -
2,272	2,151	1,861	2,091
(2,272)	(2,151)	(1,861)	(2,091)
-	-	1,372	-
-	-	-	-
<u>\$ 2,390</u>	<u>\$ 99</u>	<u>\$ 1,372</u>	<u>\$ -</u>
\$ (623)	\$ 1,118	\$ -	\$ -
-	-	-	-
(190)	-	-	-
<u>\$ (76)</u>	<u>\$ 43</u>	<u>\$ (268)</u>	<u>\$ 1,710</u>
\$ 7,995	\$ 7,920	\$ 7,963	\$ 7,695
(75)	43	(268)	1,710
<u>\$ 7,920</u>	<u>\$ 7,963</u>	<u>\$ 7,695</u>	<u>\$ 9,405</u>
\$ 18,040	\$ 15,161	\$ 17,223	\$ 14,200
824	306	3,809	(298)
<u>\$ 17,216</u>	<u>\$ 14,855</u>	<u>\$ 13,414</u>	<u>\$ 14,498</u>
1,067	1,351	826	928
6.20%	9.09%	6.16%	6.40%

2015-4

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

General Revenue By Source

Fiscal Year	Sales Tax Revenue (1)	Property Taxes (2)	Transient Occupancy Tax	Franchise Taxes	Business Licenses	Investment Income	Miscellaneous, Intergovernmental, and Other Revenues	Total General Revenues
2006	\$ 6,460,002	\$ 3,464,933	\$ 543,438	\$ 417,451	\$ 302,890	\$ 225,995	\$ 171,041	\$ 11,585,750
2007	6,579,908	3,915,955	603,997	438,412	325,946	287,069	183,019	12,334,306
2008	6,417,075	4,033,686	643,541	437,065	299,394	379,439	497,094	12,707,294
2009	4,859,096	4,147,459	605,365	459,042	277,959	394,135	507,957	11,251,013
2010	4,993,844	4,065,897	591,925	461,937	281,739	237,926	489,162	11,122,430
2011	4,890,518	4,107,291	601,726	477,084	266,948	185,346	573,436	11,102,349
2012	5,200,303	2,993,125	912,851	482,782	281,336	190,390	309,110	10,369,897
2013	6,040,542	1,778,037	1,074,507	478,627	291,642	131,166	398,320	10,192,841
2014	7,179,727	1,849,375	1,263,175	496,759	286,638	107,218	564,801	11,747,693
2015	7,330,443	2,041,248	1,275,716	507,517	284,474	118,770	506,803	12,064,971

NOTES:

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

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

Source: City of Capitola Finance Department

2015-5

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

City of Capitola

Fiscal Year	Secured	Unsecured	SBE Nonunitary	Total Assessed Value	% Change
2006	1,388,112	62,489	1,456	1,452,057	7.96%
2007	1,511,826	68,819	1,330	1,581,975	8.95%
2008	1,624,095	71,157	748	1,696,000	7.21%
2009	1,681,379	73,387	748	1,755,514	3.51%
2010	1,689,396	67,883	889	1,758,168	0.15%
2011	1,701,476	70,118	579	1,772,173	0.80%
2012	1,717,637	66,695	579	1,784,911	0.72%
2013	1,726,023	71,136	83	1,797,242	0.69%
2014	1,784,629	75,387	84	1,860,100	3.50%
2015	1,906,637	81,887	84	1,988,608	6.91%

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

Source: HdL Companies, Santa Cruz County Assessor 2013-14 Combined Tax Rolls
2015-6

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

Category	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Residential	\$ 982,739	\$ 1,089,341	\$ 1,164,558	\$ 1,212,668	\$ 1,209,657	\$ 1,224,372	\$ 1,241,453	\$ 1,233,173	\$ 1,289,844	\$ 1,413,964
Commercial	315,660	327,341	341,720	350,240	363,033	367,656	369,399	387,425	384,916	379,721
Industrial	11,541	13,881	14,558	14,849	15,146	15,520	14,239	13,869	14,079	14,130
Institutional	11,954	14,582	14,905	13,345	14,748	16,950	14,788	15,078	14,662	14,716
Miscellaneous	5	5	5	5	114	5	6	6	6	6
Recreational	5,069	5,171	6,895	9,946	10,145	10,121	10,197	10,401	10,609	8,844
Vacant	22,906	19,184	34,619	30,120	24,165	13,773	13,303	13,370	13,823	14,934
SBE Nonunitary	1,456	1,330	748	748	889	579	579	83	84	84
Cross Reference	38,238	42,321	46,835	50,206	52,388	53,079	54,252	52,701	56,690	60,322
Unsecured	62,489	68,819	71,157	73,387	67,883	70,118	66,695	71,136	75,387	81,887
TOTALS	\$ 1,452,057	\$ 1,581,975	\$ 1,696,000	\$ 1,755,514	\$ 1,758,168	\$ 1,772,173	\$ 1,784,911	\$ 1,797,242	\$ 1,860,100	\$ 1,988,608
Exempt	(1,456)	(1,330)	(748)	(748)	(889)	(579)	(579)	(83)	(84)	(84)
Total Direct Property Tax Rate	0.18517	0.18133	0.17950	0.18062	0.18468	0.18456	0.17987	0.18035	0.05510	0.05461

NOTES: Exempt values are not included in Total.

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

Source: HdL Companies, Santa Cruz County Assessor 2004-05 - 2013-14 Combined Tax Rolls

2015-7

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

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
City Direct Property Tax Rates										
Basic Levy ⁽¹⁾	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
Redevelopment Rate ⁽²⁾	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	(2)	n/a	n/a
Total Direct Property Tax Rate ⁽³⁾	0.18517	0.18133	0.17950	0.18062	0.18468	0.18456	0.17987	0.18035	0.05510	0.05461
Overlapping Property Tax Rates ⁽⁴⁾										
Santa Cruz High School	0.03900	0.01367	0.01924	0.02274	0.02798	0.02336	0.02602	0.02615	0.02333	0.02087
Soquel Elementary School	0.02000	0.02114	0.02772	0.02320	0.02364	0.02435	0.02406	0.02435	0.02238	0.02045
Live Oak Elementary School	0.04300	0.05187	0.04776	0.04842	0.04939	0.05246	0.05295	0.05514	0.05383	0.05279
Cabrillo College	0.03700	0.02670	0.03000	0.03324	0.03598	0.03609	0.03896	0.04048	0.04047	0.03694
Total Overlapping Property Tax Rate ⁽³⁾	0.13900	0.11338	0.12472	0.12760	0.13699	0.13626	0.14199	0.14612	0.14001	0.13105
City Share of 1% levy per Proposition 13 ⁽⁵⁾	0.07471	0.07471	0.07471	0.07471	0.07471	0.07471	0.07471	0.07471	0.07471	0.07471
Total Direct Rate ⁽³⁾	0.18517	0.18133	0.17950	0.18062	0.18468	0.18456	0.17987	0.18035	0.05510	0.05461
Total Direct & Overlapping Rate	1.13900	1.11338	1.12472	1.12760	1.13699	1.13626	1.14199	1.14612	1.14001	1.13105

NOTES:

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

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

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

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

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

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

2015-8

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

Taxpayer	2015			2006		
	2015 Net Assessed Valuation	Rank	Percent of Total City Net Assessed Valuation	2006 Net Assessed Valuation	Rank	Percent of Total City Net Assessed Valuation
Macerich Partnership LP	\$ 60,648,881	1	4.18%	\$ 63,510,443	1	3.97%
Baskin Properties LLC	13,978,503	2	0.96%	14,258,073	2	0.89%
George Ow Jr Trustees et al	12,340,913	3	0.85%	11,020,564	3	0.69%
Paul and Koula Pries	10,318,733	4	0.71%	10,525,108	4	0.66%
Brown Ranch Properties	9,811,713	5	0.68%	5,991,943	7	0.37%
Values Pacific	9,227,814	6	0.64%	-		0.00%
Macys West Inc	8,993,017	7	0.62%	8,456,918	6	0.53%
Harry L and Anna Jenkins	8,480,916	8	0.58%	-		0.00%
Crossroads Associates	6,475,112	9	0.45%	5,763,503	8	0.36%
Sears Roebuck and Company	6,332,430	10	0.44%	5,309,143	9	0.33%
Salvation Army corporation	-		0.00%	9,195,429	5	0.57%
Cristina Properties LLC	\$ -		0.00	5,237,546	10	0.33%
	<u>\$ 146,608,032</u>		<u>10.10%</u>	<u>\$ 139,268,670</u>		<u>8.70%</u>
Memo: Gross Assessed Value	\$ 1,452,056,588		100.00%	\$ 1,600,330,487		100.00%

Source: HdL Companies, Santa Cruz County Assessor 2013-14 Combined Tax Rolls and the SBE Non Unitary Tax Roll

2015-9

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

Fiscal Year Ended June 30,	Property Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2006	2,412,712	2,412,712	100%	-	2,412,712	100%
2007	2,605,158	2,605,158	100%	-	2,605,158	100%
2008	2,715,388	2,715,388	100%	-	2,715,388	100%
2009	2,851,724	2,851,724	100%	-	2,851,724	100%
2010	2,783,546	2,783,546	100%	-	2,783,546	100%
2011	2,813,554	2,813,554	100%	-	2,813,554	100%
2012	1,900,533	1,900,533	100%	-	1,900,533	100%
2013	899,975	899,975	100%	-	899,975	100%
2014	927,676	927,676	100%	-	927,676	100%
2015	978,683	978,683	100%	-	978,683	100%

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

Reduction in property taxes levied from 2011 through 2015 reflects the 2/1/2012 State of California dissolution of Redevelopment Agencies and the associated elimination of tax increment received by the City of Capitola.

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

2015-10

CITY OF CAPITOLA, CALIFORNIA
Top 25 Sales Tax Taxpayers, as of June 30, 2015
Listed alphabetically

TOP 25 SALES TAX TAXPAYERS

AT&T Mobility
Bed Bath & Beyond
Beverages & More
Chevron Service Station (AJ's Fuel Market of Capitola) - Bay Ave.
Chevron Service Station (Chevron USA) - 41st Ave.
CVS - combined 41st and Bay Ave.
Gayle's Bakery and Rosticceria
Kohls
Macy's Department Store
Nob Hill General Stores
O'Neill Surf Shop
Orchard Supply Hardware
Ross Stores
Santa Cruz Mazda
Sears Roebuck & Company
Shadowbrook Restaurant
Shell Service Stations
Sierra Utility Sales
Target
Toyota of Santa Cruz
Trader Joe's
Union 76 Service Station (Capitola 76) - 41st Ave.
Verizon Wireless
Whole Foods
Zelda's Restaurant

NOTES:

Information presented is as of June, 2015. It is alphabetical and is not indicative of relative nor total sales volume.

Source: California State Board of Equalization

2015-11

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

Fiscal Year Ended June 30	Government/Total Primary Government Activities			Tot. Gov't./ Primary Gov't. Activities	Total Outstanding Debt as a % of Total Personal Income	Debt per Capita
	General Obligation Bonds	Lease Revenue Bonds	Other debt			
2005	\$ -	\$ -	\$ 4,168,406	\$ 4,168,406	1.46%	\$ 477
2006	-	-	2,886,922	2,886,922	1.02%	359
2007	-	-	2,845,520	2,845,520	0.94%	362
2008	5,040,000	-	2,940,896	7,980,896	2.14%	877
2009	4,670,000	-	2,892,819	7,562,819	1.19%	495
2010	4,265,000	-	2,848,029	7,113,029	2.00%	795
2011	3,830,000	-	2,667,940	6,497,940	2.23%	723
2012	3,375,000	-	2,428,249	5,803,249	2.02%	670
2013	2,890,000	-	1,882,273	4,772,273	1.73%	579
2014	2,375,000	-	3,153,788	5,528,788	1.83%	645
2015	1,830,000	-	3,000,243	4,830,243	1.62%	590

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

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

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

Source: City of Capitola Financial Statements

2015-12

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

Fiscal Year Ended June 30	Government/Total Primary Government Activities			Tot. Gov't./ Primary Gov't. Activities	Total Outstanding Debt to Personal Income	Debt per Capita
	General Obligation Bonds	Lease Revenue Bonds	Other debt			
2005	\$ -	\$ -	\$ 4,168,406	\$ 4,168,406	1.46%	\$ 477
2006	-	-	2,886,922	2,886,922	1.02%	359
2007	-	-	2,845,520	2,845,520	0.94%	362
2008	5,040,000	-	2,940,896	7,980,896	2.14%	877
2009	4,670,000	-	2,892,819	7,562,819	1.19%	495
2010	4,265,000	-	2,848,029	7,113,029	2.00%	795
2011	3,830,000	-	2,667,940	6,497,940	2.23%	723
2012	3,375,000	-	2,428,249	5,803,249	2.02%	670
2013	2,890,000	-	1,882,273	4,772,273	1.73%	579
2014	2,375,000	-	3,153,788	5,528,788	1.83%	645
2015	1,830,000	-	3,000,243	4,830,243	1.62%	590

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

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

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

Source: City of Capitola Financial Statements

2015-13

CITY OF CAPITOLA, CALIFORNIA
 Direct & Overlapping Debt
 Fiscal Year ended June 30, 2015

2014-15 Assessed Valuation \$ 1,990,263,440

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable ⁽¹⁾</u>	<u>Total Debt 6/30/2015</u>	<u>City's Share of Debt 6/30/2015</u>
Cabrillo Joint Community College District	5.412%	\$ 134,538,852	\$ 7,281,243
Santa Cruz City High School District	11.760%	35,845,765	4,215,462
Live Oak School District	6.378%	14,990,838	956,116
Soquel Union School District	38.900%	10,355,000	4,028,095
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		195,730,455	16,480,916

DIRECT AND OVERLAPPING GENERAL FUND DEBT:

Overlapping General Fund Debt:

Santa Cruz County Certificates of Participation	5.455%	69,178,777	3,773,702
Santa Cruz County Office of Education Certificates of Participation	5.455%	10,180,000	555,319
Cabrillo Joint Community College District Certificates of Participation	5.412%	935,000	50,602
Live Oak School District Certificates of Participation	6.378%	11,978,974	764,019
Soquel Union School District	38.900%	1,330,000	517,370
Santa Cruz City Schools Certificates of Participation	11.760%	5,461,000	642,214
City of Capitola General Fund Obligations	100%	4,830,243	4,830,243
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		103,893,994	11,133,469

TOTAL DIRECT DEBT

4,830,243

TOTAO OVERLAPPING DEBT

22,784,142

COMBINED TOTAL DEBT

\$ 27,614,385 ⁽²⁾

RATIOS TO 2014-15 ASSESSED VALUATION:

Total Overlapping Tax and Assessment Debt

0.83%

Total Direct Debt

0.24%

Combined Total Debt

1.39%

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

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

Source: MuniServices, LLC, City of Capitola Finance Department

2015-14

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

	Fiscal Year					Fiscal Year				
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Assessed Valuation	\$ 1,452,057	\$ 1,581,975	\$ 1,696,000	\$ 1,755,514	\$ 1,758,168	\$ 1,772,173	\$ 1,784,911	\$ 1,797,242	\$ 1,860,100	\$ 1,988,608
RDA Base Valuation	202,415	214,599	226,445	234,375	241,401	243,413	238,631	242,272	246,771	256,500
Adj. assessed valuation	\$ 1,249,642	\$ 1,367,376	\$ 1,469,555	\$ 1,521,139	\$ 1,516,767	\$ 1,528,760	\$ 1,546,280	\$ 1,554,970	\$ 1,613,329	\$ 1,732,108
Debt limit percentage	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Debt limit	187,446	205,106	220,433	228,171	227,515	229,314	231,942	233,246	241,999	259,816
Total net applicable debt										
Gen. obligation bonds	-	-	5,040	4,670	4,265	3,830	3,375	2,890	\$ 2,375	\$ 1,830
Legal debt margin	<u>\$ 187,446</u>	<u>\$ 205,106</u>	<u>\$ 215,393</u>	<u>\$ 223,501</u>	<u>\$ 223,250</u>	<u>\$ 225,484</u>	<u>\$ 228,567</u>	<u>\$ 230,356</u>	<u>\$ 239,624</u>	<u>\$ 257,986</u>
Ratio of Total Net Applicable Debt to Debt Limit	0.00%	0.00%	2.34%	2.09%	1.91%	1.70%	1.48%	1.25%	0.99%	0.71%

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

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

2015-15

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

Fiscal Year Ended June 30,	Other Revenue Bonds				Tax Allocation Bonds				
	Available Revenue	Debt Service		Coverage	Tax Increment	Debt Service			
		Principal	Interest			Principal	Interest	Coverage	
2006	\$ -	\$ -	\$ -	n/a	\$ -	\$ -	\$ -	n/a	
2007	-	-	-	n/a	-	-	-	n/a	
2008	-	-	-	n/a	-	-	-	n/a	
2009	-	-	-	n/a	-	-	-	n/a	
2010	-	-	-	n/a	-	-	-	n/a	
2011	-	-	-	n/a	-	-	-	n/a	
2012	-	-	-	n/a	-	-	-	n/a	
2013	-	-	-	n/a	-	-	-	n/a	
2014	-	-	-	n/a	-	-	-	n/a	
2015	-	-	-	n/a	-	-	-	n/a	

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

SOURCE: City of Capitola Finance Department

2015-16

CITY OF CAPITOLA
 Demographic and Economic Statistics
 Last Ten Fiscal Years

Calendar Year	Population	Total Personal Income (In Thousands)	Per Capita Personal Income	Median Age	Unemployment Rate
2005	9,913	\$ 347,750	\$ 35,080	37.0	3.5%
2006	9,901	\$ 382,055	\$ 38,588	37.0	3.1%
2007	9,922	\$ 405,993	\$ 40,918	37.0	3.2%
2008	9,992	\$ 414,240	\$ 41,457	38.0	4.1%
2009	10,078	\$ 400,794	\$ 39,769	41.3	6.4%
2010	10,198	\$ 329,905	\$ 32,350	38.3	7.3%
2011	9,981	\$ 330,271	\$ 33,090	42.9	6.9%
2012	9,988	\$ 334,029	\$ 33,443	41.1	5.5%
2013	10,136	\$ 357,112	\$ 35,232	40.9	5.0%
2014	10,004	\$ 364,656	\$ 36,451	41.5	7.0%

NOTES: Figures have been realigned to correctly reflect the calendar years as presented. Calendar 2015 was not complete at June 30, 2015, so years 2005-2014 are shown.

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

2015-17

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

Employer	2015			2006		
	Ranking	Number of Employees	% of Total Employment	Ranking	Number of Employees	% of Total Employment
Soquel Union Elementary School District ⁽¹⁾	1	200	3.57%			
Subaru, Toyota, Kia of Santa Cruz	2	182	3.25%			
Macys	3	180	3.21%	1	250	3.73%
Gayles Bakery & Rosticceria	4	176	3.14%			
Target	5	157	2.80%			
Whole Foods Market	6	140	2.50%			
Shadowbrook Restaurant/aka Culinary Enterprises	7	130	2.32%	6	135	2.01%
Pacific Coast Manor	8	107	1.91%			
Kohl's	9	95	1.70%			
Trader Joe's	10	93	1.66%	9	100	1.49%
Mervyn's LLC ⁽²⁾				2	230	3.43%
Santa Cruz County Office of Education ⁽³⁾				3	220	3.28%
Gottschalks Inc. ⁽⁴⁾				4	188	2.81%
Sears ⁽⁵⁾				5	150	2.24%
Orchard Supply Hardware ⁽⁵⁾				7	125	1.87%
Spa Fitness Centers, Inc. ⁽⁶⁾				8	125	1.87%
Longs Drug Stores ⁽⁷⁾				10	100	1.49%
		1460	26.07%		1623	24.22%
Total City Labor Force		5600	100.00%		6701	100.00%

* Includes FTE and PTE

(1) Figure for the Soquel Union Elementary School District includes only District Office employees and employees of New Brighton Middle

(2) Mervyn's LLC closed the Capitola store at the end of calendar 2008 and was replaced by Kohl's (#9) in October 2009.

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

(4) Gottschalks Inc. closed the Capitola store at the end of fiscal year 2009 and was remodeled and opened as Target (#5) in July, 2012.

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

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

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

SOURCE: MuniService, LLC, City of Capitola Finance Department

2015-18

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

Function	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General government										
City Manager	7.50	7.50	7.50	7.50	7.50	7.50	7.75	7.65	7.65	7.65
Finance	5.25	5.25	5.38	4.38	4.38	4.38	4.38	4.38	4.50	4.50
City Attorney	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	<u>13.75</u>	<u>13.75</u>	<u>13.88</u>	<u>12.88</u>	<u>12.88</u>	<u>12.88</u>	<u>13.13</u>	<u>13.03</u>	<u>13.15</u>	<u>13.15</u>
Police										
Chief, Captain, Sgts.	7.00	7.00	7.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Officers	14.00	15.00	15.00	15.00	15.00	15.50	15.00	15.00	15.00	15.00
CSOs	3.00	3.00	3.00	3.00	2.00	2.00	2.00	3.00	3.00	2.00
Parking Enforcement	3.00	3.00	3.00	3.00	3.00	2.00	3.00	2.00	3.00	3.00
Administrative	5.75	6.50	6.50	6.50	4.75	4.75	3.75	4.25	4.65	4.65
	<u>32.75</u>	<u>34.50</u>	<u>34.50</u>	<u>33.50</u>	<u>30.75</u>	<u>30.25</u>	<u>29.75</u>	<u>30.25</u>	<u>31.65</u>	<u>30.65</u>
Public Works										
Streets	8.33	8.00	8.33	8.33	7.33	7.33	7.33	7.33	8.00	9.00
Parks	5.00	5.00	5.00	5.00	4.00	4.00	3.00	4.00	4.00	4.00
Fleet Maintenance	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.50
	<u>14.33</u>	<u>14.00</u>	<u>14.33</u>	<u>14.33</u>	<u>12.33</u>	<u>12.33</u>	<u>11.33</u>	<u>12.33</u>	<u>13.00</u>	<u>14.50</u>
Recreation										
Supervisor	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	2.00
Other - full year	2.00	2.00	2.00	1.50	1.50	1.50	1.50	2.00	2.00	2.25
	<u>3.00</u>	<u>3.00</u>	<u>3.00</u>	<u>2.50</u>	<u>2.50</u>	<u>2.50</u>	<u>2.50</u>	<u>3.00</u>	<u>3.00</u>	<u>4.25</u>
Community Development	4.67	4.00	4.67	4.67	3.67	3.67	1.67	2.00	2.50	3.00
Building	2.00	2.00	2.00	2.00	1.00	1.50	2.00	2.00	2.00	2.00
Total City Employees	<u>70.50</u>	<u>71.25</u>	<u>72.38</u>	<u>69.88</u>	<u>63.13</u>	<u>63.13</u>	<u>60.38</u>	<u>62.61</u>	<u>65.30</u>	<u>67.55</u>

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

SOURCE: City of Capitola Finance Department

2015-19

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

INDICATOR	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<u>Police department</u>										
Adult arrests	879	1,069	1,000	908	850	731	766	693	856	956
Calls for service (thousands)	21	22	21	20	20	19	20	16	20	18
<u>Public works</u>										
Miles paved	26	26	26	26	26	26	26	26	26	26
<u>New construction</u>										
Commercial units	2	3	1	1	1	-	-	-	-	-
Valuation (millions)	\$ 4	\$ 5	\$ 1	\$ 1	\$ 13	-	-	-	-	-
Residential units ⁽¹⁾	17	18	69	122	8	3	7	9	9	3
Valuation (millions)	\$ 6	\$ 6	\$ 11	\$ 20	\$ 2	\$ 1	\$ 3	\$ 3	\$ 3	\$ 1
<u>Recreation Revenue (thousands)</u>										
Classes	\$ 335	\$ 356	\$ 378	\$ 336	\$ 319	\$ 325	\$ 329	\$ 298	\$338	\$282
Sports fees	72	82	70	71	59	61	60	53	41	32
Junior Guard	169	184	175	194	214	220	241	240	268	312
Camp Capitola	67	76	80	80	79	102	121	94	103	139
Aquatics	27	23	19	-	-	-	-	-	-	-
Net Class Revenue	\$ 670	\$ 721	\$ 722	\$ 681	\$ 671	\$ 708	\$ 751	\$ 685	\$ 750	\$ 765
Jade St. Rental	16	8	7	4	5	5	6	7	5	0
Net Recreation Rev	\$ 686	\$ 729	\$ 729	\$ 685	\$ 676	\$ 713	\$ 757	\$ 692	\$ 755	\$ 765

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

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

2015-20

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

Indicator	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Public works										
Streets (miles)	26	26	26	26	26	26	26	26	26	26
Streetlights	71	71	71	71	71	71	71	71	71	71
Traffic signals	8	8	8	8	8	8	8	8	8	8
Parks and recreation										
Parks	7	7	7	7	7	7	7	7	7	7
Community centers	1	1	1	1	1	1	1	1	1	1
General										
Commercial buildings	2	2	2	2	2	2	2	2	2	2

Source: City of Capitola Public Works Department

2015-21