

FINANCIAL SECTION

MARCELLO & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor
Members of the City Council
City of Scotts Valley, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Scotts Valley, California, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Scotts Valley, California, as of June 30, 2008, and the respective changes in financial position and cash flows, were applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Honorable Mayor
Members of the City Council
Scotts Valley, California

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Scotts Valley's basic financial statements. The introductory section, major fund budgetary comparison schedules, combining nonmajor fund financial statements, and statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The major fund budgetary comparison schedules and combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Marullo & Company

Certified Public Accountants
Sacramento, California
October 30, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Scotts Valley's annual financial report presents the City's discussion and analysis of its financial performance during the fiscal year ended June 30, 2008. Please read it in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The City's assets exceeded liabilities at June 30, 2008, by \$63,470,611. The current year change in net assets was an increase of \$1,652,415. Of the total net assets, \$35,604,412 was invested in capital assets (net of related debt) and \$20,183,192 had restrictions on their use leaving \$7,683,007 as unrestricted. The current increase in City net assets is a combination of the governmental activities increasing \$2,213,874 and the business-type activities decreasing \$561,459.

As of June 30, 2008, the City's governmental funds (General Fund, special revenue funds, debt service funds, and capital project funds) had a combined fund balance of \$18,219,964, an increase of \$2,488,436 from the previous year. Of the total fund balance, \$5,466,990 was reserved; \$2,396,318 was designated for capital acquisitions, debt service payments, and future expenditures; and \$10,356,656 was neither reserved nor designated.

The City's voters approved a temporary sales tax in November 2005. It became effective April 1, 2006. For the first three years it would be an additional half-cent sales tax. For the final two years it would reduce to a quarter-cent. The discussion on the General Fund budget on page 10 discusses the regular (or base rate) sales tax and the temporary sales tax revenues.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statement for nonmajor governmental funds and internal service funds. The basic financial statements include two kinds of statements that present different views of the City.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
 - the governmental funds statements tell how general government services such as public safety were financed in the short term as well as what remains for future spending.
 - Proprietary fund statements offer both short- and long-term financial information about the activities the government operates like businesses, such as the sewer system.

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

- Fiduciary fund statements provide information about the financial relationships (such as special assessment bond funds) in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed information. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, the City included a section with combining statements that provide details about the City's non major governmental funds and internal service funds, each of which are added together and presented in single columns in the basic financial statements.

Figure 1 below summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure 1
Major Features of the City's Government-wide and Fund Financial Statements

	<u>Government-wide Statements</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses	Instances in which the City is the trustee or agent for someone else's resources
Required financial statements	Statement of net assets Statement of activities	Balance sheet, Statement of revenues, expenditures, and changes in fund balances	Statement of net assets Statement of revenues, expenses, and changes in net assets Statement of cash flows	Statement of fiduciary net assets Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Government-wide Statement

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets (the difference between the City's assets and liabilities) is one way to measure the City's financial health, or position. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the City are divided into three categories:

- **Government activities:** Most of the City's basic services are included here, such as the police, public works, planning, building, park/street maintenance, and general administration. Various taxes, franchise fees, service charges, and investment earnings finance most of these activities.
- **Business-type activities:** The City charges fees to customers to help cover the cost of certain services it provides. The City's sewer system and recreation programs are included here.
- **Component units:** The City includes three other entities in its report - the Scotts Valley Redevelopment Agency, the Scotts Valley Public Financing Authority, and the Scotts Valley Parks and Recreation Advocates. Although legally separate, these "component units" are important because the City is financially accountable for them.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and by bond covenants. The City Council establishes other funds to control and manage money for particular purposes such as capital project grant funds or to show that it is properly using certain restricted taxes such as gas tax revenues.

The City has three kinds of funds:

- **Government funds:** Most of the City's basic services are included in government funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, there is additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary funds:** Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements,

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

- provide both long- and short-term financial information. The City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows. Internal service funds (the other kind of proprietary fund) report activities that provide supplies and services for the City's other programs and activities, such as the City's dental insurance program.
- Fiduciary funds: The City is the trustee for some bondholders and fiduciary for others of the City's limited obligation improvement bonds associated with various special assessment districts within the City. The City is also responsible for other assets that, because of a trust arrangement, can be used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following analysis pertains to the Government-wide statements as described above in the overview of the financial statements.

Net Assets: A condensed presentation of the City's net assets shown below totals \$63,470,611 as of June 30, 2008. This is an increase of \$1,652,415, or 2.7%, from the previous year. It is a combination of an increase in total assets of \$1,641,534 and a decrease in total liabilities of \$10,881. The full Statement of Net Assets can be seen on Page 15.

City of Scotts Valley Net Assets (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2008	2007	2008	2007	2008	2007	
Current and other assets	\$22,257	\$19,495	\$ 7,264	\$ 7,119	\$29,521	\$26,614	10.9%
Capital assets, net	<u>35,019</u>	<u>35,578</u>	<u>17,182</u>	<u>17,889</u>	<u>52,201</u>	<u>53,467</u>	(2.4%)
Total assets	<u>57,276</u>	<u>55,073</u>	<u>24,446</u>	<u>25,008</u>	<u>81,722</u>	<u>80,081</u>	2.0%
Long-term debt outstanding	13,761	14,048	63	41	13,824	14,089	(1.9%)
Other liabilities	<u>4,071</u>	<u>3,795</u>	<u>357</u>	<u>379</u>	<u>4,428</u>	<u>4,174</u>	6.1%
Total liabilities	<u>17,832</u>	<u>17,843</u>	<u>420</u>	<u>420</u>	<u>18,252</u>	<u>18,263</u>	(0.1%)
Net assets:							
Invested in capital assets, net of related debt	18,422	18,729	17,182	17,889	35,604	36,618	2.8%
Restricted	15,200	12,692	5,366	4,983	20,566	17,675	16.4%
Unrestricted	<u>5,822</u>	<u>5,809</u>	<u>1,478</u>	<u>1,716</u>	<u>7,300</u>	<u>7,525</u>	(3.0%)
Total net assets	<u>\$39,444</u>	<u>\$37,230</u>	<u>\$24,026</u>	<u>\$24,588</u>	<u>\$63,470</u>	<u>\$61,818</u>	2.7%

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (continued)

The main increases (decreases) in total assets were as follows:

Cash and Investments	\$2,724,186
Cash and Investments with Fiscal Agents and Trustees	280,903
Unamortized Debt Issuance Costs, Net	(72,995)

The increase in cash is mainly in the governmental activities which increased \$2,597,464. The General Fund (\$1,091,646) and Affordable Housing Fund (\$1,070,328) made up most of that increase. The General Fund increase came from a rebound in sales tax revenues and a temporary sales tax rate increase approved by City voters. The Affordable Housing increased from annual tax increment revenues. Cash and investments with fiscal agents and trustees increased due to a debt payment made to the trustee before year end and prior to the bondholder payment date. The net unamortized debt issuance costs decreased simply due to the current year's amortization amount.

The main increases and (decreases) in total liabilities were as follows:

Accounts Payable	\$89,224
Accrued Interest	118,070
Long-term debt, net of current portion	(264,928)

The increase in accounts payable is approximately equally divided amongst the General Fund, special revenue, debt service, and capital projects funds. The increases are a function of the timing when bills were paid and not due to any specific reason. The increase in accrued interest comes from the capital appreciation bonds in the 1997 certificates of participation. The accrued interest will continue to grow on these bonds until they begin to be paid off in fiscal year 2020. Long-term debt decreased due to annual debt payments.

Changes in Net Assets: City-wide the change in net assets went from an increase of \$2,954,442 in fiscal year 2007 to an increase of \$1,652,415 in fiscal year 2008. This is a result of total revenues increasing only \$488,895 (or 2.6%) and total expenses increasing \$1,790,922 (or 11.1%). A further analysis is shown below.

	<u>2008</u>	<u>2007</u>	<u>Percent Change</u>
Program Revenues	\$ 5,145	\$ 5,170	(0.5%)
General Revenues	14,464	13,950	3.7%
Governmental Expenses	(14,260)	(12,665)	12.6%
Business-type Expenses	<u>(3,697)</u>	<u>(3,501)</u>	5.6%
Net Increase (Decrease)	<u>\$ 1,652</u>	<u>\$ 2,954</u>	

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (continued)

Below is a current and prior fiscal year recap of the changes in net assets. The full Statement of Activities can be seen on Page 16.

General revenues show an increase of \$513,352, or 3.7%. This is made up primarily of property taxes (\$312,870) and sales tax (\$210,746). Of the property tax revenue increase, a total of \$285,062 came from the Redevelopment Agency. Of that amount, \$57,013 was from the affordable housing 20% set-aside portion. The remaining \$27,808 is attributed to the General Fund property taxes. This represents a 3.7% increase for the General Fund property taxes despite a cooling in the real estate market. The increase in sales tax consists of \$134,878 from the regular sales tax and \$75,868 from the temporary sales tax rate increase. The only significant decrease was in other taxes which decreased \$111,968. Of that amount, \$98,957 was related to the real property transfer tax. This tax has been decreasing the last two years due to the real estate market decline.

City of Scotts Valley Change in Net Assets (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2008	2007	2008	2007	2008	2007	
Program revenues:							
Charges for services	\$588	\$666	\$2,738	\$2,706	\$3,326	\$3,372	(1.4%)
Operating grants	610	703	0	0	610	703	(13.2%)
Capital grants	1,156	992	54	103	1,210	1,095	10.5%
General revenues:							
Property tax	6,205	5,892	0	0	6,205	5,892	5.3%
Sales tax	3,189	2,979	0	0	3,189	2,979	7.0%
Other taxes	3,569	3,663	0	0	3,569	3,663	(2.6%)
Investment earnings	681	606	303	355	984	961	2.4%
Miscellaneous	517	455	0	0	517	455	13.6%
Total revenues	16,515	15,956	3,095	3,164	19,610	19,120	2.6%
Expenses:							
General government	1,594	1,513	0	0	1,594	1,513	5.4%
Public safety	3,777	3,612	0	0	3,777	3,612	4.6%
Planning & building	1,791	1,148	0	0	1,791	1,148	56.0%
Public works	2,817	2,746	0	0	2,817	2,746	2.6%
Redevelopment	3,321	2,648	0	0	3,321	2,648	27.2%
Interest on debt	960	998	0	0	960	998	(3.8%)
Wastewater	0	0	2,696	2,530	2,696	2,530	6.6%
Recreation	0	0	1,001	971	1,001	971	3.1%
Total expenses	14,260	12,665	3,697	3,501	17,957	16,166	11.1%
Increase (decrease) in net assets	\$2,255	\$3,291	(\$ 602)	(\$ 337)	\$ 1,653	\$ 2,954	(44.0%)

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (continued)

Net Cost of Services: The table below presents the total cost of each of the City's governmental activities as well as each activity's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

For governmental activities, the total costs of \$14,259,694 were offset by charges for services (\$587,898), operating grants/contributions (\$609,797), and capital grants/contributions (\$1,155,665), bringing the net cost of services down to \$11,906,334. The two areas with the largest change between years are Planning/Building and Redevelopment. The majority of the increase in Planning/Building relates to the development of the specific plan and environmental impact report for the City's Town Center Project. The increase in Redevelopment strictly relates to the pass-through payments. The amount for fiscal year 2008 is for both current year pass-through payments and an amount for prior years due to an error by the County (see full explanation on page 10 regarding the increase in the Debt Service fund expenditures).

City of Scotts Valley
Net Cost of Governmental Activities
(in thousands of dollars)

	Total Cost of Services		Percent Change	Net Cost of Services		Percent Change
	2008	2007		2008	2007	
General Government	\$1,594	\$1,513	5.4%	\$1,568	\$1,484	5.7%
Public Safety	3,777	3,612	4.6%	3,483	3,287	6.0%
Planning & Building	1,791	1,148	56.0%	1,383	700	97.6%
Public Works	2,817	2,746	2.6%	1,191	1,187	0.3%
Redevelopment	3,368	2,648	27.2%	3,368	2,648	27.2%
Interest on L-T Debt	913	998	(9.3%)	913	998	(8.5%)
Total	<u>\$14,260</u>	<u>\$12,665</u>	12.6%	<u>\$11,906</u>	<u>\$10,304</u>	15.5%

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The following analysis pertains to the fund financial statements as described above in the overview of the financial statements.

There are no restrictions, commitments, or other limitations that would significantly affect the availability of fund resources for the future.

To provide an overview of the City's funds, below is a table showing the increases and (decreases) to total assets, liabilities, revenues, and expenditures of the City fund types from fiscal year 2007 to 2008. The total revenues and expenditures do not include any "other financing sources (uses)."

	Increase (Decrease) from Prior Year			
	Assets	Liabilities	Revenues	Expenditures
General Fund	\$1,169,927	\$202,834	\$200,721	(\$2,941,910)
Special Revenue	1,428,085	(320,943)	80,767	79,717
Debt Service	(448,436)	171,695	212,036	703,143
Capital Projects	501,649	109,203	13,934	65,041

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (continued)

The General Fund budget is discussed below under the "Budgetary Highlights".

The three largest variances other than the General Fund are the assets in the Special Revenue and Capital Projects funds; and expenditures in the Debt Service fund. Approximately 75% of the Special Revenue asset increase is due to the increase in cash in the Affordable Housing fund. This increase came from the fact that there was \$1,335,274 in revenues and only \$259,364 in expenditures.

Approximately 80% of the Capital Projects asset increase is due to the increase in cash in the General Capital Improvements fund. The increase in this fund came from the State due to the passage of Proposition 1B on the November 7, 2006 ballot. This proposition provided funding for traffic improvements. Scotts Valley received the minimum \$400,000. The two projects, resurfacing of Granite Creek Road and rehabilitation/resurfacing of Glen Canyon Road, will be completed in the 2008-09 fiscal year.

The increase in the Debt Service expenditures is due to the tax increment pass-through payments and interest expense in the Redevelopment Agency Debt Service Fund. The County withholds and sets aside for the Agency an amount each year from the Agency's tax increment for the construction of a new library in the City of Scotts Valley. For ten years the County had withheld less than the required amount. In 2007-08 the County corrected the error and withheld an additional amount for prior years and a higher current year amount. In total, the County withheld an additional \$525,327 over the previous year for the library construction fund. Because of higher tax increment revenue, an additional \$147,557 was withheld for all other pass-through agreements. Interest expense was also \$90,260 higher than the previous year because there was only one semi-annual interest payment made in the previous year due to a refinancing of debt.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total revenues were \$534,802 (6.4%) over budget. The two largest variances are in tax revenue which was over budget by \$248,302 (3.8%) and investment earnings which was over budget by \$194,995 (278.6%).

The main tax revenues being over and under budget were as follows:

<u>Over Budget</u>		<u>Under Budget</u>
Sales Tax - Temporary	\$87,444	No major variances.
Transient Occupancy Tax	68,257	
Sales Tax - Base	58,235	

The sales tax received by the City from the temporary and the base rate were over budget \$87,444 and \$58,235, respectively. Sales tax had decreased for four straight fiscal years through June 30, 2005. This is the third straight year that sales tax has increased over the prior year. Transient occupancy tax was \$68,257 over budget, however, only an increase over the prior year of \$29,469.

Investment earnings were over budget for the most part (\$157,315) due to interest earned on the loan from the General Fund to the Redevelopment Agency. This loan was made during the Agency's early years when tax increment revenues were low. That interest was accrued in the financial statements but was not budgeted as this interest will be paid in future years.

GENERAL FUND BUDGETARY HIGHLIGHTS (continued)

On the expenditure side, the General Fund was under budget to the original and final budget by \$6,176 and \$34,560, respectively. The budget in total increased \$28,384. The majority of that increase (\$14,698) is due to the replacement of a 1983 pickup truck that broke down during the year and had to be replaced. The new truck was not in the original budget.

Assets increased \$1,169,927. This is almost entirely due to an increase in cash. The base sales tax and the temporary sales tax measure are the main reasons for this increase. Expenditures decreased \$2,941,910. The City refunded bonds in the prior year. After adjusting for that refunding, expenditures increased only \$240,983, or 3.2% over the prior year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets: A recap of the City's capital assets, net of accumulated depreciation, is shown below. The City-wide decrease (net of depreciation) is \$1,266,378, or 2.4%. The governmental activities had capital assets additions of \$585,943. Current year depreciation of \$1,145,226 brought capital assets to a net decrease of \$559,283. The main capital asset addition was the Hacienda Drive rehabilitation project (\$171,456). The business-type activities had capital assets additions of \$124,314 while depreciation of \$831,409 created a net decrease of \$707,095. The largest addition this year was the Carbonero Creek Lift Station improvements (\$89,923).

City of Scotts Valley
Capital Assets, Net of Depreciation
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2008	2007	2008	2007	2008	2007	
Land	\$7,191	\$7,176	\$429	\$429	\$7,620	\$7,605	0.2%
Buildings & Improvements	3,543	3,593	2,450	2,571	5,993	6,164	(2.8%)
Equipment	543	527	440	579	983	1,106	(11.1%)
Infrastructure	23,168	23,965	13,771	13,553	36,939	37,518	(1.5%)
Outfall Agreement	0	0	92	95	92	95	(3.2%)
Construction in Progress	574	317	0	662	574	979	(41.4%)
Total	<u>\$35,019</u>	<u>\$35,578</u>	<u>\$17,182</u>	<u>\$17,889</u>	<u>\$52,201</u>	<u>\$53,467</u>	(2.4%)

More detailed information about the City's capital assets is presented in Note 4 to the financial statements.

Long-term Debt: A recap of the City's long-term debt is shown on the next page. Total long-term debt decreased \$248,246, or 2.2%. All reductions in debt were due to regularly scheduled debt payments. The only increase in long-term debt was in accrued compensated absences. More detailed information about the City's long-term debt is presented in Note 5 to the financial statements.

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

**City of Scotts Valley
Outstanding Debt
(in thousands of dollars)**

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2008	2007	2008	2007	2008	2007	
Certificates of Participation	\$7,485	\$7,595	\$ 0	\$ 0	\$7,485	\$7,595	(1.4%)
Installment Notes	140	140	0	0	140	140	(0.0%)
Tax Allocation Bonds	6,215	6,485	0	0	6,215	6,485	(4.2%)
Accrued Comp Absences	750	640	170	148	920	788	16.8%
Total	<u>\$14,590</u>	<u>\$14,860</u>	<u>\$170</u>	<u>\$148</u>	<u>\$14,760</u>	<u>\$15,088</u>	(2.2%)

NEXT YEAR’S BUDGETS AND RATES

The City continues to have a hiring freeze. As positions become vacant, they are not being filled. The two exceptions are emergency dispatch and police officers. Police officer positions are capped at two vacancies. With additional vacancies and the addition of the temporary sales tax rate increase, the General Fund is budgeted with a surplus of \$233,906. The temporary sales tax revenues are budgeted at \$1,130,000. Therefore, without the temporary tax measure, the City would have a deficit of \$896,094. Regular sales tax has rebounded the last two years and is being budgeted at \$2,050,000 in fiscal year 2009, an increase of \$80,000 over fiscal year 2008.

The City will once again benefit from a reduction in its liability insurance in fiscal year 2009 of approximately \$8,000. Approximately \$7,300 of that reduction is allocated to the General Fund. The City is a member of a risk pool for its liability insurance. A combination of low claims experienced by the City and internal measures by the Pool were the reasons for this decrease. There was no reduction in insurance coverage by the Pool. Medical insurance premiums will increase 5.2% effective January 1, 2009. CalPERS has provided the City with next year’s rate and a projected 2010-11 rate. A recap of the retirement rates by fiscal year is shown below.

Fiscal Year	Miscellaneous Group	Safety Group	
2006-07	14.254%	24.917%	Actual
2007-08	14.813%	26.644%	Actual
2008-09	15.510%	28.192%	Actual
2009-10	16.176%	29.381%	Actual
2010-11	16.200%	29.500%	Projected

CONTACTING THE CITY’S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, investors, and creditors of Scotts Valley with a general overview of the City’s finances and to demonstrate the City’s accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Scotts Valley Finance Department, 1 Civic Center Drive, Scotts Valley, CA 95066.

GOVERNMENT-WIDE
FINANCIAL STATEMENTS

**CITY OF SCOTTS VALLEY
STATEMENT OF NET ASSETS
JUNE 30, 2008**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments (Note 2)	\$ 17,475,619	\$ 7,032,672	\$ 24,508,291
Receivables:			
Due from other Governments	1,126,121	56,039	1,182,160
Sewer Fees	0	128,229	128,229
Other	3,869	31,246	35,115
Inventory	0	2,688	2,688
Prepaid Expenses	0	13,794	13,794
Long-Term Loans Receivable (Note 3)	2,101,816	0	2,101,816
Restricted Assets (Note 2):			
Cash and Investments with Fiscal Agents and Trustees	719,221	0	719,221
Unamortized Debt Issuance Costs, Net	830,836	0	830,836
Capital Assets (Note 4):			
Land and construction in progress	7,764,899	429,416	8,194,315
Other capital assets, net of depreciation	27,254,188	16,752,551	44,006,739
Total capital assets	<u>35,019,087</u>	<u>17,181,967</u>	<u>52,201,054</u>
Total Assets	<u>57,276,569</u>	<u>24,446,635</u>	<u>81,723,204</u>
LIABILITIES			
Accounts Payable	462,771	69,691	532,462
Accrued Liabilities	229,293	67,173	296,466
Accrued Interest	2,319,891	0	2,319,891
Unearned Revenues	230,658	113,263	343,921
Long-Term Debt (Note 5):			
Current Portion of Long-Term Debt (Note 5)	828,914	107,000	935,914
Certificates of Participation	7,377,837	0	7,377,837
Installment Notes	135,000	0	135,000
Tax Allocation Bonds	5,935,000	0	5,935,000
Accrued Compensated Absences	<u>312,736</u>	<u>63,366</u>	<u>376,102</u>
Total Liabilities	<u>17,832,100</u>	<u>420,493</u>	<u>18,252,593</u>
NET ASSETS			
Invested in Capital Assets, net of related debt	18,859,445	17,181,967	36,041,412
Restricted for:			
Capital Projects	3,660,039	5,366,589	9,026,628
Debt Service	2,399,011	0	2,399,011
Affordable Housing	6,713,216	0	6,713,216
Unrestricted	<u>7,812,758</u>	<u>1,477,586</u>	<u>9,290,344</u>
Total Net Assets	<u>\$ 39,444,469</u>	<u>\$ 24,026,142</u>	<u>\$ 63,470,611</u>

The Notes to the Financial Statements are an integral part of this statement.

**CITY OF SCOTTS VALLEY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
General Government	\$ 1,594,392	\$ 20,822	0	5,371	26,193
Public Safety	3,776,900	44,288	185,748	63,482	293,518
Planning & Building	1,791,231	358,411	32,287	17,694	408,392
Public Works	2,816,823	164,377	391,762	1,069,118	1,625,257
Redevelopment	3,320,907	0	0	0	0
Interest on Long-Term Debt and Fiscal Agent Charges	959,441	0	0	0	0
Total Governmental Activities	14,259,694	587,898	609,797	1,155,665	2,353,360
Business-Type Activities:					
Wastewater	2,696,078	1,750,667	0	54,344	1,805,011
Recreation Programs	1,001,179	986,920	0	0	986,920
Total Business-Type Activities	3,697,257	2,737,587	0	54,344	2,791,931
Total Primary Government	\$ 17,956,951	\$ 3,325,485	\$ 609,797	\$ 1,210,009	\$ 5,145,291

General Revenues:

Taxes:

Property Tax

Sales Tax

Vehicle In-Lieu Fee (Intergovernmental / Unrestricted)

Franchise Taxes

Utility Users Tax

Transient Occupancy Tax

Other Taxes

Total Taxes

Investment Earnings

Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning of Year

Net Assets - End of Year

The Notes to the Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (1,568,199)	\$ 0	\$ (1,568,199)
(3,483,382)	0	(3,483,382)
(1,382,839)	0	(1,382,839)
(1,191,566)	0	(1,191,566)
(3,320,907)	0	(3,320,907)
<u>(959,441)</u>	<u>0</u>	<u>(959,441)</u>
<u>(11,906,334)</u>	<u>0</u>	<u>(11,906,334)</u>
0	(891,067)	(891,067)
<u>0</u>	<u>(14,259)</u>	<u>(14,259)</u>
0	(905,326)	(905,326)
<u>(11,906,334)</u>	<u>(905,326)</u>	<u>(12,811,660)</u>
6,204,821	0	6,204,821
3,189,364	0	3,189,364
919,817	0	919,817
764,895	0	764,895
753,020	0	753,020
723,257	0	723,257
407,406	0	407,406
<u>12,962,580</u>	<u>0</u>	<u>12,962,580</u>
680,783	303,237	984,020
517,475	0	517,475
<u>(40,630)</u>	<u>40,630</u>	<u>0</u>
<u>14,120,208</u>	<u>343,867</u>	<u>14,464,075</u>
2,213,874	(561,459)	1,652,415
<u>37,230,595</u>	<u>24,587,601</u>	<u>61,818,196</u>
<u>\$ 39,444,469</u>	<u>\$ 24,026,142</u>	<u>\$ 63,470,611</u>

The Notes to the Financial Statements are an integral part of this statement.

FUND
FINANCIAL STATEMENTS

**CITY OF SCOTTS VALLEY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

	General Fund	Affordable Housing	Redevelopment Agency Debt Service
ASSETS			
Cash and Investments	\$ 2,595,644	\$ 6,231,914	\$ 642,296
Receivables:			
Due from other Governments	957,563	0	65,599
Other			
Due from other Funds	27,685	0	0
Advances Due from other Funds	3,589,447	484,214	0
Long-Term Loans Receivable	0	1,701,816	0
Restricted Assets:			
Cash and Investments with Fiscal Agents and Trustees	442,858	0	276,363
Total Assets	\$ 7,613,197	\$ 8,417,944	\$ 984,258
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 108,558	\$ 0	\$ 273,712
Accrued Liabilities	213,928	2,912	0
Accrued Compensated Absences	143,452	0	0
Due to other Funds	0	0	0
Advances Due to other Funds	0	0	3,934,129
Deferred Revenues	184,580	1,701,816	0
Total Liabilities	650,518	1,704,728	4,207,841
Fund Balances (Deficit): (Note 9)			
Reserved	4,032,305	484,214	0
Unreserved, reported in			
General Fund:			
Designated	396,199	0	0
Undesignated	2,534,175	0	0
Special Revenue Funds:			
Designated	0	0	0
Undesignated	0	6,229,002	0
Debt Service Funds:			
Designated	0	0	0
Undesignated	0	0	(3,223,583)
Total Fund Balances (Deficit)	6,962,679	6,713,216	(3,223,583)
Total Liabilities and Fund Balances (Deficit)	\$ 7,613,197	\$ 8,417,944	\$ 984,258

The Notes to the Financial Statements are an integral part of this statement.

Other Governmental Funds	Total
\$ 8,001,967	\$ 17,471,821
102,959	1,126,121
3,869	3,869
0	27,685
0	4,073,661
400,000	2,101,816
<u>0</u>	<u>719,221</u>
<u>\$ 8,508,795</u>	<u>\$ 25,524,194</u>
\$ 77,250	\$ 459,520
12,453	229,293
84,223	227,675
27,685	27,685
139,532	4,073,661
<u>400,000</u>	<u>2,286,396</u>
<u>741,143</u>	<u>7,304,230</u>
950,471	5,466,990
0	396,199
0	2,534,175
350,044	350,044
4,787,347	11,016,349
1,679,790	1,679,790
<u>0</u>	<u>(3,223,583)</u>
<u>7,767,652</u>	<u>18,219,964</u>
<u>\$ 8,508,795</u>	<u>\$ 25,524,194</u>

The Notes to the Financial Statements are an integral part of this statement.

CITY OF SCOTTS VALLEY
RECONCILIATION OF THE STATEMENT OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2008

Total Fund Balances - Total Governmental Funds (Page 21) **\$ 18,219,964**

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.	35,019,087
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet.	(2,319,891)
An Internal Service Fund is used by management to charge the costs of dental insurance to individual funds. The assets and liabilities of this Internal Service Fund are included in governmental activities in the Government-Wide Statement of Net Assets.	547
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the Governmental Funds Balance Sheet.	
1992 Certificates of Participation	(204,163)
1997 Certificates of Participation	(1,250,588)
2003 Certificates of Participation	(3,455,000)
2006 Certificates of Participation	(2,575,000)
Tax Allocation Bonds	(6,215,000)
Note Payable - Scotts Valley Water District	(140,000)
Compensated Absences	(522,061)
The unamortized balance of the advance refunding payment and the associated refunding bond issuance costs is not a current financial resource and, therefore, is not reported in the Governmental Funds Balance Sheet.	830,836
The premiums received on the issuance of long-term are deferred and amortized over the life of the debt on the Government-Wide Statement of Net Assets.	(46,078)
Long-term loans receivable are not current financial resources and, therefore, are offset in the Governmental Funds Balance Sheet by a corresponding amount of deferred revenue under liabilities.	<u>2,101,816</u>

Net Assets of Governmental Activities (Page 15) **\$ 39,444,469**

CITY OF SCOTTS VALLEY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDING JUNE 30, 2008

	<u>General Fund</u>	<u>Affordable Housing</u>	<u>Redevelopment Agency Debt Service</u>
Revenues:			
Taxes and Assessments	\$ 7,590,782	\$ 1,084,891	\$ 4,339,563
Intergovernmental Revenues	19,045	0	0
Fees and Services	476,878	0	0
Fines and Forfeitures	89,098	0	0
Investment Earnings	264,995	250,383	60,334
Contributions, Non-Government	10,000	0	0
Miscellaneous Revenues	385,130	0	0
Total Revenues	<u>8,835,928</u>	<u>1,335,274</u>	<u>4,399,897</u>
Expenditures:			
Current:			
General Government	1,701,720	0	0
Public Safety	3,596,290	0	0
Planning and Building	542,857	259,364	0
Public Works	1,330,977	0	0
Capital Outlay	140,122	0	0
Tax Increment Pass-Through	0	0	3,320,907
Debt Service	0		
Principal	110,232	0	270,000
Interest and Finance Charges	311,174	0	530,197
Refunding Bond Issuance Costs	0	0	0
Total Expenditures	<u>7,733,372</u>	<u>259,364</u>	<u>4,121,104</u>
Excess of Revenues over (under) Expenditures	<u>1,102,556</u>	<u>1,075,910</u>	<u>278,793</u>
Other Financing Sources (Uses):			
Transfers In	0	0	59,000
Transfers Out	(135,463)	0	(1,031,698)
Issuance of Debt	0	0	0
Premium on Debt Issued	0	0	0
Net Other Financing Sources (Uses)	<u>(135,463)</u>	<u>0</u>	<u>(972,698)</u>
Net Change in Fund Balances	967,093	1,075,910	(693,905)
Beginning Fund Balances (Deficit)	<u>5,995,586</u>	<u>5,637,306</u>	<u>(2,529,678)</u>
Ending Fund Balances (Deficit)	<u>\$ 6,962,679</u>	<u>\$ 6,713,216</u>	<u>\$ (3,223,583)</u>

The Notes to the Financial Statements are an integral part of this statement.

Other Governmental Funds	Total
\$ 332,171	\$ 13,347,407
960,523	979,568
260,622	737,500
0	89,098
333,280	908,992
50,979	60,979
1,199	386,329
<u>1,938,774</u>	<u>16,509,873</u>
0	1,701,720
8,705	3,604,995
1,031,698	1,833,919
342,271	1,673,248
484,293	624,415
0	3,320,907
0	380,232
0	841,371
0	0
<u>1,866,967</u>	<u>13,980,807</u>
<u>71,807</u>	<u>2,529,066</u>
1,215,041	1,274,041
(147,510)	(1,314,671)
0	0
0	0
<u>1,067,531</u>	<u>(40,630)</u>
1,139,338	2,488,436
<u>6,628,314</u>	<u>15,731,528</u>
<u>\$ 7,767,652</u>	<u>\$ 18,219,964</u>

The Notes to the Financial Statements are an integral part of this statement.

**CITY OF SCOTTS VALLEY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Net change in fund balances - total governmental funds (Page 25) **\$ 2,488,436**

Amounts reported for governmental activities in the statement of activities (Page 15) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Current year capital outlays	585,943
Current year depreciation	(1,145,226)

Governmental funds report amounts received as repayment of loans or notes receivable as revenue. However, in the statement of activities these amounts would be a decrease of the receivable.

4,325

An internal service fund is used by management to charge the costs of dental insurance to individual funds. The net expense of this internal service fund is reported with governmental activities.

457

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Repayment of long-term debt principal	380,232
---------------------------------------	---------

Governmental funds report payments for the advance refunding of debt, bond premiums, and debt issuance costs as expenditures. However, in the statement of activities these amounts are amortized over the remaining life of the refunded debt.

Debt issuance costs	-
Bond premium	-
Amortization of advance refunding payment and issuance costs	(72,995)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.

-

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

Accrual of compensated absences	90,772
Accrual of interest expense on long-term debt	(118,070)

Change in net assets of governmental activities (Page 17) **\$ 2,213,874**

**CITY OF SCOTTS VALLEY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008**

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Recreation Fund	Wastewater Fund	Total	
ASSETS				
Current:				
Cash and Investments	\$ 20	\$ 7,032,652	\$ 7,032,672	\$ 3,798
Receivables:				
Due from other Governments	0	56,039	56,039	0
Sewer Fees	0	128,229	128,229	0
Other	31,246	0	31,246	0
Inventory	0	2,688	2,688	0
Prepaid Expenses	13,794	0	13,794	0
Total Current Assets	45,060	7,219,608	7,264,668	3,798
Capital Assets (Note 4):				
Land and construction in progress	0	429,416	429,416	0
Other capital assets, net of depreciation	30,061	16,722,490	16,752,551	0
Total capital assets	30,061	17,151,906	17,181,967	0
 Total Assets	75,121	24,371,514	24,446,635	3,798
LIABILITIES				
Current Liabilities:				
Accounts Payable	12,942	56,749	69,691	3,251
Accrued Liabilities	38,133	29,040	67,173	0
Compensated Absences	16,560	90,440	107,000	0
Deferred Revenues	113,263	0	113,263	0
Total Current Liabilities	180,898	176,229	357,127	3,251
Noncurrent Liabilities:				
Compensated Absences	12,054	51,312	63,366	0
Total Noncurrent Liabilities	12,054	51,312	63,366	0
 Total Liabilities	192,952	227,541	420,493	3,251
NET ASSETS				
Invested in Capital Assets, net of related debt	30,061	17,151,906	17,181,967	0
Restricted (Note 9):				
Repair/Replace Capital Assets	0	3,195,737	3,195,737	0
Construction and Improvements	0	2,170,852	2,170,852	0
Unrestricted	(147,892)	1,625,478	1,477,586	547
 Total Net Assets	\$ (117,831)	\$ 24,143,973	\$ 24,026,142	\$ 547

The Notes to the Financial Statements are an integral part of this statement.

CITY OF SCOTTS VALLEY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDING JUNE 30, 2008

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Recreation Fund	Wastewater Fund	Total	
Operating Revenues:				
Fees and Services	\$ 986,920	\$ 1,750,667	\$ 2,737,587	\$ 76,258
Total Operating Revenues	<u>986,920</u>	<u>1,750,667</u>	<u>2,737,587</u>	<u>76,258</u>
Operating Expenses:				
Salaries	566,828	541,185	1,108,013	0
Taxes and Benefits	157,926	275,380	433,306	0
Maintenance and Operations	144,539	704,220	848,759	0
Advertising	9,519	0	9,519	0
Professional and Contractual Services	93,530	46,469	139,999	0
Utilities and Communications	16,331	281,467	297,798	0
Insurance and Bonds	4,251	24,203	28,454	75,865
Depreciation	8,255	823,154	831,409	0
Total Operating Expenses	<u>1,001,179</u>	<u>2,696,078</u>	<u>3,697,257</u>	<u>75,865</u>
(Loss) from Operations	<u>(14,259)</u>	<u>(945,411)</u>	<u>(959,670)</u>	<u>393</u>
Nonoperating Revenues (Expenses):				
Interest Income	0	303,237	303,237	64
Connection Fees	0	54,344	54,344	0
Total Nonoperating Revenues	<u>0</u>	<u>357,581</u>	<u>357,581</u>	<u>64</u>
Net (Loss) before Transfers	(14,259)	(587,830)	(602,089)	457
Transfers In	<u>40,630</u>	<u>0</u>	<u>40,630</u>	<u>0</u>
Change in Net Assets	26,371	(587,830)	(561,459)	457
Net Assets - Beginning of Year	<u>(144,202)</u>	<u>24,731,803</u>	<u>24,587,601</u>	<u>90</u>
Net Assets - End of Year	<u>\$ (117,831)</u>	<u>\$ 24,143,973</u>	<u>\$ 24,026,142</u>	<u>\$ 547</u>

The Notes to the Financial Statements are an integral part of this statement.

**CITY OF SCOTTS VALLEY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDING JUNE 30, 2008**

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Recreation Fund	Wastewater Fund	Total	
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 940,362	\$ 1,736,556	\$ 2,676,918	\$ 76,258
Cash Payments for Good and Services	(424,602)	(1,321,617)	(1,746,219)	(72,614)
Cash Payments to Employees	(558,064)	(519,811)	(1,077,875)	0
Net Cash Provided by (Used for) Operating Activities	(42,304)	(104,872)	(147,176)	3,644
Cash Flows from Noncapital Financing Activities:				
Rent and Other	0	0	0	0
Transfers In (Out)	40,630	0	40,630	0
Net Cash Provided by (Used for) Noncapital Financing Activities	40,630	0	40,630	0
Cash Flows from Capital and Related Financing Activities				
Receipts of Connection and Standby Fees	0	54,344	54,344	0
Purchase of Vehicles and Equipment	0	(786,446)	(786,446)	0
Construction of Improvements & Land Purchase	0	662,132	662,132	0
Net Cash Provided by (Used for) Capital and Related Financing Activities	0	(69,970)	(69,970)	0
Cash Flows from Investing Activities:				
Interest Received	0	303,237	303,237	64
Net Cash Provided by Investing Activities	0	303,237	303,237	64
Net Increase (Decrease) in Cash	(1,674)	128,395	126,721	3,708
Cash and Investments, Beginning of Year	1,694	6,904,256	6,905,950	90
Cash and Investments, End of Year	\$ 20	\$ 7,032,651	\$ 7,032,671	\$ 3,798

(Continued)

The Notes to the Financial Statements are an integral part of this statement.

	<u>Recreation Fund</u>	<u>Wastewater Fund</u>	<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities				
Operating (Loss)	\$ (14,259)	\$ (945,411)	\$ (959,670)	\$ 393
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities:				
Depreciation	8,255	823,154	831,409	0
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(7,025)	(14,111)	(21,136)	0
(Increase) Decrease in Prepaid Expenses	2,068	0	2,068	0
Increase (Decrease) in Accounts Payable	(574)	10,122	9,548	3,405
Increase(Decrease) in Acc Liabilities/Comp Absences	8,764	21,374	30,138	0
(Decrease) in Deferred Revenues	<u>(39,533)</u>	<u>0</u>	<u>(39,533)</u>	<u>0</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ (42,304)</u>	<u>\$ (104,872)</u>	<u>\$ (147,176)</u>	<u>\$ 3,798</u>

(Concluded)

**CITY OF SCOTTS VALLEY
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008**

	<u>Total</u>
ASSETS	
Restricted Assets:	
Cash and Investments Held for Others	\$ 1,317,694
Cash and Investments Held in Accordance with Bond Indentures	<u>824,067</u>
 Total Assets	 \$ <u><u>2,141,761</u></u>
 LIABILITIES	
Payable from Restricted Assets:	
Advance Assessments Collected	\$ 1,072,568
Bond Reserve Payable	824,067
Deposits	<u>245,126</u>
 Total Liabilities	 \$ <u><u>2,141,761</u></u>

The Notes to the Financial Statements are an integral part of this statement.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Reporting Entity

The City of Scotts Valley (City) operates under the Council-Manager form of government and provides the following services: public safety (police), parks and recreation, public works, streets, planning, and general administrative services. The City also provides environmental health services through its wastewater fund and provides recreation programs through its recreation fund, which are intended to be funded from user fees.

For financial reporting purposes, the financial statements of the City of Scotts Valley include all organizations that the City, as the primary government, is financially accountable for. This financial accountability is defined as the authority of the primary government to appoint a voting majority of an organization's governing body, where the primary government is able to impose its will on that organization; or where there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

As a result, the Scotts Valley Redevelopment Agency and the Scotts Valley Public Financing Authority are considered component units of the financial reporting entity and have been included in the financial statements by blending their financial data with financial data of the City as though these organizations are part of the City. The blended component units, which are discussed below, are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The Scotts Valley Redevelopment Agency (the "Agency") was established by the City Council in August 1980 to facilitate redevelopment activities for the City. The Agency's Redevelopment Plan was adopted in November 1990. Although the Agency is a separate legal entity from the City, it is reported as if it were part of the primary government because the members of the City Council also serve as the Agency's governing board and because the Agency's sole purpose is to facilitate redevelopment activities for the City. Separate financial statements are issued by the Agency to comply with redevelopment agency requirements as established by the State of California. A copy may be obtained upon request from its administrative office at the following address:

Scotts Valley Redevelopment Agency
One Civic Center Drive
Scotts Valley, CA 95066

The Scotts Valley Public Financing Authority (the "Authority") was established in April 1989 by the City to facilitate financing for the City. Although the Authority is a separate legal entity from the City, it is reported as if it were part of the primary government because the members of the City Council also serve as the Authority's governing board and because the Authority's sole purpose is to be a financing entity for the City. The Authority does not issue separate financial statements.

B. Basis of Accounting/Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, fund equity revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2008

1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Government – Wide Financial Statements

The Government-Wide Financial Statements include a Statement a Net Assets and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column. Fiduciary activities of the city are not included in these statements.

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

The City applies all applicable GASB pronouncements (including all National Council on Governmental Accounting Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, to the business type activities, unless those pronouncements conflict with or contradict GASB pronouncements, such as: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the committee on Accounting Procedure. The City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide financial statements.

The City of Scotts Valley reports the following major governmental funds:

The General fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The Community Development Block Grant fund is used to account for the activity related to this grant.

The Affordable Housing fund is used to account for the 20% state required set-aside funds of the Redevelopment Agency's tax increment revenues. These monies can only be spent on low and moderate-income housing purposes.

The Redevelopment Agency Debt Service fund is used to account for the tax increment revenue as well as payments on Redevelopment Agency Debt.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2008

1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The Public Financing Authority fund is used to account for the investment activities of the Authority payments on Authority debt.

All governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 90 days after fiscal year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes, sales tax, intergovernmental revenues, and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated. A column representing an internal service fund is also presented in these statements. However, internal service balances and activities have been combined with the governmental and business-type activities in the Government-Wide financial statements.

The City of Scotts Valley reports the following major proprietary fund types:

The Recreation fund accounts for the City's Recreation programs. The classes, sports programs, and after-school/summer child care programs are all provided on a user fee basis.

The Wastewater fund is used to account for the operation of the City's Wastewater system. This is a self-supporting activity through user fees charged to both residences and businesses in the City.

Proprietary funds are accounted for using the *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period of which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Fiduciary Fund Financial Statements

Fiduciary Fund Financial statements include a Statement of Net Assets. The City's Fiduciary funds represent Agency funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency funds are accounted for on the accrual basis of accounting.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2008

1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Additionally, the City reports the following funds:

Six Fiduciary funds account for: 1) receipt of special taxes and assessments used to pay municipal and interest on four Assessment District Bonds with no direct City liability, 2) receipt and disbursement of monies held in General Trust, 3) collections held for the construction of a skate park.

An internal service fund accounts for the City's self-insured dental plan.

Reconciliation of the Fund financial statements to the Government-Wide financial statements is provided to explain the differences created by the integrated approach of the GASB Statement No. 34 reporting model.

Capital Assets

Capital assets are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Included in capital assets are land, buildings and improvements, equipment, and infrastructure. City policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair value at the date of donation. Capital outlay is recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and assets in government-wide financial statements to the extent the City's capitalization threshold is met. Depreciation is recorded on a straight-line basis over the estimated useful lives of the capital assets as follows:

Equipment – 5 to 10 years
Buildings and Improvements – 40 years
Infrastructure – 20 to 75 years

Budgets and Budgetary Accounting Process

- A. The City Manager submits a proposed budget to the City Council.
- B. Public hearings are conducted to obtain citizen comments.
- C. The City Council legally adopts the operating and capital improvement budgets.

Once the budgets are adopted, legal budgetary control is established by requiring the following transactions be approved by the City Council:

- A. Transfers between funds.
- B. Any budget amendment that would increase a fund's total appropriations.
- C. Any budget amendment that would increase a fund's total appropriation of operating expenditures.

Management may approve transfers of all other line item appropriations within a fund without the approval of the City Council.

Supplemental budgetary appropriations were required during the fiscal year.

Unencumbered appropriations lapse at fiscal year end. Encumbered appropriations at fiscal year end are reappropriated in the following fiscal year.

Formal budgetary control is integrated into the City's general ledger as a management control device during the fiscal year.

All of the City's governmental type funds have legally adopted budgets, prepared on a basis consistent with the accounting for these funds.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2008

1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments are pooled and investment income is allocated to each fund based on its proportionate share of the pool's earnings. During fiscal year 2007 / 2008, the entity realized no gain from the sale of investments. The calculation of realized gains is independent of the calculation of the net increases in fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal period and sold in the current fiscal year may have been recognized as an increase or decrease in the fair value of investments reported in the prior fiscal year. The net increase in the fair value of investments during fiscal year 2007 / 2008 was \$5,466. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the fiscal year.

Unbilled Receivables

The City bills wastewater service fees every two months. Whenever the fiscal year end does not coincide with a billing month, the City accrues unbilled wastewater service fees.

Inventory

Inventories for gasoline and oil are accounted for in the Wastewater Enterprise Fund. The inventories are priced at cost, determined on a first-in, first-out basis.

Compensated Absences

A long-term liability of accumulated vacation and sick leave has been recorded in the Government-Wide Financial Statements. In the Fund Financial Statements, this liability is only recorded in the Enterprise Funds.

Encumbrances

Encumbrance accounting is employed by the City in all of its governmental funds. In doing so, purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation,

Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Proprietary Funds' "deposits" in the City-wide cash management pool are, in substance, demand deposits and are considered cash equivalents for purposes of the statement of cash flows.

Property Tax Levy, Collection, and Maximum Rates

The State of California Constitution Article XIII A (Proposition 13) provides that the combined maximum property tax rate on any given property may not exceed one percent of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100 percent of fair value as defined by Article XIII A and may be increased by no more than two percent per year, cumulatively, unless the property is sold, improved, or transferred. The State Legislature has determined the method of distribution of receipts from a one-percent tax levy among the counties, cities, school districts, and other districts.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2008**

1. DESCRIPTION OF FUNDS AND SIGNIFICANT ACCOUNTING POLICIES (concluded)

Santa Cruz County assesses properties, and bills for and collects property taxes as follows:

	<u>Secured</u>	<u>Unsecured</u>
Valuation Dates	January 1	January 1
Lien/Levy Dates	July 1	July 1
Due Dates	50% November 1 50% February 1	July 1
Delinquent as of	December 10 (for November) April 10 (for February)	August 31

Property taxes are recognized in the fiscal year for which taxes have been levied and collected within sixty days of the fiscal year end. Beginning in fiscal year 1993-94 under the Alternative Method of Tax Assessment and Collections (Teeter Plan), Santa Cruz County began providing the Agency 100% of the property tax increment whether or not the property owners actually paid their tax bills.

Transactions Between Funds

In the Fund Financial Statements, the City records numerous transactions between funds, including expenditures and transfers of resources, to provide services and to construct assets. All interfund transactions, except loans or advances, interfund services provided and used, and reimbursements, are treated as transfers. Interfund services provided and used include internal service fund charges for services to City departments. In those interfund transactions where one fund pays expenditures or expenses of another fund, a transfer of funds is treated as a credit against the fund that originally paid for the expenditure or expense, and is charged to expenditures or expenses in the appropriate fund.

2. CASH AND INVESTMENTS

The City follows the practice of pooling cash and investments of all funds except for restricted funds required to be held by outside custodians, fiscal agents or trustees under the provisions of bond indentures. Cash and investments are summarized below as of June 30, 2008.

Pooled Deposits	\$ (347,729)
Pooled Investments:	
California Local Agency Investment Fund (LAIF)	18,300,520
Money Market	8,252,747
Petty Cash	<u>1,720</u>
Subtotal	26,207,258
Investments with Fiscal Agents and Trustees	<u>1,162,015</u>
Total Cash and Investments	<u>\$27,369,273</u>

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2008

2. CASH AND INVESTMENTS (continued)

The City's cash and investments are reported in the financial statements as follows:

	<u>Government-Wide Statement of Net Assets</u>		<u>Fiduciary Funds Statement of</u>	<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Net Assets</u>	
Cash & Investments	\$17,475,619	\$7,032,672	\$1,317,694	\$25,825,985
Restricted Cash & Investments	<u>719,221</u>	<u>-</u>	<u>824,067</u>	<u>1,543,288</u>
Total	<u>\$18,194,840</u>	<u>\$7,032,672</u>	<u>\$2,141,761</u>	<u>\$27,369,273</u>

Pooled Deposits

At June 30, 2008, the difference between the carrying amount of the City's demand deposits of \$90,846 and the corresponding bank balance of (\$347,729) was due to outstanding checks and deposits in transit. Of the bank balance, \$90,846 was insured by federal depository insurance and none was collateralized 110% in accordance with the California Government Code with securities held by the pledging financial institution in the City's name.

Investments

Under provisions of the City's investment policy, and in accordance with Section 53601 of the California Government Code, the City may make deposits into and invest in the following:

<ul style="list-style-type: none"> Securities of the U.S. Government, or its agencies Negotiable Certificates of Deposit Repurchase Agreements (Repos) Passbook Savings Account Demand Deposits Local Agency Investment Fund (State Pool) Demand Deposits 	<ul style="list-style-type: none"> Bankers Acceptances Commercial Paper Corporate Medium Term Notes Money Market Funds
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At no time during the fiscal year did the City borrow funds through the use of reverse-repurchase agreements. Reverse-repurchase agreement investments are not allowed under the City's investment policy.

External Investment Pool

The City invests in the California State Treasurer's Local Agency Investment Fund (LAIF). LAIF, established in 1977, is regulated by California Government Code Section 16429 and under the day to day administration of the State Treasurer. There is a five member Local Investment Advisory Board is chaired by the State Treasurer. As of June 30, 2008, LAIF had approximately 70 billion in investments.

LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available, and on amortized cost or best estimate for those securities where market value is not readily available. The City's investments with LAIF at June 30, 2008, included a portion of the pooled funds invested in structured notes and asset-backed securities. These investments are described as follows.

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and / or that have embedded forwards or options.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2008

2. CASH AND INVESTMENTS (concluded)

Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2008, the City had \$18,300,520 invested in LAIF, which had invested 14.72% of the pool investment funds in Structured Notes and Asset-Backed Securities. The City valued its investments with LAIF by multiplying its account balance with a fair value factor determined by LAIF. This factor is the result of dividing all LAIF participants' total aggregate fair value (\$70,024,464,150) by total aggregate amortized cost (\$70,027,950,242) resulting in a factor of .999950219.

Investment Risks

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from interest rates, the City's investment policy limits investments to a maximum maturity of five years. At June 30, 2008, investment maturities (other than investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements) were:

	Less Than <u>1 Year</u>	1 <u>Year</u>	1 – 2 <u>Years</u>	2 – 3 <u>Years</u>
LAIF	\$18,300,520	\$ -	\$ -	\$ -
Money Market	<u>8,252,747</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$26,553,267</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Credit Risk: All Federal Home Loan Bank and Federal National Mortgage Association investments were rated AAA by Moody's which meets the minimum requirements set forth in the City's Investment Policy for managing credit risk. The LAIF, certificates of deposit, and money market investments are not rated.

3. LONG-TERM LOANS RECEIVABLE

Special Revenue Funds:

\$ 1,288,521 due from a California Limited Partnership with simple interest at 3%, all due and payable by November 22, 2026. Funds were loaned by the Scotts Valley Redevelopment Agency Affordable Housing Fund to facilitate the construction of 46 affordable housing units. The loan is secured by a deed of trust on the housing units.

\$ 413,295 due from ten parties together with contingent interest calculated as an amount equal to 10% of appreciation of the residential properties purchased by the various parties, all due and payable: upon sale or transfer, upon default, upon cash-out refinancing of the superior "first" or "second" loan, or upon the date the "first" note becomes due and payable. Funds were loaned by the Scotts Valley Redevelopment Agency Affordable Housing Fund to facilitate the purchase of affordable housing through the Agency's "silent second" loan program. The loans are secured by deeds of trust on the respective properties.

\$400,000 due from a California Limited Partnership with interest at 6.1% compounded annually, all due and payable by September 15, 2054. Funds were loaned by the Scotts Valley Redevelopment Agency Affordable Housing Fund to facilitate the construction of 46 affordable housing units. The loan is secured by a deed of trust on the housing units.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2008

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land	\$7,175,750	\$ 15,000	\$ 0	\$7,190,750
Construction in progress	<u>316,812</u>	<u>284,037</u>	<u>26,700</u>	<u>574,149</u>
Total capital assets not being depreciated	<u>7,492,562</u>	<u>299,037</u>	<u>26,700</u>	<u>7,764,899</u>
<u>Capital assets being depreciated:</u>				
Buildings and Improvements	5,268,051	93,811	0	5,361,862
Machinery and equipment	2,215,140	140,800	120,176	2,235,764
Infrastructure	<u>34,833,229</u>	<u>78,995</u>	<u>0</u>	<u>34,912,224</u>
Total capital assets being depreciated	<u>42,316,420</u>	<u>313,606</u>	<u>120,176</u>	<u>42,509,850</u>
<u>Less accumulated depreciation for:</u>				
Buildings and Improvements	1,674,356	144,274	0	1,818,630
Machinery and equipment	1,687,940	124,689	120,176	1,692,453
Infrastructure	<u>10,868,316</u>	<u>876,263</u>	<u>0</u>	<u>11,744,579</u>
Total accumulated depreciation	<u>14,230,612</u>	<u>1,145,226</u>	<u>120,176</u>	<u>15,255,662</u>
Total capital assets being depreciated, net	<u>28,085,808</u>	<u>(831,620))</u>	<u>0</u>	<u>27,254,188</u>
Governmental capital assets, net	<u>\$35,578,370</u>	<u>\$ (532,583)</u>	<u>\$ 26,700</u>	<u>\$35,019,087</u>
Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land	\$ 429,416	\$ 0	\$ 0	\$ 429,416
Construction in progress	<u>662,132</u>	<u>86,923</u>	<u>749,055</u>	<u>0</u>
Total capital assets not being depreciated	<u>1,091,548</u>	<u>86,923</u>	<u>749,055</u>	<u>429,416</u>
<u>Capital assets being depreciated:</u>				
Buildings and Improvements	4,938,679	6,086	0	4,944,765
Machinery and equipment	5,236,777	31,305	0	5,268,082
Infrastructure	22,312,677	749,055	0	23,061,732
Outfall agreement	<u>178,000</u>	<u>0</u>	<u>0</u>	<u>178,000</u>
Total capital assets being depreciated	<u>32,666,133</u>	<u>786,446</u>	<u>0</u>	<u>33,452,579</u>
<u>Less accumulated depreciation for:</u>				
Buildings and Improvements	2,367,533	126,735	0	2,494,268
Machinery and equipment	4,658,478	169,978	0	4,828,456
Infrastructure	8,759,533	531,729	0	9,291,262
Outfall agreement	<u>83,073</u>	<u>2,967</u>	<u>0</u>	<u>86,040</u>
Total accumulated depreciation	<u>15,868,617</u>	<u>831,409</u>	<u>0</u>	<u>16,700,026</u>
Total capital assets being depreciated, net	<u>16,797,516</u>	<u>(44,963)</u>	<u>0</u>	<u>16,752,553</u>
Business-type capital assets, net	<u>\$17,889,064</u>	<u>\$ 41,960</u>	<u>\$ 749,055</u>	<u>\$17,181,969</u>
Total Capital Assets	<u>\$53,467,434</u>	<u>\$ (490,623)</u>	<u>\$ 775,755</u>	<u>\$52,201,056</u>

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2008

4. CAPITAL ASSETS (concluded)

Depreciation expense was charged to functions and programs of the City as follows:

<u>Governmental Activities:</u>	
General government	\$ 40,149
Public safety	91,948
Planning & building	6,456
Public works	<u>1,006,673</u>
Total depreciation expense – government activities	<u>\$ 1,145,226</u>
 <u>Business-Type Activities:</u>	
Wastewater	\$ 823,154
Recreation	<u>8,255</u>
Total depreciation expense – business-type activities	<u>\$ 831,409</u>

5. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the fiscal year ended June 30, 2008:

	GOVERNMENTAL ACTIVITIES				
	Balance at July 1, 2007	Additions	Reductions	Balance at June 30, 2008	Due Within One Year
Certificates of Participation	\$ 7,594,983	\$ 0	\$110,232	\$ 7,484,751	\$106,914
Installment Notes	140,000	0	0	140,000	5,000
Tax Allocation Bonds	6,485,000	0	270,000	6,215,000	280,000
Accrued Compensated Absences	<u>640,098</u>	<u>401,700</u>	<u>292,062</u>	<u>749,736</u>	<u>437,000</u>
Totals	<u>\$14,860,081</u>	<u>\$401,700</u>	<u>\$672,294</u>	<u>\$14,589,487</u>	<u>\$828,914</u>
	BUSINESS-TYPE ACTIVITIES				
	Balance at July 1, 2007	Additions	Reductions	Balance at June 30, 2008	Due Within One Year
Accrued Compensated Absences	<u>\$148,018</u>	<u>\$98,910</u>	<u>\$76,562</u>	<u>\$170,366</u>	<u>\$107,000</u>

Debt service payments are generally provided from the following sources:

Certificates of Participation - General revenues recorded in the General Fund and tax increment revenues recorded in the Redevelopment Agency Debt Service Fund.

1997 Scotts Valley Water District Installment Note – Redevelopment Agency tax increment revenues recorded in the Redevelopment Agency Debt Service Fund and amounts to be recovered from future property developers in the Gateway South area.

Tax Allocation Bonds - Redevelopment Agency tax increment revenues recorded in the Redevelopment Agency Debt Service Fund.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2008

5. LONG-TERM DEBT (continued)

Accrued Compensated Absences - General revenues recorded in the General Fund and operating revenues recorded in the Proprietary Funds.

Current Refunding of Long-Term Debt:

See Note 14 on Page 52 detailing the partial refunding of the 1997 Certificates of Participation.

Certificates of Participation:

The City entered into lease and sub-lease agreements with the Scotts Valley Public Financing Authority, a Joint Powers Authority formed by the City of Scotts Valley and the Scotts Valley Redevelopment Agency, to lease and lease-back certain public assets. The lease revenues are used as security for the issuance of Certificates of Participation (COP). The annual lease payments are equal to the total debt service payments on the Certificates. The leases have a purchase option for the Scotts Valley Public Financing Authority to acquire the public assets that are subordinated to a bargain purchase option in the City's sub-lease agreement. Since the financial activities of the City and the Scotts Valley Public Financing Authority are included in the financial statements (Note 1), economic substance is emphasized over legal form and the above leasing transactions are reported as general obligation debts and recorded in the Government-Wide Statement of Net Assets under Governmental Activities.

The following Certificates of Participation were outstanding at June 30, 2008:

Original issue - \$7,359,911, Refunding and 1992 Public Improvements Project	\$204,163
Original issue - \$4,940,588, 1997-1 Refunding Certificates of Participation	1,250,588
Original issue - \$3,455,000, Refunding and 2003 Public Improvement Project	3,455,000
Original issue - \$2,735,000, 2006 Refunding Certificates of Participation	<u>2,575,000</u>
Total Certificates of Participation	<u>\$7,484,751</u>

In 1992, the Scotts Valley Public Financing Authority issued \$7,359,911 of current interest and capital appreciation bonds. The current interest bonds were refunded entirely by refunding certificates issued in 1997 and 2003 (see below). Only the capital appreciation bonds in the original amount of \$499,911 remain outstanding for this issue. The interest rate for the capital appreciation bonds ranges from 6.85% to 7.00% per annum. This COP refunded previous COP's issued in 1986 and 1990. The 1986 COP proceeds were used to construct the current City Hall. The 1990 COP proceeds were used for improvements and additions to the storm drainage system within Scotts Valley Drive.

Fiscal Year Ending	<u>1992 Refunding Certificates of Participation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$46,914	\$93,086	\$140,000
2010	43,457	96,543	140,000
2011	40,568	99,432	140,000
2012	37,871	102,129	140,000
2013	<u>35,353</u>	<u>104,647</u>	<u>140,000</u>
Totals	<u>\$ 204,163</u>	<u>\$ 495,837</u>	<u>\$ 700,000</u>

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2008

5. LONG-TERM DEBT (continued)

In 1997, the Scotts Valley Public Financing Authority issued \$4,940,587.95 of refunding COP's. The proceeds were used to refund a portion of the current interest bonds from the 1992 COP. The 1997 COP consisted of \$3,690,000 of current interest certificates ranging from 3.70% to 5.25% per annum, and \$1,250,587.95 of capital appreciation certificates ranging from 5.60% to 5.70% per annum. The current interest certificates were refunded by the 2006 Refunding COP's. Only the capital appreciation certificates remain outstanding.

Fiscal Year Ending	1997-1 Refunding Certificates of Participation		
	Principal	Interest	Total
2018-2022	\$ 462,639	\$1,202,361	\$1,665,000
2023-2027	787,949	2,832,051	3,620,000
Totals	<u>\$1,250,588</u>	<u>\$4,034,412</u>	<u>\$5,285,000</u>

In 2003, the Scotts Valley Public Financing Authority issued \$3,455,000 of Refunding and 2003 Capital Improvement Project Certificates of Participation. The proceeds were used to refund the remaining 1992 COP current interest certificates and to provide partial funding for the purchase of an existing 6,000 square foot building to be used as a City community center. The interest rates for this COP range from 4.5% to 4.7% per annum.

Fiscal Year Ending	2003 Refunding Certificates of Participation		
	Principal	Interest	Total
2009	\$0	\$159,283	\$159,283
2010	0	159,283	159,283
2011	0	159,283	159,283
2012	0	159,283	159,283
2013	0	159,283	159,283
2014-2018	115,000	793,825	908,825
2019-2023	505,000	698,426	1,203,426
2024-2028	820,000	601,001	1,421,001
2029-2032	<u>2,015,000</u>	<u>192,860</u>	<u>2,207,860</u>
Totals	<u>\$3,455,000</u>	<u>\$3,082,527</u>	<u>\$6,537,527</u>

In 2006, the Scotts Valley Public Financing Authority issued \$2,735,000 of 2006 Refunding Certificates of Participation. The proceeds were used to refund the remaining 1997-1 Refunding COP current interest certificates. The interest rates for this COP range from 4.0% to 4.25%.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2008

5. LONG-TERM DEBT (continued)

Fiscal Year <u>Ending</u>	2006 Refunding Certificates of Participation		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$60,000	\$ 105,825	\$ 165,825
2010	70,000	103,325	173,325
2011	70,000	100,525	170,525
2012	70,000	97,725	167,725
2013	75,000	94,925	169,925
2014-2018	1,815,000	303,687	2,118,687
2019-2023	415,000	8,819	423,819
Totals	<u>\$2,575,000</u>	<u>\$ 814,831</u>	<u>\$3,389,831</u>

Installment Notes:

The following installment notes were outstanding at June 30, 2007:

Scotts Valley Water District	<u>\$140,000</u>
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In 1997, the City agreed to a \$165,000 installment note payable to the Scotts Valley Water District for the City's share of bonds issued by the Water District. The District and the City shared the proceeds of the bond issue in order to save on issuance costs. The Scotts Valley Redevelopment Agency ultimately used the proceeds and is repaying the installment note in annual principal amounts varying from \$ 0 to \$15,000 plus interest at 6% per annum, through 2028.

Fiscal Year <u>Ending</u>	Installment Note – Scotts Valley Water District		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$10,000	\$8,198	\$18,198
2010	5,000	7,920	12,920
2011	5,000	7,640	12,640
2012	0	7,350	7,350
2013	5,000	7,200	12,200
2014-2018	30,000	32,250	62,250
2019-2023	40,000	22,200	62,200
2024-2028	45,000	8,850	53,850
Totals	<u>\$ 140,000</u>	<u>\$ 101,608</u>	<u>\$ 241,608</u>

Tax Allocation Bonds:

The following Tax Allocation Bonds were outstanding at June 30, 2008:

Tax Allocation Refunding Bonds of 2006	<u>\$6,215,000</u>
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In 2006, the Redevelopment Agency issued \$6,810,000 Tax Allocation Refunding Bonds. The proceeds were used to refund the 1999 tax allocation bonds and to fully pay off the outstanding balance of the installment note to the City of Santa Cruz. Annual repayment installments range from \$290,000 to \$385,000, plus interest at 3.4% to 5.0% per annum, through 2030.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2008

5. LONG-TERM DEBT (concluded)

Tax Allocation Refunding Bonds of 2006			
Fiscal Year <u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$280,000	\$270,276	\$550,276
2010	280,000	260,476	540,476
2011	290,000	250,269	540,269
2012	305,000	239,483	544,483
2013	315,000	227,989	542,989
2014-2018	1,770,000	942,599	2,712,599
2019-2023	1,150,000	607,394	1,757,394
2024-2028	1,350,000	311,125	1,661,125
2029-2030	<u>475,000</u>	<u>23,875</u>	<u>498,875</u>
Totals	<u>\$6,215,000</u>	<u>\$3,133,486</u>	<u>\$9,348,486</u>

Special Assessment Bonds (No City Liability)

The City is not liable for repayment of the special assessment and community facilities district debt, but is only acting as an agent in collecting the applicable assessments and taxes from property owners, forwarding the collections to the paying agent for payment of principal and interest to the bondholders. The City is responsible for initiating foreclosure proceedings where required by bond covenants. The following special assessment and community facilities district debt were outstanding as of June 30, 2008:

Original issue - \$6,966,000, 2002 Consolidated Reassessment District	\$3,675,000
Original issue - \$4,800,000, Community Facilities District, 97-1 Series A	3,775,000
Original issue - \$1,700,000, Community Facilities District, 97-1 Series B	<u>1,405,000</u>
Total Special Assessment District Bonds (No City Liability)	<u>\$8,855,000</u>

6. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City participates in a public entity risk pool that operates as a common risk management and insurance program for 10 member cities. The City pays an annual premium to the pool for its general liability and workers' compensation coverage. Risk of loss is retained for general liability claims by each city up to \$10,000 per occurrence. The agreement with the pool provides that it will be self-sustaining through member premiums and that excess coverage be carried for general liability claims between \$500,000 and \$5,000,000 and for workers' compensation claims in excess of \$300,000 per insured event. The amount of unpaid claims was immaterial at fiscal year end.

During fiscal year 1993, the City established a Dental Insurance Fund (an internal service fund) to account for and finance its uninsured risks of loss for employee dental care. The Dental Insurance Fund finances employee and dependent claims up to a maximum of \$1,000 per participant per calendar year entirely through self-insurance. The amount of unpaid claims was immaterial at fiscal year end.

The City continues to carry commercial insurance for all other insured risks of loss. The City paid no settlements in excess of insurance coverage in any of the past three fiscal years.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2008

7. INTERFUND TRANSACTIONS

Current Interfund Balances: The following is a summary of the current amounts due from and due to other funds at June 30, 2008:

	<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Major Funds:	General Fund	\$27,685		
Non Major Funds:			Community Center	16,227
			Homeland Security Grant	11,458
Totals		<u>\$27,685</u>		<u>\$27,685</u>

The above transfers resulted from the normal course of the City's operations.

Long-term Interfund Advances: The following is a summary of the advances made that were not expected to be repaid in one year or less:

	<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Major Fund:	General	\$3,589,447	Redevelopment Agency	
	Affordable Housing	484,214	Debt Service	\$3,934,129
Non Major Fund:			General Facilities	139,532
Totals		<u>\$4,073,661</u>		<u>\$4,073,661</u>

The advance from the General Fund to the Redevelopment Agency is being repaid with tax increment revenues with interest at an interest rate equal to the Local Agency Investment Fund rate. The funds were loaned for start-up expenses, initial formation of the Redevelopment Agency, and improvement projects.

The advance from Affordable Housing to the Redevelopment Agency Debt Service is being repaid with tax increment revenues. The funds were loaned to pay for the ERAF shifts by the State.

The advance from the General Fund to the General Facilities Fund will be repaid with future impact fee revenues. The funds were loaned for the construction of the current City Hall.

Interfund Transfers: In the governmental fund financial statements, total transfers in and out were \$1,209,783, as follows:

	<u>Transfers In:</u>			
	<u>Redevelopment</u>	<u>Recreation</u>	<u>Non</u>	
	<u>Debt Service Fund</u>	<u>Fund</u>	<u>Major Fund</u>	<u>Total</u>
<u>Transfers Out:</u>				
General Fund	\$ 0	\$40,630	\$94,833	\$135,463
Redevelopment				
Debt Service Fund	0	0	928,392	928,392
Non Major Fund	<u>59,000</u>	<u>0</u>	<u>88,510</u>	<u>147,510</u>
Total	<u>\$59,000</u>	<u>\$40,630</u>	<u>\$1,111,735</u>	<u>\$1,211,365</u>

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2008**

7. INTERFUND TRANSACTIONS (concluded)

The General Fund transferred out a total of \$135,463 as follows: \$61,975 to the Senior Center and \$40,630 to the Recreation Fund for operations, and \$32,858 to the General Capital Projects Fund for the City's General Plan update.

The Redevelopment Agency's Debt Service Fund transferred out a total of \$928,392 to the Redevelopment Agency's Capital Projects Fund for various projects and administration.

The FEMA-El Nino Disaster Fund (Non-Major) transferred out \$147,510. OF that amount, \$59,000 was transferred to the Redevelopment Agency's Debt Service Fund and \$88,510 to the Natural Disaster Assistance Fund to reimburse these Funds for project costs that were ultimately funded by FEMA and State Office of Emergency Services.

8. COMMITMENTS AND CONTINGENCIES

Under an agreement with the City of Santa Cruz, the City is obligated to pay 4% of the actual new outfall facilities operation and maintenance costs in order to use the Santa Cruz sewer outfall facility.

The City has construction contract commitments in the amount of \$207,861 at June 30, 2008 for the following projects:

<u>Project:</u>	<u>Commitments</u>
Traffic Signal Controllers	\$141,463
Vine Hill School Road Bike Lane and Landscaping	35,000
Hacienda Drive Pedestrian / Bike Lane	<u>31,398</u>
 Total Contract Commitments	 <u>\$207,861</u>

In December of 2003 the City entered into a Memorandum of Understanding (MOU) with the Land Trust of Santa Cruz County. The Land Trust is to manage approximately 162 acres of open space in accordance with the Glenwood Open Space Management Plan approved by the City Council on June 4, 2004. The City has placed \$1,070,000 in an endowment trust fund managed by the Land Trust. All costs associated with the management of the open space are to be paid by investment earnings and principal of this endowment. If the Land Trust is unable to provide management services or if the agreement is terminated, any remaining amount in the endowment trust fund will be returned to the City.

9. RESERVED / DESIGNATED FUND BALANCES AND RESTRICTED NET ASSETS

Total reserved and designated fund balances for the governmental fund types are detailed as follows:

	<u>General Fund</u>	<u>Affordable Housing</u>	<u>Non Major Funds</u>	<u>Total</u>
Reserved for:				
Debt Service	\$ 442,858	\$ 0	\$ 0	\$ 442,858
Advances Due from Other Funds	3,589,447	484,214	0	4,073,661
Construction Projects	<u>0</u>	<u>0</u>	<u>950,471</u>	<u>950,471</u>
Total Reserved	<u>\$4,032,305</u>	<u>\$484,214</u>	<u>\$950,471</u>	<u>\$5,466,990</u>

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2008

9. RESERVED / DESIGNATED FUND BALANCES AND RESTRICTED NET ASSETS (concluded)

	General Fund	Non Major Funds	Total
Designated for:			
Capital Acquisition	\$396,199	\$ 0	\$ 396,199
Debt Service	0	1,679,790	1,679,790
Future Expenditures	<u>0</u>	<u>350,044</u>	<u>350,044</u>
Total Designated	<u>\$396,199</u>	<u>\$2,029,834</u>	<u>\$2,426,033</u>

Total restricted net assets for the proprietary funds are detailed as follows:

	Wastewater Fund
Restricted for:	
Repair and Replacement of Capital Assets	\$3,195,737
Wastewater System Construction and Improvements	<u>2,170,852</u>
Total	<u>\$5,366,589</u>

10. DEFICIT FUND BALANCES

At June 30, 2007, the following City funds had deficit fund balances:

Major Fund:	
Redevelopment Agency Debt Service	<u>(\$3,120,278)</u>
Non Major Funds:	
General Facility	(\$70,967)
Senior Center	<u>(2,050)</u>
Total Non Major Funds	<u>(\$73,017)</u>

The Redevelopment Agency Debt Service fund deficit will be eliminated by future tax increment revenue. The General Facility fund deficit will be eliminated by future impact fee revenues. The Senior Center fund deficit will be eliminated through increased emphasis on revenue generating activities such as facility rental and classes.

11. PENSION PLAN

Plan Description

The City's defined benefit pension plans, the Safety Plan of the City of Scotts Valley ("Safety Plan") and the Miscellaneous Plan of the City of Scotts Valley ("Miscellaneous Plan"), provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Safety Plan and the Miscellaneous Plan are part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. Menus of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from CalPERS Executive Office – 400 P Street – Sacramento, CA 95814.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2008

11. PENSION PLAN (concluded)

Funded Status

Because the City has less than 100 employees, it is required to participate in a risk pool. Therefore, no required supplementary information is provided in this report regarding the funded status of the City's Plans.

Funding Policy

The City contributes for active plan members in the Safety Plan and Miscellaneous Plan 9% and 7%, respectively, of their annual covered salaries. The City also is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal 2007 / 2008 was 14.813% for Miscellaneous Plan employees and 26.644% for Safety Plan employees. The contribution requirements of the plan are established by State statute and the employer contribution rates are established and may be amended by CalPERS.

Annual Pension Cost

For fiscal year 2007 / 2008, the City's annual pension cost for the Safety Plan was \$397,742 and the City actually contributed \$397,742. For the fiscal year 2007 / 2008, the City's annual pension cost for the Miscellaneous Plan was \$415,806 and the City actually contributed \$415,806. The required contribution for fiscal year 2007 / 2008 was determined as part of the June 30, 2006 actuarial valuations using the entry age normal actuarial cost method with the contributions determined as a percentage of pay.

The Safety Plan's and Miscellaneous Plan's unfunded actuarial accrued liabilities are being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at June 30, 2006 was 17 years for the Safety Plan and 18 years for the Miscellaneous Plan.

Three-Year Trend Information

Fiscal Year Ending	Miscellaneous Plan			Safety Plan		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2006	\$329,416	100%	\$0	\$379,717	100%	\$0
6/30/2007	\$412,174	100%	\$0	\$342,834	100%	\$0
6/30/2008	\$415,806	100%	\$0	\$397,742	100%	\$0

12. POSTEMPLOYMENT BENEFITS

The City provides postemployment benefits to eligible employees in the form of partial reimbursement for postretirement health insurance premiums. Eligibility requirements include a minimum of ten years employment with the City and minimum retirement ages of 50 years for safety employees and 55 years for non-safety employees. For eligible employees, the City will pay 33-75% of the retired employee's health insurance premiums, the exact amount determined by years of service, employee group, and age. In addition, there is a cap on what the City will contribute that is indexed to the cost of CalPERS postretirement medical insurance premiums.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (concluded)
JUNE 30, 2008**

12. POSTEMPLOYMENT BENEFITS (concluded)

The obligation of the City to provide these benefits is determined by agreements with the various employee bargaining groups.

The City's contributions are financed on a pay-as-you-go basis. The City paid \$124,448 in post employment benefits for the 17 retired employees who were eligible for benefits during the fiscal year ended June 30, 2008.

13. JOINT POWERS AUTHORITY

The City participates in a public entity risk pool under a joint power agreement (JPA): the Monterey Bay Area Self Insurance Authority. The relationship between the City and the JPA is such that the JPA is not a component of the City for financial reporting purposes.

The Monterey Bay Area Self Insurance Authority (MBASIA) provides for workers' compensation and liability insurance for its members: various small cities in the Monterey Bay Area. The MBASIA is governed by a board of directors composed of representatives from each of the member cities. This board controls the operations of the MBASIA, including selection of management and approval of operating budgets independent of any influence by the member cities beyond their representation on the Board. Each member city pays a premium based on factors determined by the board. Below is the condensed financial information of the MBASIA for the fiscal year ended June 30, 2007 (fiscal year 2008 not available at the time of the printing of the City's financial statements):

Total Assets	\$13,776,254	Total Revenues	\$4,501,904
Total Liabilities	<u>19,079,823</u>	Total Expenditures	<u>3,778,871</u>
Net Assets (Deficit)	<u>(\$5,303,569)</u>	Change in Net Assets	<u>\$723,033</u>

The City paid \$139,466 for workers compensation and \$39,341 for liability premiums during the year ended June 30, 2007. The City's share of the fiscal year-end assets, liabilities, or fund equity has not been calculated by the MBASIA.