

City of Scotts Valley California



COMPREHENSIVE ANNUAL FINANCIAL REPORT For Fiscal Year Ended June 30, 2008

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Of

**THE CITY OF SCOTTS VALLEY,
STATE OF CALIFORNIA**

For the Fiscal Year Ended June 30, 2008

**Stephen H. Ando
City Manager**

**CITY OF SCOTTS VALLEY
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008
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INTRODUCTORY SECTION



CITY OF SCOTTS VALLEY

FINANCE DEPARTMENT

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October 30, 2008

Honorable Mayor and City Council
City of Scotts Valley
One Civic Center Drive
Scotts Valley, CA 95066

SUBJECT: COMPREHENSIVE ANNUAL FINANCIAL REPORT - JUNE 30, 2008

Honorable Mayor and Council Members:

The Comprehensive Annual Financial Report for the City of Scotts Valley for the fiscal year ended June 30, 2008 is hereby submitted. The responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with City management. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activity have been included. These statements have been audited by the City's independent auditor, Marcello and Company, who has issued an unqualified opinion thereon. The Auditors' report is also included.

In accordance with the guidelines recommended by the Government Finance Officers Association of the United States and Canada (GFOA), and the standards adopted by the Governmental Accounting Standards Board, the accompanying report consists of three parts:

- I. Introductory Section – Letter of Transmittal, List of Principal Officials and Organization Chart, Certificate of Achievement from the GFOA.
- II. Financial Section – Independent Auditors' Report, Government-wide Financial Statements, Fund Financial Statements, Notes to the Financial Statements followed by Required Supplementary Information and combining statements of the Non-major Fund Financial Statements.
- III. Statistical Section – Presenting ten year historical trends of financial and non-financial information.

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

REPORTING ENTITY AND SERVICES PROVIDED

The City of Scotts Valley is a general law city incorporated in 1966. It operates under a council-manager form of government and provides the following range of municipal services: police, parks, recreation, sanitary sewer, streets and roads, public improvements, planning and zoning, construction inspection, and general administrative services. The City provides its sanitary sewer services through its wastewater fund and its recreational programs through its recreation fund, both of which are intended to be funded through user fees.

This report includes all the funds of the City. The financial statements also include the accounts of the following separate legal entities:

- City of Scotts Valley Redevelopment Agency
- Scotts Valley Public Financing Authority

The accounts of these entities are blended into the City's financial statements in accordance with Governmental Accounting Standards Board Statement No. 14. Footnote 1 to the financial statements provides further information regarding these entities.

MAJOR INITIATIVES

During 2007 / 2008, the City accomplished the following:

- Certified the City's Housing Element.
- All Police Department radios are narrow band compliant as required by the FCC.
- The Police Department was able to resume its DARE (Drug Abuse Resistance Education) program as well as the Summer Junior Police Academy due to previously vacant positions being filled in the Department.
- Construct bike lanes on Green Hills Road and Hacienda Drive.
- Drafted Storm Water Master Plan as mandated by the Regional Water Quality Control Board.
- Installed new catch basins on Vine Hill School Road to improve drainage.

The following are current and future projects:

- Complete Storm Water Master Plan.
- Town Center Homes project (46 condominium / townhouse units).
- Polo Ranch project (40 single family detached units).
- Oak Creek Park project (mixed use: 10 condominium / townhouse units, 2 commercial buildings totaling 24,450 square feet).
- Lockwood Lane project (6 single family detached units).
- Police Department is in the planning process for a major upgrade to the radio and telephone system in the emergency dispatch center to comply with the FCC mandated conversion of all radio frequencies to narrow banding by the year 2013.
- Widen Bean Creek Road and install bike lanes.
- Reviewing ways to streamline the permitting process including permit tracking software programs.
- Modernize signalized intersections' traffic controllers and their associated hardware
- Rehabilitate and resurface Glen Canyon and Granite Creek Roads.

FINANCIAL INFORMATION

Internal and Budgeting Controls: City Management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of controls should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds, Enterprise Funds, and Internal Service Funds are included in the annual appropriated budget. A Five-Year Financial Plan, or Capital Improvement Plan, is also adopted for the Capital Projects. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by function and activity within an individual fund. See Note 1 to the financial statements for further information on budgets and budgetary accounting.

As demonstrated by the statements and schedules included in the Financial section of this report, the City continues to meet its responsibility for sound financial management.

Cash Management: Cash is pooled for the purpose of increasing interest income through investment activities. Investments are stated at fair value. Investments consist of State Local Agency Investment Fund deposits, U.S. Federal Securities, and other deposits.

At June 30, 2008, cash and investments totaled \$27,369,273 which included \$2,860,982 held in restricted funds for bonded debt service and other purposes.

Risk Management: The City is exposed to various risks of loss. To manage these risks, the City participates in a public entity risk pool for workers compensation and liability insurance. The City also established a Dental Insurance Internal Service Fund for employee dental insurance. See Note 6 to the financial statements for more information.

ECONOMIC FACTORS

The City of Scotts Valley is located in Santa Cruz County, approximately 75 miles south of San Francisco. The unemployment rates for Scotts Valley, Santa Cruz County, and California as of June for the last five years are shown below. Scotts Valley's 2008 rate is less than the County rate by 57% and less than the State by 63%. However, all three rates in 2008 showed significant increases from the previous year: City 24%, County 22%, and State 35%.

<u>June 30,</u>	<u>Unemployment Rate</u>		
	<u>Scotts Valley</u>	<u>Santa Cruz County</u>	<u>California</u>
2004	2.6%	6.1%	6.3%
2005	2.3%	5.3%	5.4%
2006	2.1%	5.0%	4.9%
2007	2.1%	5.0%	5.2%
2008	2.6%	6.1%	7.0%

After a decrease in both the average and median price of homes last year, these two prices increased again this year, albeit a very small increase in the median price. Still, they are both significantly higher (over 38%) than the prices four years ago. Increases in property values have more of an impact on the Redevelopment Agency's tax increment revenue than on the City's property tax revenue because the City is a low property tax city, which means that the City receives only 4% of the assessed property taxes. Below is a table of the average and median sales prices of houses sold in Santa Cruz County as of June for each of the last five years.

<u>June 30,</u>	<u>Housing</u>			
	<u>Average Price</u>	<u>Increase (Decrease) Over (Under) Prior Year</u>	<u>Median Price</u>	<u>Increase (Decrease) Over (Under) Prior Year</u>
2004	\$674,000	5.0%	\$599,500	9.0%
2005	870,664	29.2%	793,000	32.3%
2006	838,208	(3.7%)	760,000	(4.2%)
2007	889,656	6.1%	761,000	0.1%
2008	684,996	(23.0%)	610,000	(19.8%)

OTHER INFORMATION

Independent Audit: The Government Code requires an annual audit by independent certified public accountants selected by the City Council. This requirement has been complied with. The auditors' unqualified opinion has been included in the financial section of this report. The City is also required to undergo an annual single audit in conformity with the provisions of the Single Audit Act and the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, unless exempt. The auditor's reports related specifically to the Single Audit Act are included in a separate Single Audit Report.

Awards: The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Scotts Valley for its comprehensive annual financial report for the fiscal year ended June 30, 2007. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standard for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report (CAFR), whose contents conform to program standards. Such CAFR must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Scotts Valley has received a Certificate of Achievement for the last fifteen consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

There has been a change in the eligibility requirements for the Certificate of Award for Outstanding Financial Reporting from the California State Municipal Finance Officers (CSMFO) for Comprehensive Annual Financial Reports. If cities submit and receive the GFOA Certificate of Achievement for Excellence in Financial Reporting, then they cannot apply for the CSMFO Certificate. Because the City of Scotts Valley receives the GFOA Certificate, we will no longer be able to apply for the CSMFO Certificate.

ACKNOWLEDGMENTS

The preparation of this report could not have been accomplished without the productive and professional endeavors of the Finance Department staff. I wish to express my appreciation to them.

In closing, the leadership and support of the City Council were essential to the preparation of this report.

Respectfully submitted,



Stephen H. Ando
City Manager

LIST OF PRINCIPAL OFFICIALS

JUNE 30, 2008

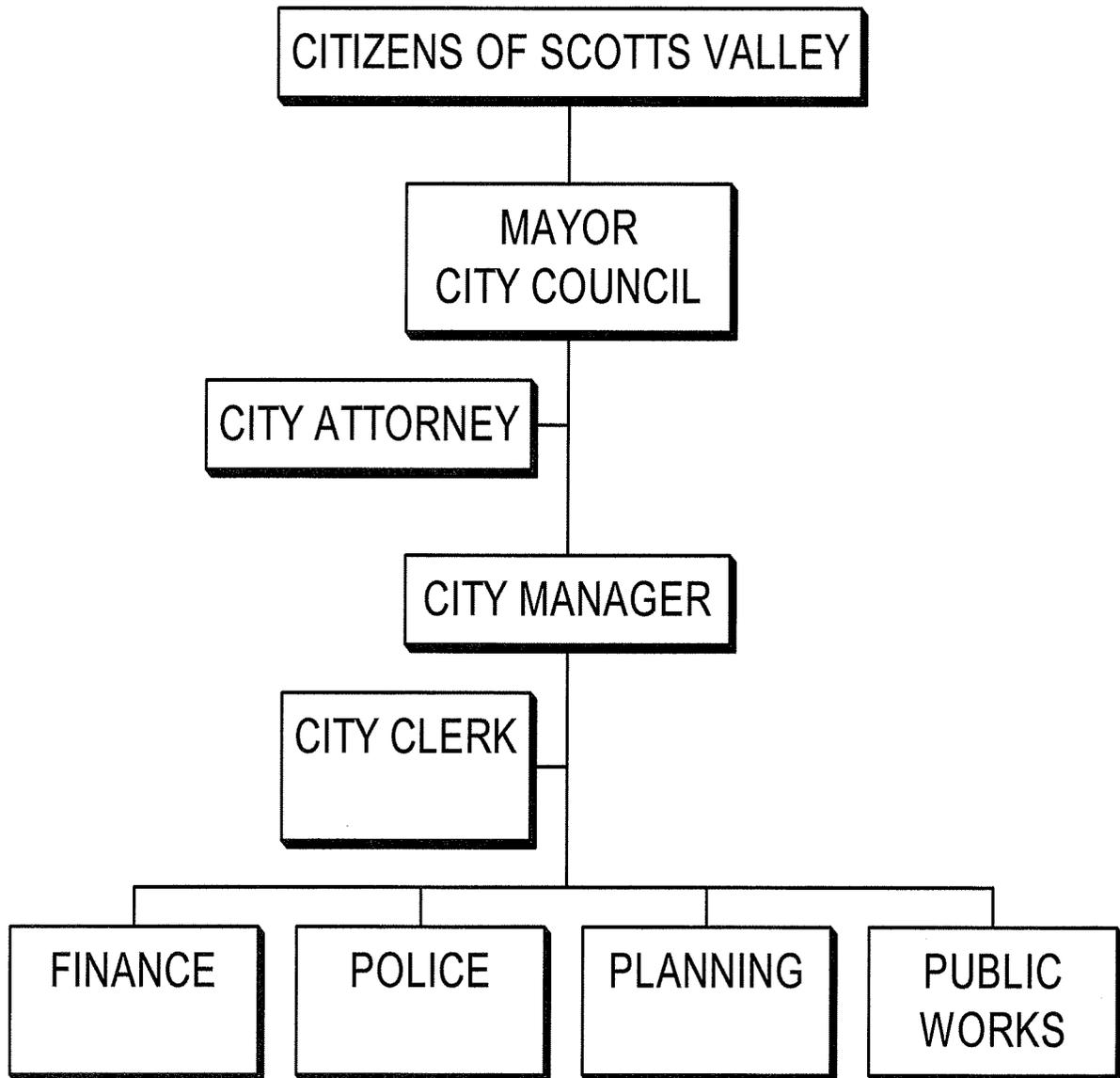
CITY COUNCIL MEMBERS

Randy Johnson	Mayor
Cliff Barrett	Vice Mayor
Stephany E. Aguilar	Councilmember
Dene Bustichi	Councilmember
Jim Reed	Councilmember

CHIEF ADMINISTRATIVE PERSONNEL

Stephen Ando	City Manager/ Acting Finance Director
Kirsten Powell	City Attorney
Tracy Ferrara	City Clerk
John Weiss	Chief of Police
Ken Anderson	Director of Public Works / City Engineer
April Wooden	Community Development Director

CITY OF SCOTTS VALLEY
ORGANIZATION CHART



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Scotts Valley
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Oliver S. Cox

President

Jeffrey R. Emery

Executive Director

