

# **FINANCIAL SECTION**





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**INDEPENDENT AUDITOR'S REPORT**

To the Members of City Council  
City of Scotts Valley, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Scotts Valley, California (the "City") as of and for the year ended June 30, 2009, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2009, and the respective changes in financial position, and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12 and the budgetary comparison information on pages 58 through 59 are not required parts 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.



Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, supplementary information 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 supplementary information has 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 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.

*C. D. Uhlenberg LLP*

December 16, 2009  
Redwood City, California

## 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, 2009. 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, 2009, by \$63,176,749. The current year change in net assets was a decrease of \$293,862. Of the total net assets, \$42,191,295 was invested in capital assets (net of related debt) and \$11,521,016 had restrictions on their use leaving \$9,464,438 as unrestricted. The current decrease in City net assets is a combination of the governmental activities increasing \$415,990 and the business-type activities decreasing \$709,852.

As of June 30, 2009, the City's governmental funds (General Fund, special revenue funds, debt service funds, and capital project funds) had a combined fund balance of \$14,864,616, a decrease of \$3,355,348 from the previous year. This was primarily due to a decrease of \$2,816,936 in the Affordable Housing Fund. Land in the amount of \$3,711,517 was purchased for future development. Of the total fund balance, \$8,292,906 was reserved; \$2,485,449 was designated for capital acquisitions, debt service payments, and future expenditures; and \$4,086,261 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 non-major governmental 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-term and long-term financial information about the activities the government operates like businesses, such as the sewer system.
  - 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.

## OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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, 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

### 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.

## OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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, 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 \$63,176,749 as of June 30, 2009. This is a decrease of \$293,862, or 0.5%, from the previous year. It is a combination of a decrease in total assets of \$327,573 and a decrease in total liabilities of \$33,711. 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
	2009	2008	2009	2008	2009	2008	
Current and other assets	\$18,655	\$22,257	\$ 7,102	\$ 7,264	\$25,757	\$29,521	(12.8%)
Capital assets, net	<u>38,940</u>	<u>35,019</u>	<u>16,699</u>	<u>17,182</u>	<u>55,639</u>	<u>52,201</u>	6.6%
<b>Total assets</b>	<b><u>57,595</u></b>	<b><u>57,276</u></b>	<b><u>23,801</u></b>	<b><u>24,446</u></b>	<b><u>81,396</u></b>	<b><u>81,722</u></b>	<b>0.4%</b>
Long-term debt outstanding	13,623	13,761	98	63	13,721	13,824	(0.8%)
Other liabilities	<u>4,112</u>	<u>4,071</u>	<u>386</u>	<u>357</u>	<u>4,498</u>	<u>4,428</u>	1.6%
<b>Total liabilities</b>	<b><u>17,735</u></b>	<b><u>17,832</u></b>	<b><u>484</u></b>	<b><u>420</u></b>	<b><u>18,219</u></b>	<b><u>18,252</u></b>	<b>(0.2%)</b>
Net assets:							
Invested in capital assets, net of related debt	25,492	18,422	16,699	17,182	42,191	35,604	18.5%
Restricted	9,281	15,200	2,240	5,366	11,521	20,566	(43.9%)
Unrestricted	<u>5,087</u>	<u>5,822</u>	<u>4,377</u>	<u>1,478</u>	<u>9,464</u>	<u>7,300</u>	29.6%
<b>Total net assets</b>	<b><u>\$39,860</u></b>	<b><u>\$39,444</u></b>	<b><u>\$23,316</u></b>	<b><u>\$24,026</u></b>	<b><u>\$63,176</u></b>	<b><u>\$63,470</u></b>	<b>0.5%</b>

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

Cash and Investments	\$(3,291,933)
Cash and Investments with Fiscal Agents and Trustees	(285,814)
Land & Construction in Progress	3,448,041

The decrease in cash is mainly in the governmental activities which decreased \$2,972,473. The Affordable Housing Fund (\$2,816,840) made up most of that decrease. As was mentioned in the Financial Highlights section earlier, the Affordable Housing Fund spent \$3,711,517 for the purchase of land. This accounts for the decrease in cash as well as the increase in land. Cash and investments with fiscal agents and trustees decreased due to an early payment made to the trustee in the previous year. That cash was used for a bond payment this year. No early payment was made in the current year. There are no material variances in the Business-type activities.

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

Accounts Payable	\$55,267
Accrued Interest	54,334
Long-term debt, net of current portion	(470,814)

## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (continued)

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. There are no material variances in the Business-type activities.

**Changes in Net Assets:** City-wide the change in net assets went from an increase of \$1,652,415 in fiscal year 2008 to a decrease of \$293,862 in fiscal year 2009. This is a result of total revenues decreasing \$1,712,793, or (8.7%), and total expenses increasing \$233,484, or 1.3%. A further analysis is shown below.

	<u>2009</u>	<u>2008</u>	<u>Percent Change</u>
Program Revenues	\$ 4,516	\$ 5,145	(12.2%)
General Revenues	13,381	14,464	(7.5%)
Governmental Expenses	(14,465)	(14,260)	1.4%
Business-type Expenses	<u>(3,726)</u>	<u>(3,697)</u>	0.8%
Net Increase (Decrease)	<u>\$ (294)</u>	<u>\$ 1,652</u>	

On the next page 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.

### Revenues:

Program revenues decreased \$628,951, primarily in the governmental activities under Capital Grants and Contributions for Public Works. Capital grants are not consistent from year to year. In the previous year the City received a State Proposition 1B grant of \$400,000 and a County Regional Transportation Commission grant for \$200,000 for traffic signal modernization.

General revenues decreased \$1,083,842. The majority of this decrease is related to investment earnings (\$367,838), transient occupancy tax (\$203,104), and sales tax (\$201,462). Investment earnings decreased due to lower interest rates and, to a smaller degree, lower balances being invested. Transient occupancy tax decreased due to the slump in the national economy. Of the sales tax decrease, only \$50,415 relates to the base (ongoing) sales tax. The other \$151,047 relates to the temporary sales tax measure. It reduced from a half-cent down to a quarter-cent for the last quarter of the fiscal year.

There are no material variances in the business-type activities.

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (continued)**

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

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2009	2008	2009	2008	2009	2008	
Program revenues:							
Charges for services	\$470	\$588	\$2,675	\$2,738	\$3,145	\$3,326	(5.4%)
Operating grants	785	610	0	0	785	610	28.7%
Capital grants	529	1,156	56	54	585	1,210	(51.7%)
General revenues:							
Property tax	6,213	6,205	0	0	1,213	6,205	0.1%
Sales tax	2,988	3,189	0	0	2,988	3,189	(6.0%)
Other taxes	3,282	3,569	0	0	3,282	3,569	(8.0%)
Investment earnings	313	681	142	303	455	984	(54.8%)
Miscellaneous	443	517	0	0	443	517	(14.3%)
<b>Total revenues</b>	<b>15,023</b>	<b>16,515</b>	<b>2,873</b>	<b>3,095</b>	<b>17,896</b>	<b>19,610</b>	<b>(8.7%)</b>
Expenses:							
General government	1,696	1,594	0	0	1,696	1,594	6.4%
Public safety	4,342	3,777	0	0	4,342	3,777	15.0%
Planning & building	1,568	1,791	0	0	1,568	1,791	(12.5%)
Public works	3,073	2,817	0	0	3,073	2,817	9.1%
Redevelopment	3,015	3,321	0	0	3,015	3,321	(9.2%)
Interest on debt	770	960	0	0	770	960	(19.8%)
Wastewater	0	0	2,668	2,696	2,668	2,696	(1.0%)
Recreation	0	0	1,058	1,001	1,058	1,001	5.7%
<b>Total expenses</b>	<b>14,464</b>	<b>14,260</b>	<b>3,726</b>	<b>3,697</b>	<b>18,190</b>	<b>17,957</b>	<b>1.3%</b>
<b>Excess or (Deficiency)</b>	<b>559</b>	<b>2,255</b>	<b>(853)</b>	<b>(602)</b>	<b>(294)</b>	<b>1,653</b>	<b>(117.8%)</b>
<b>Transfers</b>	<b>(143)</b>	<b>(41)</b>	<b>143</b>	<b>41</b>	<b>0</b>	<b>0</b>	
<b>Change in Net Assets</b>	<b>\$416</b>	<b>\$2,214</b>	<b>(\$710)</b>	<b>(\$ 561)</b>	<b>(\$294)</b>	<b>\$ 1,653</b>	<b>(117.8%)</b>

**Net Cost of Services:** The table below presents the total cost of each of the City's governmental and business-type 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 \$14,464,570 were offset by charges for services (\$470,211), operating grants/contributions (\$785,195), and capital grants/contributions (\$529,291), bringing the net cost of services down to \$12,679,873. The three areas with the largest change between years are Public Safety, Planning & Building, and Public Works. Public safety increased due to the police force being more fully staffed. There were vacancies in the prior year that were filled in the current year. The majority of the decrease in Planning/Building relates to the development of the specific plan and environmental impact report for the City's Town Center Project in the prior year. The large increase in net costs for Public Works is the decrease in capital grants discussed in the section above.

The only major variance in the business-type activities is the net cost of services for recreation. Due to the drop in the economy, revenues dropped in recreation thereby increasing the net cost of this service.

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (continued)**

**City of Scotts Valley**  
**Net Cost of Governmental and Business-Type Activities**  
(in thousands of dollars)

	Total Cost of Services		Percent Change	Net Cost of Services		Percent Change
	2009	2008		2009	2008	
General Government	\$1,696	\$1,594	6.4%	\$1,678	\$1,568	7.0%
Public Safety	4,342	3,777	15.0%	4,095	3,483	17.6%
Planning & Building	1,568	1,791	(12.5%)	1,290	1,383	(6.7%)
Public Works	3,073	2,817	9.1%	1,832	1,191	153.8%
Redevelopment	3,015	3,321	(9.2%)	3,015	3,321	(9.2%)
Interest on L-T Debt	770	960	(19.8%)	770	960	(19.3%)
Total	<u>\$14,464</u>	<u>\$14,260</u>	1.4%	<u>\$12,680</u>	<u>\$11,906</u>	6.5%
Wastewater	\$2,668	\$2,696	(1.0%)	\$824	\$891	(7.5%)
Recreation	1,058	1,001	5.7%	170	14	1214.3%
Total	<u>\$3,726</u>	<u>\$3,697</u>	0.8%	<u>\$994</u>	<u>\$905</u>	9.8%

**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 2008 to 2009. The total revenues and expenditures do not include any "other financing sources (uses)."

	Increase (Decrease) from Prior Year			
	Assets	Liabilities	Revenues	Expenditures
General Fund	(\$273,363)	(\$105,135)	(\$835,762)	\$386,737
Special Revenue	(2,712,522)	(11,387)	(169,564)	4,126,296
Debt Service	96,325	78,307	(60,539)	(420,922)
Capital Projects	(577,166)	(73,163)	(425,189)	158,665

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

The four largest variances other than the General Fund are the assets in the Special Revenue and Capital Projects funds, the revenues in Capital Projects funds, and expenditures in the Debt Service fund. The decrease in assets in the Special Revenue funds relates entirely to the \$3,711,517 purchase of land in the Affordable Housing fund for future development. The decrease in Capital Projects funds also relates to cash. Two large projects (road resurfacing for \$400,000 and traffic signal modernization for \$201,490) were completed with funds received in the previous fiscal year.

Grant revenues in Capital Projects funds decreased because capital grants are not consistent from year to year. In the previous year the City received a State Proposition 1B grant of \$400,000 and a County Regional Transportation Commission grant for \$200,000 for traffic signal modernization. The City only received one grant this year for \$257,400.

## **FINANCIAL ANALYSIS OF THE CITY'S FUNDS (continued)**

The decrease 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 \$371,751 for those prior years. Interest expense on a loan from the City to the Agency was \$82,000 less than the prior year because the interest rate is tied to the investment rate earned by the City. With lower interest rates, the interest on this loan was also lower.

The only major variance in the proprietary funds is the drop in recreation revenue discussed above.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

Total revenues were \$632,343 (7.3%) under budget. The two largest variances are in tax revenue which was under budget by \$462,084 (6.8%) and charges for services which was under budget by \$232,906 (39.2%).

The main tax revenues under budget were transient occupancy tax (\$189,847), temporary sales tax (\$133,604), regular sales tax (\$58,494), and property taxes (\$39,171). The transient occupancy tax is under budget due to the effects of tough economic times the country is in currently. People have cut back on travel for both business and pleasure. The City's temporary sales tax down for two reasons. First the rate dropped in the final quarter of the fiscal year from a half-cent to a quarter-cent. Second, the City receives sales tax from its temporary sales tax measure from purchases of vehicles by city residents no matter where they are bought (i.e. even outside the city limits). Again, the poor national economy caused a large drop in vehicle purchases. This had a large effect on the temporary sales tax revenues. Regular sales tax was under budget, but not to the extent of the temporary sales tax. This is because the vehicle purchases outside the city do not affect this sales tax. The city does not have a large shopping mall; therefore, sales tax was not affected as much as in other cities where there is a lot of shopping available. Property taxes was under budget because of a drop in supplementary taxes. These are the taxes paid on the new value of property when it is sold during the fiscal year. Because of the economy, property sales were much lower than in the prior fiscal year.

Charges for services were under budget due to construction permits. Once again, the economy had a devastating effect on construction. New construction and remodels were down considerably.

On the expenditure side, the General Fund was under budget to the original and final budget by \$154,354 and \$186,815, respectively. The budget was increased to cover legal costs for a lawsuit with the County of Santa Cruz over the amount of property taxes due to the City of Scotts Valley. Other increases were for higher than anticipated workers compensation costs and a vehicle that needed to be replaced and was not included in the original budget.

### **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 increase (net of depreciation) is \$3,438,078, or 6.6%. The governmental activities had capital assets additions of \$5,118,497. Current year depreciation of \$1,197,618 brought capital assets to a net increase of \$3,920,879. The main capital asset addition was the purchase of two parcels of undeveloped land for the Town Center project (\$3,711,517). The business-type activities had capital assets additions of \$327,570 while depreciation of \$810,371 created a net decrease of \$482,801. The largest addition this year was the purchase of a 2009 dump truck (\$105,513).

**CAPITAL ASSET AND DEBT ADMINISTRATION** (continued)

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

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2009	2008	2009	2008	2009	2008	
Land	\$10,917	\$7,191	\$429	\$429	\$11,346	\$7,620	48.9%
Buildings & Improvements	3,569	3,543	2,324	2,450	5,893	5,993	(1.7%)
Equipment	813	543	341	440	1,154	983	17.4%
Infrastructure	23,345	23,168	13,516	13,771	36,861	36,939	(0.2%)
Outfall Agreement	0	0	89	92	89	92	(3.3%)
Construction in Progress	296	574	0	0	296	574	(48.4%)
Total	<u>\$38,940</u>	<u>\$35,019</u>	<u>\$16,699</u>	<u>\$17,182</u>	<u>\$55,639</u>	<u>\$52,201</u>	6.6%

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 \$134,308, or (0.9%). All reductions in debt were due to regularly scheduled debt payments. The net OPEB obligation is an actuarially determined amount for Other Post Employment Benefits in accordance with GASB (Governmental Accounting Standards Board) Statement 45. This is the first year this obligation has been required to be presented and is discussed further in Note 12 to the financial statements. More detailed information about the City's long-term debt is presented in Note 5 to the financial statements.

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

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2009	2008	2009	2008	2009	2008	
Certificates of Participation	\$7,378	\$7,485	\$ 0	\$ 0	\$7,378	\$7,485	(1.4%)
Installment Notes	135	140	0	0	135	140	(0.0%)
Tax Allocation Bonds	5,935	6,215	0	0	5,935	6,215	(4.5%)
Accrued Comp Absences	665	750	146	170	811	920	(11.8%)
Net OPEB Obligation	295	0	72	0	367	0	n/a
Total	<u>\$14,408</u>	<u>\$14,590</u>	<u>\$218</u>	<u>\$170</u>	<u>\$14,626</u>	<u>\$14,760</u>	(0.9%)

## 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. The 2009-10 General Fund budget was originally adopted with expenditures exceeding revenues by \$776,000. Reserves that were built up in prior years were used to balance the budget. In September 2009 the budget was reduced by \$442,000 in order to preserve the City's reserves for a longer period of time. Three full-time equivalent positions were eliminated, a temporary one-day-a-month furlough (except for police officers and dispatchers) was instituted, and one full-time position was reduced to part-time.

CalPERS has provided the City with next year's rate and a projected 2011-12 rate. A recap of the retirement rates by fiscal year is shown below.

<u>Fiscal Year</u>	<u>Miscellaneous Group</u>	<u>Safety Group</u>	
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%	Actual
2011-12	17.900%	32.300%	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, 2009**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and Investments (Note 2)	\$ 14,503,146	\$ 6,713,212	\$ 21,216,358
Receivables:			
Due from other Governments	854,386	201,537	1,055,923
Sewer Fees	0	143,691	143,691
Other	4,423	36,446	40,869
Inventory	0	2,688	2,688
Prepaid Expenses	0	3,905	3,905
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	433,407	0	433,407
Unamortized Debt Issuance Costs, Net	757,842	0	757,842
Capital Assets (Note 4):			
Land and construction in progress	11,212,940	429,416	11,642,356
Other capital assets, net of depreciation	27,727,026	16,269,750	43,996,776
Total capital assets	<u>38,939,966</u>	<u>16,699,166</u>	<u>55,639,132</u>
<b>Total Assets</b>	<u>57,594,986</u>	<u>23,800,645</u>	<u>81,395,631</u>
<b>LIABILITIES</b>			
Accounts Payable	488,111	99,618	587,729
Accrued Liabilities	271,994	67,257	339,251
Accrued Interest	2,374,225	0	2,374,225
Unearned Revenues	192,183	99,950	292,133
Long-Term Debt (Note 5):			
Current Portion of Long-Term Debt (Note 5)	785,457	119,626	905,083
Certificates of Participation	7,264,380	0	7,264,380
Installment Notes	130,000	0	130,000
Tax Allocation Bonds	5,655,000	0	5,655,000
Accrued Compensated Absences	278,195	25,550	303,745
Net OPEB Obligation	294,982	72,354	367,336
<b>Total Liabilities</b>	<u>17,734,527</u>	<u>484,355</u>	<u>18,218,882</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, net of related debt	25,492,129	16,699,166	42,191,295
Restricted for:			
Capital Projects	3,235,496	2,239,903	5,475,399
Debt Service	2,149,337	0	2,149,337
Low/Moderate Income Housing	3,896,280	0	3,896,280
Unrestricted	<u>5,087,217</u>	<u>4,377,221</u>	<u>9,464,438</u>
<b>Total Net Assets</b>	<u>\$ 39,860,459</u>	<u>\$ 23,316,290</u>	<u>\$ 63,176,749</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, 2009**

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
General Government	\$ 1,696,526	\$ 15,843	0	3,135	18,978
Public Safety	4,341,735	41,880	169,850	35,335	247,065
Planning & Building	1,567,761	241,972	11,553	23,898	277,423
Public Works	3,073,540	170,516	603,792	466,923	1,241,231
Redevelopment	3,015,135	0	0	0	0
Interest on Long-Term Debt and Fiscal Agent Charges	769,873	0	0	0	0
<b>Total Governmental Activities</b>	<b>14,464,570</b>	<b>470,211</b>	<b>785,195</b>	<b>529,291</b>	<b>1,784,697</b>
<b>Business-Type Activities:</b>					
Wastewater	2,667,765	1,786,907	0	56,526	1,843,433
Recreation Programs	1,058,100	888,210	0	0	888,210
<b>Total Business-Type Activities</b>	<b>3,725,865</b>	<b>2,675,117</b>	<b>0</b>	<b>56,526</b>	<b>2,731,643</b>
<b>Total Primary Government</b>	<b>\$ 18,190,435</b>	<b>\$ 3,145,328</b>	<b>\$ 785,195</b>	<b>\$ 585,817</b>	<b>\$ 4,516,340</b>

**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</u>	<u>Business-Type</u>	<u>Total</u>
<u>Activities</u>	<u>Activities</u>	
\$ (1,677,548)	\$ 0	\$ (1,677,548)
(4,094,670)	0	(4,094,670)
(1,290,338)	0	(1,290,338)
(1,832,309)	0	(1,832,309)
(3,015,135)	0	(3,015,135)
<u>(769,873)</u>	<u>0</u>	<u>(769,873)</u>
<u>(12,679,873)</u>	<u>0</u>	<u>(12,679,873)</u>
0	(824,332)	(824,332)
<u>0</u>	<u>(169,890)</u>	<u>(169,890)</u>
0	(994,222)	(994,222)
<u>(12,679,873)</u>	<u>(994,222)</u>	<u>(13,674,095)</u>
6,212,728	0	6,212,728
2,987,902	0	2,987,902
928,568	0	928,568
784,264	0	784,264
705,936	0	705,936
520,153	0	520,153
343,261	0	343,261
<u>12,482,812</u>	<u>0</u>	<u>12,482,812</u>
312,945	141,786	454,731
442,690	0	442,690
<u>(142,584)</u>	<u>142,584</u>	<u>0</u>
<u>13,095,863</u>	<u>284,370</u>	<u>13,380,233</u>
415,990	(709,852)	(293,862)
<u>39,444,469</u>	<u>24,026,142</u>	<u>63,470,611</u>
<u>\$ 39,860,459</u>	<u>\$ 23,316,290</u>	<u>\$ 63,176,749</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, 2009**

	<u>General Fund</u>	<u>Affordable Housing</u>	<u>Redevelopment Agency Debt Service</u>
<b>ASSETS</b>			
Cash and Investments	\$ 2,586,112	\$ 3,415,074	\$ 925,230
Receivables:			
Due from other Governments	638,383	0	119,213
Other	923	0	0
Due from other Funds	16,227	0	0
Advances Due from other Funds	3,664,782	484,214	0
Long-Term Loans Receivable	0	1,701,816	0
Restricted Assets:			
Cash and Investments with Fiscal Agents and Trustees	<u>433,407</u>	<u>0</u>	<u>0</u>
<b>Total Assets</b>	<b><u>\$ 7,339,834</u></b>	<b><u>\$ 5,601,104</u></b>	<b><u>\$ 1,044,443</u></b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts Payable	\$ 115,351	\$ 1,762	\$ 276,684
Accrued Liabilities	260,230	1,246	0
Accrued Compensated Absenses	19,372	0	0
Due to other Funds	0	0	0
Advances Due to other Funds	0	0	4,009,464
Deferred Revenues	<u>150,430</u>	<u>1,701,816</u>	<u>0</u>
<b>Total Liabilities</b>	<b><u>545,383</u></b>	<b><u>1,704,824</u></b>	<b><u>4,286,148</u></b>
Fund Balances (Deficit): (Note 9)			
Reserved	4,098,189	3,896,280	0
Unreserved, reported in-			
General Fund:			
Designated	398,906	0	0
Undesignated	2,297,356	0	0
Special Revenue Funds:			
Designated	0	0	0
Undesignated	0	0	0
Debt Service Funds:			
Designated	0	0	0
Undesignated	0	0	(3,241,705)
Capital Project Funds - Undesignated	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Fund Balances (Deficit)</b>	<b><u>6,794,451</u></b>	<b><u>3,896,280</u></b>	<b><u>(3,241,705)</u></b>
<b>Total Liabilities and Fund Balances (Deficit)</b>	<b><u>\$ 7,339,834</u></b>	<b><u>\$ 5,601,104</u></b>	<b><u>\$ 1,044,443</u></b>

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

Other Governmental Funds	Total
\$ 7,571,797	\$ 14,498,213
96,790	854,386
3,500	4,423
0	16,227
0	4,148,996
400,000	2,101,816
<u>0</u>	<u>433,407</u>
<u>\$ 8,072,087</u>	<u>\$ 22,057,468</u>
\$ 89,532	\$ 483,329
10,518	271,994
688	20,060
16,227	16,227
139,532	4,148,996
<u>400,000</u>	<u>2,252,246</u>
<u>656,497</u>	<u>7,192,852</u>
298,437	8,292,906
0	398,906
0	2,297,356
370,613	370,613
4,882,579	4,882,579
1,715,930	1,715,930
0	(3,241,705)
<u>148,031</u>	<u>148,031</u>
<u>7,415,590</u>	<u>14,864,616</u>
<u>\$ 8,072,087</u>	<u>\$ 22,057,468</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, 2009**

**Total Fund Balances - Total Governmental Funds (Page 21)** \$ 14,864,616

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. 38,939,966

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. (2,374,225)

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. 151

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	(157,249)
1997 Certificates of Participation	(1,250,588)
2003 Certificates of Participation	(3,455,000)
2006 Certificates of Participation	(2,515,000)
Tax Allocation Bonds	(5,935,000)
Note Payable - Scotts Valley Water District	(135,000)
Compensated Absences	(645,135)
Net OPEB Obligation	(294,982)

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. 757,842

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. (41,753)

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. 2,101,816

**Net Assets of Governmental Activities (Page 15)** \$ 39,860,459

**CITY OF SCOTTS VALLEY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDING JUNE 30, 2009**

	<u>General Fund</u>	<u>Affordable Housing</u>	<u>Redevelopment Agency Debt Service</u>
Revenues:			
Taxes and Assessments	\$ 7,079,680	\$ 1,098,773	\$ 4,360,514
Intergovernmental Revenues	14,650	0	0
Fees and Services	360,703	0	0
Fines and Forfeitures	63,080	0	0
Investment Earnings	139,448	102,530	16,478
Contributions, Non-Government	12,000	0	0
Facility/Building Rental	0	5,300	0
Miscellaneous Revenues	330,605	1,516	0
<b>Total Revenues</b>	<u>8,000,166</u>	<u>1,208,119</u>	<u>4,376,992</u>
Expenditures:			
Current:			
General Government	1,612,901	0	0
Public Safety	4,000,249	0	0
Planning and Building	519,205	313,538	0
Public Works	1,345,007	0	0
Capital Outlay	220,341	3,711,517	0
Tax Increment Pass-Through	0	0	3,015,135
Debt Service	0	0	0
Principal	106,914	0	285,000
Interest and Finance Charges	315,492	0	400,047
<b>Total Expenditures</b>	<u>8,120,109</u>	<u>4,025,055</u>	<u>3,700,182</u>
Excess of Revenues over (under) Expenditures	<u>(119,943)</u>	<u>(2,816,936)</u>	<u>676,810</u>
Other Financing Sources (Uses):			
Transfers In	192,446	0	0
Transfers Out	<u>(240,731)</u>	<u>0</u>	<u>(694,932)</u>
Net Other Financing Sources (Uses)	<u>(48,285)</u>	<u>0</u>	<u>(694,932)</u>
Net Change in Fund Balances	(168,228)	(2,816,936)	(18,122)
Beginning Fund Balances (Deficit)	<u>6,962,679</u>	<u>6,713,216</u>	<u>(3,223,583)</u>
Ending Fund Balances (Deficit)	<u>\$ 6,794,451</u>	<u>\$ 3,896,280</u>	<u>\$ (3,241,705)</u>

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

Other Governmental Funds	Total
\$ 415,009	\$ 12,953,976
523,798	538,448
316,191	676,894
0	63,080
165,365	423,821
2,484	14,484
0	5,300
10,695	342,816
<u>1,433,542</u>	<u>15,018,819</u>
0	1,612,901
1,765	4,002,014
646,370	1,479,113
378,735	1,723,742
1,359,367	5,291,225
0	3,015,135
0	391,914
0	715,539
<u>2,386,237</u>	<u>18,231,583</u>
<u>(952,695)</u>	<u>(3,212,764)</u>
832,066	1,024,512
<u>(231,433)</u>	<u>(1,167,096)</u>
<u>600,633</u>	<u>(142,584)</u>
(352,062)	(3,355,348)
<u>7,767,652</u>	<u>18,219,964</u>
<u>\$ 7,415,590</u>	<u>\$ 14,864,616</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, 2009**

**Net change in fund balances - total governmental funds (Page 25)** **\$ (3,355,348)**

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	5,118,497
Current year depreciation	(1,197,618)

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.

(396)

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	391,914
---------------------------------------	---------

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.

Amortization of advance refunding payment and issuance costs	(72,994)
--	----------

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	(123,074)
Accrual of OPEB obligation	(294,982)
Accrual of interest expense on long-term debt	(54,334)

**Change in net assets of governmental activities (Page 17)** **\$ 415,990**

**CITY OF SCOTTS VALLEY  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2009**

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Recreation Fund	Wastewater Fund	Total	
<b>ASSETS</b>				
Current:				
Cash and Investments	\$ 20	\$ 6,713,192	\$ 6,713,212	\$ 4,933
Receivables:				
Due from other Governments	0	201,537	201,537	0
Sewer Fees	0	143,691	143,691	0
Other	36,446	0	36,446	0
Inventory	0	2,688	2,688	0
Prepaid Expenses	3,905	0	3,905	0
Total Current Assets	<u>40,371</u>	<u>7,061,108</u>	<u>7,101,479</u>	<u>4,933</u>
Capital Assets (Note 4):				
Land and construction in progress	0	429,416	429,416	0
Other capital assets, net of depreciation	22,893	16,246,857	16,269,750	0
Total capital assets	<u>22,893</u>	<u>16,676,273</u>	<u>16,699,166</u>	<u>0</u>
Total Assets	<u>63,264</u>	<u>23,737,381</u>	<u>23,800,645</u>	<u>4,933</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts Payable	10,211	89,407	99,618	4,782
Accrued Liabilities	37,221	30,036	67,257	0
Compensated Absences	27,625	92,001	119,626	0
Deferred Revenues	99,950	0	99,950	0
Total Current Liabilities	<u>175,007</u>	<u>211,444</u>	<u>386,451</u>	<u>4,782</u>
Noncurrent Liabilities:				
Compensated Absences	0	25,550	25,550	0
Net OPEB Obligation	33,394	38,960	72,354	0
Total Noncurrent Liabilities	<u>33,394</u>	<u>64,510</u>	<u>97,904</u>	<u>0</u>
Total Liabilities	<u>208,401</u>	<u>275,954</u>	<u>484,355</u>	<u>4,782</u>
<b>NET ASSETS</b>				
Invested in Capital Assets	22,893	16,676,273	16,699,166	0
Restricted (Note 9):				
Construction and Improvements	0	2,239,903	2,239,903	0
Unrestricted	(168,030)	4,545,251	4,377,221	151
Total Net Assets	<u>\$ (145,137)</u>	<u>\$ 23,461,427</u>	<u>\$ 23,316,290</u>	<u>\$ 151</u>

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, 2009**

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Recreation Fund	Wastewater Fund	Total	
Operating Revenues:				
Fees and Services	\$ 888,210	\$ 1,786,907	\$ 2,675,117	\$ 89,088
Total Operating Revenues	888,210	1,786,907	2,675,117	89,088
Operating Expenses:				
Salaries	573,474	521,288	1,094,762	0
Taxes and Benefits	210,605	341,379	551,984	0
Maintenance and Operations	153,544	631,547	785,091	0
Advertising	10,060	0	10,060	0
Professional and Contractual Services	87,212	59,687	146,899	0
Utilities and Communications	12,665	289,995	302,660	0
Insurance and Bonds	3,372	20,666	24,038	89,493
Depreciation	7,168	803,203	810,371	0
Total Operating Expenses	1,058,100	2,667,765	3,725,865	89,493
(Loss) from Operations	(169,890)	(880,858)	(1,050,748)	(405)
Nonoperating Revenues (Expenses):				
Interest Income	0	141,786	141,786	9
Connection Fees	0	56,526	56,526	0
Total Nonoperating Revenues	0	198,312	198,312	9
Net (Loss) before Transfers	(169,890)	(682,546)	(852,436)	(396)
Transfers In	142,584	0	142,584	0
Change in Net Assets	(27,306)	(682,546)	(709,852)	(396)
Net Assets - Beginning of Year	(117,831)	24,143,973	24,026,142	547
Net Assets - End of Year	\$ (145,137)	\$ 23,461,427	\$ 23,316,290	\$ 151

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, 2009**

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Recreation Fund	Wastewater Fund	Total	
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 869,697	\$ 1,625,947	\$ 2,495,644	\$ 89,088
Cash Payments for Good and Services	(470,300)	(1,310,616)	(1,780,916)	(84,711)
Cash Payments to Employees	(541,981)	(505,533)	(1,047,514)	0
Net Cash Provided by (Used for) Operating Activities	(142,584)	(190,202)	(332,786)	4,377
Cash Flows from Noncapital Financing Activities:				
Rent and Other	0	0	0	0
Transfers In (Out)	142,584	0	142,584	0
Net Cash Provided by (Used for) Noncapital Financing Activities	142,584	0	142,584	0
Cash Flows from Capital and Related Financing Activities				
Receipts of Connection and Standby Fees	0	56,526	56,526	0
Purchase of Vehicles and Equipment	0	(288,046)	(288,046)	0
Construction of Improvements & Land Purchase	0	(39,524)	(39,524)	0
Net Cash Provided by (Used for) Capital and Related Financing Activities	0	(271,044)	(271,044)	0
Cash Flows from Investing Activities:				
Interest Received	0	141,786	141,786	9
Net Cash Provided by Investing Activities	0	141,786	141,786	9
Net Increase (Decrease) in Cash	0	(319,460)	(319,460)	4,386
Cash and Investments, Beginning of Year	20	7,032,652	7,032,672	547
Cash and Investments, End of Year	\$ 20	\$ 6,713,192	\$ 6,713,212	\$ 4,933

(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)	\$ (169,890)	\$ (880,858)	\$ (1,050,748)	\$ (405)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities:				
Depreciation	7,168	803,203	810,371	0
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(5,200)	(160,960)	(166,160)	0
(Increase) Decrease in Prepaid Expenses	9,889	0	9,889	0
Increase (Decrease) in Accounts Payable	(2,731)	32,658	29,927	4,782
Increase(Decrease) in Acc Liabilities/Comp Absences	(1,901)	(23,205)	(25,106)	0
Increase(Decrease) in Net OPEB Obligation	33,394	38,960	72,354	
(Decrease) in Deferred Revenues	<u>(13,313)</u>	<u>0</u>	<u>(13,313)</u>	<u>0</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ (142,584)</u>	<u>\$ (190,202)</u>	<u>\$ (332,786)</u>	<u>\$ 4,377</u>

(Concluded)



**CITY OF SCOTTS VALLEY  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2009**

	<u>Total</u>
<b>ASSETS</b>	
Restricted Assets:	
Cash and Investments Held for Others	\$ 801,341
Cash and Investments Held in Accordance with Bond Indentures	<u>829,688</u>
 Total Assets	 <u><u>\$ 1,631,029</u></u>
 <b>LIABILITIES</b>	
Payable from Restricted Assets:	
Advance Assessments Collected	\$ 653,711
Bond Reserve Payable	829,688
Deposits	<u>147,630</u>
 Total Liabilities	 <u><u>\$ 1,631,029</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, 2009**

**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, 2009**

**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. There are revenues specifically identifiable and clearly associated with a particular program or function. These types of transactions are reported as program revenues for the City and 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 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, 2009**

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

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.

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

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, 2009**

**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.

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, 2009**

**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 2008 / 2009, 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 2008 / 2009 was \$9,909. 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, 2009**

**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, 2009.

Pooled Deposits	\$ 295,581
Pooled Investments:	
California Local Agency Investment Fund (LAIF)	6,904,940
Money Market	15,204,935
Petty Cash	<u>1,720</u>
Subtotal	22,407,176
Investments with Fiscal Agents and Trustees	<u>873,618</u>
Total Cash and Investments	<u>\$23,280,794</u>

**CITY OF SCOTTS VALLEY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**JUNE 30, 2009**

**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 Net Assets</u>	<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>		
Cash & Investments	\$14,503,146	\$6,713,212	\$801,341	\$22,017,699
Restricted Cash & Investments	<u>433,407</u>	<u>-</u>	<u>829,688</u>	<u>1,263,095</u>
Total	<u>\$14,936,553</u>	<u>\$6,713,212</u>	<u>\$1,631,029</u>	<u>\$23,280,794</u>

**Pooled Deposits**

At June 30, 2009, the difference between the carrying amount of the City's demand deposits of \$390,139 and the corresponding bank balance of \$295,579 was due to outstanding checks and deposits in transit. Of the bank balance, \$250,000 was insured by federal depository insurance and \$140,139 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"> <li>Securities of the U.S. Government, or its agencies</li> <li>Negotiable Certificates of Deposit</li> <li>Repurchase Agreements (Repos)</li> <li>Passbook Savings Account Demand Deposits</li> <li>Local Agency Investment Fund(State Pool)Demand Deposits</li> </ul> | <ul style="list-style-type: none"> <li>Bankers Acceptances</li> <li>Commercial Paper</li> <li>Corporate Medium Term Notes</li> <li>Money Market Funds</li> </ul> |
|--|--|

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, 2009, 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, 2009, 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, 2009**

**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, 2009, the City had \$6,904,940 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 (\$50,850,687,766) by total aggregate amortized cost (\$50,784,427,116) resulting in a factor of 1.001304743.

**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, 2009, 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	\$6,904,940	\$ -	\$ -	\$ -
Money Market	<u>15,204,935</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$22,109,875</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, 2009**

**4. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land	\$7,190,750	\$ 3,726,517	\$ 0	\$10,917,267
Construction in progress	<u>574,149</u>	<u>271,862</u>	<u>550,338</u>	<u>295,673</u>
Total capital assets not being depreciated	<u>7,764,899</u>	<u>3,998,379</u>	<u>550,338</u>	<u>11,212,940</u>
<u>Capital assets being depreciated:</u>				
Buildings and Improvements	5,361,862	181,271	0	5,543,133
Machinery and equipment	2,235,764	417,742	59,286	2,594,220
Infrastructure	<u>34,912,224</u>	<u>1,071,443</u>	<u>0</u>	<u>35,983,667</u>
Total capital assets being depreciated	<u>42,509,850</u>	<u>1,670,456</u>	<u>59,286</u>	<u>44,121,020</u>
<u>Less accumulated depreciation for:</u>				
Buildings and Improvements	1,818,630	155,793	0	1,974,423
Machinery and equipment	1,692,453	148,220	59,286	1,781,387
Infrastructure	<u>11,744,579</u>	<u>893,605</u>	<u>0</u>	<u>12,638,184</u>
Total accumulated depreciation	<u>15,255,662</u>	<u>1,197,618</u>	<u>59,286</u>	<u>16,393,994</u>
Total capital assets being depreciated, net	<u>27,254,188</u>	<u>472,838</u>	<u>0</u>	<u>27,727,026</u>
<b>Governmental capital assets, net</b>	<b><u>\$35,019,087</u></b>	<b><u>\$ 4,471,217</u></b>	<b><u>\$ 550,338</u></b>	<b><u>\$38,939,966</u></b>
<b>Business-Type Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 429,416	\$ 0	\$ 0	\$ 429,416
Construction in progress	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total capital assets not being depreciated	<u>429,416</u>	<u>0</u>	<u>0</u>	<u>429,416</u>
<u>Capital assets being depreciated:</u>				
Buildings and Improvements	4,944,765	0	0	4,944,765
Machinery and equipment	5,268,082	39,524	0	5,307,606
Infrastructure	23,061,730	288,046	0	23,349,776
Outfall agreement	<u>178,000</u>	<u>0</u>	<u>0</u>	<u>178,000</u>
Total capital assets being depreciated	<u>33,452,577</u>	<u>327,570</u>	<u>0</u>	<u>33,780,147</u>
<u>Less accumulated depreciation for:</u>				
Buildings and Improvements	2,494,268	126,735	0	2,621,003
Machinery and equipment	4,828,456	138,378	0	4,966,834
Infrastructure	9,291,262	542,291	0	9,833,553
Outfall agreement	<u>86,040</u>	<u>2,967</u>	<u>0</u>	<u>89,007</u>
Total accumulated depreciation	<u>16,700,026</u>	<u>810,371</u>	<u>0</u>	<u>17,510,397</u>
Total capital assets being depreciated, net	<u>16,752,551</u>	<u>(482,801)</u>	<u>0</u>	<u>16,269,750</u>
<b>Business-type capital assets, net</b>	<b><u>\$17,181,967</u></b>	<b><u>\$ (482,801)</u></b>	<b><u>\$ 0</u></b>	<b><u>\$16,699,166</u></b>
<b>Total Capital Assets</b>	<b><u>\$52,201,054</u></b>	<b><u>\$ 3,988,416</u></b>	<b><u>\$ 550,338</u></b>	<b><u>\$55,639,132</u></b>

**CITY OF SCOTTS VALLEY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**JUNE 30, 2009**

**4. CAPITAL ASSETS (concluded)**

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

<u>Governmental Activities:</u>	
General government	\$ 41,288
Public safety	113,477
Planning & building	6,456
Public works	<u>1,036,398</u>
Total depreciation expense – government activities	<u>\$ 1,197,619</u>
 <u>Business-Type Activities:</u>	
Wastewater	\$ 803,203
Recreation	<u>7,168</u>
Total depreciation expense – business-type activities	<u>\$ 810,371</u>

**5. LONG-TERM DEBT**

The following is a summary of long-term debt transactions for the fiscal year ended June 30, 2009:

	<u>GOVERNMENTAL ACTIVITIES</u>				
	<u>Balance at July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2009</u>	<u>Due Within One Year</u>
Certificates of Participation	\$ 7,484,751	\$ 0	\$106,914	\$ 7,377,837	\$113,457
Installment Notes	140,000	0	5,000	135,000	5,000
Tax Allocation Bonds	6,215,000	0	280,000	5,935,000	280,000
Accrued Compensated Absences	749,736	390,158	474,699	665,195	387,000
Net OPEB Obligation	<u>0</u>	<u>406,378</u>	<u>111,396</u>	<u>294,982</u>	<u>0</u>
Totals	<u>\$14,589,487</u>	<u>\$796,536</u>	<u>\$978,009</u>	<u>\$14,408,014</u>	<u>\$785,457</u>
	<u>BUSINESS-TYPE ACTIVITIES</u>				
	<u>Balance at July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2009</u>	<u>Due Within One Year</u>
Accrued Compensated Absences	\$170,366	\$89,766	\$114,956	\$145,176	\$119,626
Net OPEB Obligation	<u>0</u>	<u>99,677</u>	<u>27,323</u>	<u>72,354</u>	<u>0</u>
	<u>\$170,366</u>	<u>\$189,443</u>	<u>\$142,279</u>	<u>\$217,530</u>	<u>\$119,626</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, 2009**

**5. LONG-TERM DEBT (continued)**

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

Net OPEB Obligation - General revenues recorded in the General Fund and operating revenues recorded in the Proprietary Funds.

**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, 2009:

Original issue - \$7,359,911, Refunding and 1992 Public Improvements Project	\$157,249
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>2,515,000</u>
Total Certificates of Participation	<u>\$7,377,837</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	1992 Refunding Certificates of Participation			
	<u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 157,249</u>	<u>\$ 402,751</u>	<u>\$ 560,000</u>	

**CITY OF SCOTTS VALLEY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**JUNE 30, 2009**

**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 <u>Ending</u>	1997-1 Refunding Certificates of Participation		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018-2022	\$ 462,639	\$1,202,361	\$1,665,000
2023-2027	<u>787,949</u>	<u>2,832,051</u>	<u>3,620,000</u>
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 <u>Ending</u>	2003 Refunding Certificates of Participation		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	0	159,283	159,283
2015-2019	250,000	785,614	1,035,614
2020-2024	430,000	677,390	1,107,390
2025-2029	1,230,000	553,739	1,783,739
2030-2032	<u>1,545,000</u>	<u>110,086</u>	<u>1,655,086</u>
Totals	<u>\$3,455,000</u>	<u>\$2,923,244</u>	<u>\$6,378,244</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, 2009**

**5. LONG-TERM DEBT (continued)**

Fiscal Year Ending	<u>2006 Refunding Certificates of Participation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	335,000	89,323	424,323
2015-2018	<u>2,230,000</u>	<u>312,506</u>	<u>2,118,183</u>
Totals	<u>\$2,515,000</u>	<u>\$ 709,006</u>	<u>\$3,224,006</u>

**Installment Notes:**

The following installment notes were outstanding at June 30, 2009:

Scotts Valley Water District \$135,000

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 Ending	<u>Installment Note – Scotts Valley Water District</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 5,000	\$8,060	\$13,060
2011	5,000	7,780	12,780
2012	5,000	7,500	12,500
2013	5,000	7,200	7,200
2014	0	7,200	12,200
2015-2019	30,000	31,500	61,500
2020-2024	40,000	21,000	61,000
2025-2028	<u>45,000</u>	<u>7,200</u>	<u>52,200</u>
Totals	<u>\$ 135,000</u>	<u>\$ 97,440</u>	<u>\$ 232,440</u>

**Tax Allocation Bonds:**

The following Tax Allocation Bonds were outstanding at June 30, 2009:

Tax Allocation Refunding Bonds of 2006 \$5,935,000

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, 2009**

**5. LONG-TERM DEBT (concluded)**

Fiscal Year <u>Ending</u>	Tax Allocation Refunding Bonds of 2006		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	325,000	215,842	540,842
2015-2019	1,735,000	869,901	2,604,901
2020-2024	1,105,000	549,500	1,654,500
2025-2029	1,420,000	242,750	1,662,750
2030	160,000	4,000	164,000
Totals	<u>\$5,935,000</u>	<u>\$2,860,210</u>	<u>\$8,795,210</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, 2009:

Original issue - \$6,966,000, 2002 Consolidated Reassessment District	\$3,200,000
Original issue - \$4,800,000, Community Facilities District, 97-1 Series A	3,665,000
Original issue - \$1,700,000, Community Facilities District, 97-1 Series B	<u>1,375,000</u>
Total Special Assessment District Bonds (No City Liability)	<u>\$8,240,000</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 \$1,500 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, 2009**

**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, 2009:

	<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Major Funds:	General Fund	\$16,227		
Non Major Funds:			Community Center	16,227
Totals		<u>\$16,227</u>		<u>\$16,227</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	\$3,664,782	Redevelopment Agency	
	Affordable Housing	484,214	Debt Service	\$4,009,464
Non Major Fund:			General Facilities	139,532
Totals		<u>\$4,148,996</u>		<u>\$4,148,996</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 \$1,128,109, as follows:

	<u>Transfers In:</u>			
	<u>General Fund</u>	<u>Recreation Fund</u>	<u>Non-Major Fund</u>	<u>Total</u>
<b>Transfers Out:</b>				
General Fund	\$ 0	\$142,584	\$ 98,147	\$ 240,731
Redevelopment Debt Service Fund	0	0	694,932	694,932
Non Major Fund	<u>192,446</u>	<u>0</u>	<u>0</u>	<u>192,446</u>
<b>Total</b>	<u>\$ 192,446</u>	<u>\$ 142,584</u>	<u>\$ 793,079</u>	<u>\$1,128,109</u>

**CITY OF SCOTTS VALLEY  
NOTES TO FINANCIAL STATEMENTS (continued)  
JUNE 30, 2009**

**7. INTERFUND TRANSACTIONS (concluded)**

The General Fund transferred out a total of \$240,731 as follows: \$69,718 to the Senior Center and \$142,584 to the Recreation Fund for operations, and \$28,429 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 \$694,932 to the Redevelopment Agency's Capital Projects Fund for various projects and administration.

A Non-Major Fund (Gas Tax) transferred out a total of \$192,446 to the General Fund for various projects and administration related to city streets.

**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 \$22,854 at June 30, 2009 for the following projects:

<u>Project:</u>	<u>Commitments</u>
Traffic Signal Controllers	\$10,504
Bean Creek Pedestrian/Bike Path	<u>12,350</u>
 Total Contract Commitments	 <u>\$22,854</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	\$ 433,407	\$ 0	\$ 0	\$ 433,407
Advances Due from Other Funds	3,664,782	484,214	0	4,148,996
Low/Moderate Income Housing	0	3,412,066	0	3,412,066
Construction Projects	<u>0</u>	<u>0</u>	<u>298,437</u>	<u>298,437</u>
Total Reserved	<u>\$4,098,189</u>	<u>\$3,896,280</u>	<u>\$298,437</u>	<u>\$8,292,906</u>

**CITY OF SCOTTS VALLEY  
NOTES TO FINANCIAL STATEMENTS (continued)  
JUNE 30, 2009**

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

	General <u>Fund</u>	Non Major <u>Funds</u>	<u>Total</u>
Designated for:			
Capital Acquisition	\$398,906	\$ 0	\$ 398,906
Debt Service	0	1,715,930	1,715,930
Future Expenditures	<u>0</u>	<u>370,613</u>	<u>370,613</u>
Total Designated	<u>\$398,906</u>	<u>\$2,086,543</u>	<u>\$2,485,449</u>

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

	Wastewater <u>Fund</u>
Restricted for:	
Wastewater System Construction and Improvements	<u>\$2,239,903</u>

**10. DEFICIT FUND BALANCES**

At June 30, 2009, the following City funds had deficit fund balances:

Major Fund:	
Redevelopment Agency Debt Service	<u>(\$3,241,705)</u>
Non Major Funds:	
General Facility	(\$90,083)
Senior Center	<u>(5,455)</u>
Total Non Major Funds	<u>(\$95,538)</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, 2009**

**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 2008 / 2009 was 15.510% for Miscellaneous Plan employees and 28.192% 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 2008 / 2009, the City's annual pension cost for the Safety Plan was \$466,587 and the City actually contributed \$466,587. For the fiscal year 2008 / 2009, the City's annual pension cost for the Miscellaneous Plan was \$430,173 and the City actually contributed \$430,173. The required contribution for fiscal year 2008 / 2009 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, 2008 was 16 years for the Safety Plan and 17 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
6/30/2007	\$412,174	100%	\$0	\$342,834	100%	\$0
6/30/2008	\$415,806	100%	\$0	\$397,742	100%	\$0
6/30/2009	\$466,587	100%	\$0	\$430,173	100%	\$0

**12. POSTEMPLOYMENT BENEFITS**

The City administers a single-employer defined benefit post employment healthcare plan (Plan) which 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 (continued)  
JUNE 30, 2009**

**12. POSTEMPLOYMENT BENEFITS (continued)**

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 \$138,719 in post employment benefits for the 19 retired employees who were eligible for benefits during the fiscal year ended June 30, 2009.

The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB costs for the year, the amount actually contributed to the plan, and the changes in the City's net OPEB obligation.

Annual Required Contribution	\$506,055
Payments made	<u>(138,719)</u>
Increase in net OPEB obligation	367,336
Net OPEB obligation – beginning of year	-
Net OPEB obligation – end of year	<u>\$367,336</u>

The City annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year ended June 30, 2009, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>OPEB Obligation</u>
2009	\$506,055	27.4%	\$367,336

As of February 1, 2008, the most recent actuarial valuation date, the Plan was 0% funded. The actuarial accrued liability (AAL) for benefits was \$5,423,272, and the actuarial value of the Plan assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,423,272. The covered payroll (annual payroll of active employees covered by the Plan) was \$4,849,851 and the ratio of UAAL to the covered payroll was 112%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Since this is the first year of including this information in the financial report, the data is limited.

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

**CITY OF SCOTTS VALLEY  
NOTES TO FINANCIAL STATEMENTS (concluded)  
JUNE 30, 2009**

**12. POSTEMPLOYMENT BENEFITS (concluded)**

In the February 1, 2008, actuarial valuation the actuarial cost method use is Entry Age Normal (EAN) cost method. Under the EAN cost method, the Plan's Normal Cost is developed as a level percent of payroll throughout the participants' working lifetime. Entry age is based on current age minus years of service. The Actuarial Accrued Liability (AAL) is the cumulative value on the valuation date of prior Normal Cost. For retirees, the AAL is the present value of all projected benefits. The Unfunded AAL is being amortized as a level dollar closed 30 year basis, as a level percent of payroll with a remaining amortization period at February 1, 2008, of 30 years.

GASB 45 requires the interest rate to represent the underlying expected return for the source of funds used to pay benefits. The actuarial methods and assumptions included 5% interest rate, based on long-term historical returns for surplus funds invested pursuant to California Government Code Sections 53601 et seq. Annual inflation assumed to increase at 4% per annum and Aggregate Payroll assumed to increase 3% per annum.

**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, 2008 (fiscal year 2009 not available at the time of the printing of the City's financial statements):

Total Assets	\$14,373,266	Total Revenues	\$4,656,515
Total Liabilities	<u>21,203,633</u>	Total Expenditures	<u>6,183,313</u>
Net Assets (Deficit)	<u>(\$6,830,367)</u>	Change in Net Assets	<u>(\$1,526,798)</u>

The City paid \$281,708 for workers compensation and \$31,605 for liability premiums during the year ended June 30, 2008. The City's share of the fiscal year-end assets, liabilities, or fund equity has not been calculated by the MBASIA.

**14. SUBSEQUENT EVENT**

On November 19, 2009, the Redevelopment Agency of the City of Scotts Valley issued \$5,260,000 par value of Series A lease revenue bonds and \$3,500,000 par value of Series B (Taxable) lease revenue bonds for the purchase of property and remodeling of an existing building to be the new Scotts Valley Branch Library. Series A bonds are to be paid over 30 years with interest rates ranging from 5.5% to 5.8%. Series B bonds are to be paid over 20 years with interest rates ranging from 7.125% to 7.7%. The Redevelopment Agency will lease the property to the City. Those lease payments are the security for the bonds. The Agency and the City have also entered into a reimbursement agreement whereby the Agency will reimburse the City for the lease payments.

