City of Scotts Valley
California

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For Fiscal Year Ended June 30, 2009

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Of

THE CITY OF SCOTTS VALLEY,
STATE OF CALIFORNIA

For the Fiscal Year Ended June 30, 2009

Stephen H. Ando
City Manager

CITY OF SCOTTS VALLEY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
TABLE OF CONTENTS

INTRODUCTORY SECTION

Letter of Transmittal i
List of Principal Officials vii
Organization Chart viii
GFOA Certificate of Achievement for Excellence in Financial Reporting ix

FINANCIAL SECTION

Independent Auditor's Report 1
Management's Discussion and Analysis 3
Basic Financial Statements:
- Government-Wide Financial Statements:
  - Statement of Net Assets 15
  - Statement of Activities 16
- Fund Financial Statements:
  - Balance Sheet - Governmental Funds 20
  - Reconciliation of the Statement of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets 23
  - Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds 24
  - Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities 27
  - Statement of Net Assets - Proprietary Funds 28
  - Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds 29
  - Statement of Cash Flows - Proprietary Funds 30
  - Statement of Fiduciary Net Assets 33
- Notes to Financial Statements
  - Note 1 - Description of Funds and Significant Accounting Policies 34
  - Note 2 - Cash and Investments 39
  - Note 3 - Long-Term Loans Receivable 41
  - Note 4 - Capital Assets 42
  - Note 5 - Long-Term Debt 43
  - Note 6 - Risk Management 47
  - Note 7 - Interfund Transactions 48
  - Note 8 - Commitments and Contingencies 49
  - Note 9 - Reserved / Designated Fund Balances and Restricted Net Assets 49
  - Note 10 - Deficit Fund Balances 50
  - Note 11 - Pension Plan 50
  - Note 12 - Postemployment Benefits 51
  - Note 13 - Joint Powers Authority 53

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Information 57
Budgetary Comparison Schedule - General Fund 58
Budgetary Comparison Schedule - Affordable Housing 59
Other Postemployment Benefits Schedule of Funding Progress 60

CITY OF SCOTTS VALLEY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
TABLE OF CONTENTS

SUPPLEMENTAL INFORMATION

Cover page..... 63
Major Fund Budgetary Comparison Schedules..... 65
Non Major Funds:
Combining Balance Sheet..... 68
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances..... 76
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-
Budget and Actual..... 84
Fiduciary Funds:
Combining Statement of Fiduciary Net Assets..... 106
Combining Statement of Changes in Assets and Liabilities - All Agency Funds..... 108

STATISTICAL SECTION (unaudited)

Narrative Explanation of Statistical Section Categories..... 113

Financial Trends:

Table 1: Net Assets by Component - Last Five Fiscal Years..... 114
Table 2: Changes in Net Assets - Last Five Fiscal Years..... 116
Table 3: Fund Balances, Governmental Funds - Last Ten Fiscal Years..... 120
Table 4: Stmt of Revenue, Expenditures, and Changes in Fund Balances - Last 10 Fiscal Years..... 122

Revenue Capacity Information:

Table 5: Assessed Values and Taxable Property - Last Ten Fiscal Years..... 124
Table 6: Direct and Overlapping Property Tax Rates - Last Ten Fiscal Years..... 125
Table 7: Principal Property Tax Payers - Last Ten Fiscal Years..... 126
Table 8: Property Tax Levies and Collections - Last Ten Fiscal Years..... 130

Debt Capacity Information:

Table 9: Direct and Overlapping Governmental Activities Debt..... 131
Table 10: Ratios of Outstanding Governmental Activities Debt - Last Ten Fiscal Years..... 132
Table 11: Legal Debt Margin Information - Last Ten Fiscal Years..... 134
Table 12: Pledged Revenue Coverage - Last Ten Fiscal Years..... 136

Demographic and Economic Information:

Table 13: Demographic and Economic Statistics - Last Ten Fiscal Years..... 139
Table 14: Principal Employers - Last Two Fiscal Years..... 140

Operating Information:

Table 15: Full-Time Equivalent City Employees - Last Ten Fiscal Years..... 144
Table 16: Capital Asset Statistics by Function / Program..... 146
Table 17: Operating Indicators by Function / Program..... 148

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1966

INTRODUCTORY SECTION

CITY OF SCOTTS VALLEY

OFFICE OF THE CITY MANAGER
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Phone (831) 440-5600 . Facsimile (831) 438-2793 . www.scottsvalley.org

December 16, 2009

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

SUBJECT: COMPREHENSIVE ANNUAL FINANCIAL REPORT - JUNE 30, 2009

Honorable Mayor and Council Members:

The Comprehensive Annual Financial Report for the City of Scotts Valley for the fiscal year ended June 30, 2009 is hereby submitted. The responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with City management. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activity have been included. These statements have been audited by the City's independent auditor, C. G. Uhlenberg, LLP, who has issued an unqualified opinion thereon. The Auditors' report is also included.

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

I. Introductory Section – Letter of Transmittal, List of Principal Officials and Organization Chart, Certificate of Achievement from the GFOA.

II. Financial Section – Independent Auditors' Report, Government-wide Financial Statements, Fund Financial Statements, Notes to the Financial Statements followed by Required Supplementary Information and combining statements of the Non-major Fund Financial Statements.

III. Statistical Section – Presenting ten year historical trends of financial and non-financial information.

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

REPORTING ENTITY AND SERIVICES PROVIDED

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

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

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

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

MAJOR INITIATIVES

During 2008 / 2009, the City accomplished the following:

- Completed Storm Water Master Plan.
- Adopted the Town Center Specific Plan and certified the Environmental Impact Report for that Plan. The Plan provides for both retail and residential uses.
- Redevelopment Agency purchased an existing 22,650 square foot building and started the process to remodel 13,150 square feet into the new Scotts Valley Public Library Branch.
- Redevelopment Agency purchased two undeveloped parcels in the Town Center Specific Plan area for future development as part of the Town Center Project.
- Adopted a Green Building Ordinance.
- Police department completed a major upgrade to the radio and telephone systems in the emergency dispatch center which put us in compliance with FCC mandated conversion to narrow banding by the year 2013.
- Police department acquired an armored Brink's truck for $10 and outfitted it into a SWAT Truck using community donations and grant funds.
- Modernized the signalized intersections' traffic controllers and their associated hardware
- Rehabilitated and resurfaced Glen Canyon and Granite Creek Roads.
-

The following are current and future projects:

- Complete the Scotts Valley Public Library Branch Library remodel project.
- Town Center Homes project (46 condominium / townhouse units).
- Polo Ranch project (40 single family detached units).
- Oak Creek Park project (mixed use: 10 condominium / townhouse units, 2 commercial buildings totaling 24,450 square feet).

- Lockwood Lane project (6 single family detached units).
- As the final phase of the dispatch center upgrade, a police department/city hall facility security system upgrade is being planned.
- Research is currently underway for upgrading our Police Department Mobile Data Consoles (MDC) and records management system.
- Widen Bean Creek Road and install bike lanes.
- Reviewing ways to streamline the permitting process including permit tracking software programs.

FINANCIAL POLICIES

In November 2005 the voters of Scotts Valley approved a temporary five-year sales tax of a half-cent for the first three years and dropping to a quarter-cent for the final two years for the City's General Fund. The temporary tax will end March 31, 2011. Council approved setting aside revenues from this temporary sales tax as they came in above what was needed for each year's budget. Through June 30, 2009, approximately $2,700,000 had been set aside to help with future budget deficits. Although this could help the City through three years, Council approved budget cuts for 2009-10 of approximately $445,000 annually to help the City extend the three years to four or five years. The further out the City's General Fund can be balanced, the better the chance the local, state, and national economies will rebound.

The City filed a lawsuit against the County of Santa Cruz regarding the amount of property taxes distributed to the City. In May 2009 the court ruled in the City's favor. The County has appealed this decision. The appeal is anticipated to be heard in the summer of 2010. If the City ultimately prevails, it could lead to approximately $400,000 additional property tax revenue to the City annually.

The downturn in the national economy has created a delay in the Town Center Project. However, as mentioned above, the City's Redevelopment Agency purchased two undeveloped parcels as well as a building to be remodeled into the Scotts Valley Branch Library. All properties are located in the Town Center Project Area. The City and Redevelopment Agency are continuing to do all that they can now by assembling parcels in the Town Center Project Area. This will put the City in a better position when this project is ready to move forward.

FINANCIAL INFORMATION

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

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

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

ECONOMIC FACTORS

The City of Scotts Valley is located in Santa Cruz County, approximately 75 miles south of San Francisco. The unemployment rates for the City of Scotts Valley, the County of Santa Cruz, and the State of California as of June for the last five fiscal years are shown below. As reflective of the national economy, all three rates increased dramatically in 2009. However, Scotts Valley's 2009 rate is 55% lower than the County rate and 60% lower than the State rate.

	Unemployment Rate		
June 30,	Scotts Valley	Santa Cruz County	California
2005	2.3%	5.3%	5.4%
2006	2.1%	5.0%	4.9%
2007	2.1%	5.0%	5.2%
2008	2.6%	6.1%	7.0%
2009	4.7%	10.6%	11.6%

The average and median prices of single-family homes decreased substantially for the second straight year, another reflection of the national economy. Prices have dropped 35% from five year ago. Property values have more of an impact on the Redevelopment Agency's tax increment revenue than on the City's property tax revenue because the City is a low property tax city, which means that the City receives only 4% of the assessed property taxes. On the next page is a table of the average and median sales prices of houses sold in Santa Cruz County as of June for each of the last five years.

June 30,	Single-Family Homes Average Price	Increase (Decrease) Over (Under) Prior Year	Median Price	Increase (Decrease) Over (Under) Prior Year
2005	870,664	29.2%	793,000	32.3%
2006	838,208	(3.7%)	760,000	(4.2%)
2007	889,656	6.1%	761,000	0.1%
2008	684,996	(23.0%)	610,000	(19.8%)
2009	569,814	(16.8%)	519,000	(14.9%)

OTHER INFORMATION

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

Awards: The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Scotts Valley for its comprehensive annual financial report for the fiscal year ended June 30, 2008. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standard for preparation of state and local government financial reports.

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

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

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

ACKNOWLEDGMENTS

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

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

Respectfully submitted,

Stephen H. Ando
City Manager

LIST OF PRINCIPAL OFFICIALS

JUNE 30, 2009

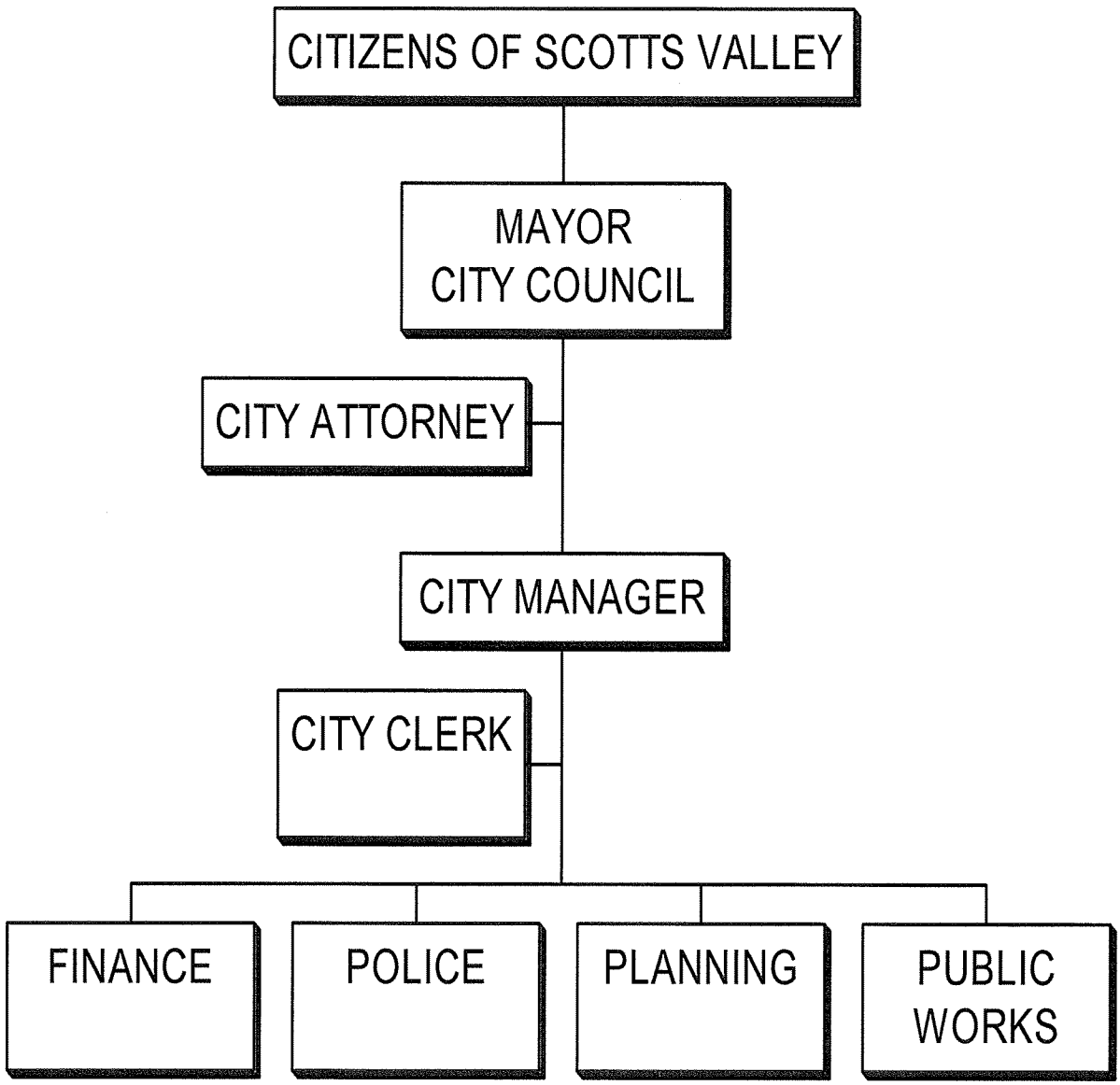
CITY COUNCIL MEMBERS

Randy Johnson	Mayor
Jim Reed	Vice Mayor
Stephany E. Aguilar	Councilmember
Dene Bustichi	Councilmember
Donna Lind	Councilmember

CHIEF ADMINISTRATIVE PERSONNEL

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

CITY OF SCOTTS VALLEY
ORGANIZATION CHART



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Scotts Valley California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

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

President

Executive Director

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1966