

FINANCIAL SECTION



C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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, 2010, 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, 2010, 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 January 26, 2011, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the



information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

CG Uhlenberg LLP

January 26, 2011
Redwood City, CA

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, 2010. 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, 2010, by \$60,817,975. The current year change in net assets was a decrease of \$2,293,774. Of the total net assets, \$37,904,309 was invested in capital assets (net of related debt) and \$11,607,522 had restrictions on their use leaving \$11,306,144 as unrestricted. The current decrease in City net assets is a combination of the governmental activities decreasing \$1,325,855 and the business-type activities decreasing \$967,919.

As of June 30, 2010, the City's governmental funds (General Fund, special revenue funds, debt service funds, and capital project funds) had a combined fund balance of \$17,269,879, an increase of \$2,405,263 from the previous year. This was primarily due to an increase of \$1,884,732 in the Redevelopment Agency Capital Projects Fund. This came from bond proceeds to remodel a building into the Scotts Valley Branch Library. Construction did not begin until after year end. Of the total fund balance, \$12,973,062 was reserved; \$2,527,339 was designated for capital acquisitions, debt service payments, and future expenditures; and \$1,769,478 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 \$60,817,975 as of June 30, 2010. This is a decrease of \$2,358,774, or 3.7%, from the previous year. It is a combination of a increase in total assets of \$8,453,959 and a increase in total liabilities of \$10,812,733. 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
	2010	2009	2010	2009	2010	2009	
Current and other assets	\$23,156	\$18,655	\$6,980	\$ 7,102	\$30,136	\$25,757	17.0%
Capital assets, net	43,779	38,940	15,934	16,699	59,713	55,639	7.3%
Total assets	66,935	57,595	22,914	23,801	89,849	81,396	10.4%
Long-term debt outstanding	22,380	13,623	232	98	22,612	13,721	64.8%
Other liabilities	6,086	4,112	334	386	6,420	4,498	42.7%
Total liabilities	28,466	17,735	566	484	29,032	18,219	59.4%
Net assets:							
Invested in capital assets, net of related debt	21,970	25,492	15,934	16,699	37,904	42,191	(10.2%)
Restricted	11,013	9,281	2,271	2,240	13,284	11,521	15.3%
Unrestricted	5,487	5,087	4,143	4,377	9,630	9,464	1.8%
Total net assets	\$38,470	\$39,860	\$22,348	\$23,316	\$60,818	\$63,176	(3.7%)

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

Cash and Investments	\$(3,514,462)
Receivable Due from other Gov'ts	694,202
Note Receivable	1,600,000
Cash and Investments with Fiscal Agents and Trustees	5,095,679
Capital Assets, net of depreciation	4,074,557

The decrease in cash is in the government activities which decreased \$1,816,145 and in the business-type activities which decreased \$1,698,317. This decrease in cash and the increase in note receivable is due to a loan of \$1,600,000 to the Redevelopment Agency (Note 7). The receivable due from other governments is due to grant billings that were generated late in the year on completed capital projects. Cash and investments with fiscal agents and trustees increased in governmental activities due to bonds issued by the Redevelopment Agency to purchase a building to remodel into the Scotts Valley Branch Library. This cash is for the remodel costs which began after year end. The capital assets increased due to the purchase of property with an existing building (\$4,500,000) that will be remodeled into the Scotts Valley Branch Library.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (continued)

The main increases in total liabilities were as follows:

Note Payable	\$1,600,000
Lease Revenue Bonds	8,760,000

The increase in note payable relates to the note receivable in total assets above and described more fully in Note 7. The lease revenue bonds were issued by the Redevelopment Agency for the purchase of property and costs to remodel an existing building into the Scotts Valley Branch Library. There are no material variances in liabilities in the business-type activities.

Changes in Net Assets: City-wide the change in net assets went from a decrease of \$293,862 in fiscal year 2009 to a decrease of \$2,293,774 in fiscal year 2010. This is a result of total revenues decreasing \$617,979, or 3.6%, and total expenses increasing \$1,381,933, or 7.6%. A further analysis is shown below.

	<u>2010</u>	<u>2009</u>	<u>Percent Change</u>
Program Revenues	\$ 5,347	\$ 4,516	18.4%
General Revenues	11,932	13,381	(10.8%)
Governmental Expenses	(15,859)	(14,465)	9.6%
Business-type Expenses	<u>(3,714)</u>	<u>(3,726)</u>	(0.3%)
Net Increase (Decrease)	<u>\$ (2,294)</u>	<u>\$ (294)</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 increased \$830,006, primarily in the governmental activities under Capital Grants and Contributions for Public Works. Capital grants are not consistent from year to year. In the current year the City received \$201,313 in American Recovery and Reinvestment Act grants, \$350,000 in County Regional Transportation grants and \$362,600 in State Department of Transportation BTA grants.

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

General revenues decreased \$1,447,985. The majority of this decrease is related to sales tax (\$882,795), investment earnings (\$298,478), and property tax (\$161,091). Of the sales tax decrease, \$322,280 relates to the base (ongoing) sales tax. The other \$560,515 relates to the temporary sales tax measure. It reduced from a half-cent down to a quarter-cent for the last quarter of last fiscal year and remained at the quarter-cent for the entire fiscal year 2009-10. Investment earnings decreased due to lower interest rates and, to a smaller degree, lower balances being invested. Property tax decreased due to the decline in property values.

For investment earnings (general revenues), \$103,531 of the decrease above relates to 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
	2010	2009	2010	2009	2010	2009	
Program revenues:							
Charges for services	\$711	\$470	\$2,461	\$2,675	\$3,172	\$3,145	0.9%
Operating grants	570	785	0	0	570	785	(27.4%)
Capital grants	1,586	529	18	56	1,604	585	173.7%
General revenues:							
Property tax	6,052	6,213	0	0	6,052	6,213	(2.6%)
Sales tax	2,105	2,988	0	0	2,105	2,988	(29.6%)
Other taxes	3,202	3,282	0	0	3,202	3,282	(2.4%)
Investment earnings	118	313	38	142	156	455	(65.7%)
Miscellaneous	417	443	0	0	417	443	(5.7%)
Total revenues	14,761	15,023	2,517	2,873	17,278	17,896	(3.5%)
Expenses:							
General government	1,810	1,696	0	0	1,810	1,696	6.7%
Public safety	4,479	4,342	0	0	4,479	4,342	3.2%
Planning & building	1,324	1,568	0	0	1,324	1,568	(15.6%)
Public works	2,865	3,073	0	0	2,865	3,073	(6.8%)
Redevelopment	4,291	3,015	0	0	4,291	3,015	42.3%
Interest on debt	1,089	770	0	0	1,089	770	41.4%
Wastewater	0	0	2,699	2,668	2,699	2,668	1.2%
Recreation	0	0	1,015	1,058	1,015	1,058	(4.1%)
Total expenses	15,858	14,464	3,714	3,726	19,572	18,190	7.6%
Excess or (Deficiency)	(1,097)	559	(1,197)	(853)	(2,294)	(294)	(680.3%)
Transfers	(228)	(143)	228	143	0	0	
Change in Net Assets	(\$1,325)	\$416	(\$969)	(\$710)	(\$2,294)	\$ (294)	(680.3%)

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 \$15,858,840 were offset by charges for services (\$711,145), operating grants/contributions (\$570,137), and capital grants/contributions (\$1,585,890), bringing the net cost of services down to \$12,991,668. The three areas with the largest change between years are Planning & Building, Public Works, and Redevelopment. Planning & Building net cost decreased due to a decrease in staffing from the downturn in the construction industry. There were three large projects, one residential and two commercial, that did increase revenues over the prior year. Public Works decreased as well due to an increase in capital grants as stated above. Redevelopment net costs increased due to the payment to the State for the Supplemental Educational Revenue Augmentation Fund.

The only major variance in the business-type activities is the net cost of services for Wastewater due to the decrease in revenues, as explained above, 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
	2010	2009		2010	2009	
General Government	\$1,810	\$1,696	6.7%	\$1,749	\$1,678	4.2%
Public Safety	4,479	4,342	3.2%	4,244	4,095	3.6%
Planning & Building	1,324	1,568	(15.6%)	905	1,290	(29.8%)
Public Works	2,865	3,073	(6.8%)	1,054	1,832	(42.5%)
Redevelopment	4,291	3,015	42.3%	3,951	3,015	31.0%
Interest on L-T Debt	1,089	770	41.4%	1,089	770	41.4%
Total	<u>\$15,858</u>	<u>\$14,464</u>	9.6%	<u>\$12,992</u>	<u>\$12,680</u>	2.5%
Wastewater	\$2,699	\$2,668	1.2%	\$1,031	\$824	25.1%
Recreation	1,015	1,058	(4.1%)	203	170	19.4%
Total	<u>\$3,714</u>	<u>\$3,726</u>	(0.3%)	<u>\$1,234</u>	<u>\$994</u>	24.1%

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 2009 to 2010. The total revenues and expenditures do not include any "other financing sources (uses)."

	Increase (Decrease) from Prior Year			
	Assets	Liabilities	Revenues	Expenditures
General Fund	(\$1,118,227)	(\$37,418)	(\$927,748)	(\$34,781)
Affordable Hsg	(765,592)	(1,701,217)	(25,645)	(3,778,206)
RDA Debt	1,958,266	1,498,090	(137,663)	1,764,562
Other Gov't	3,859,499	1,769,228	863,402	4,764,752

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

The seven largest variances other than the General Fund are the assets and expenditures in the Special Revenue; assets, liabilities and expenditures in the Debt Service funds; and assets, revenues, and expenditures in the Capital Projects funds.

The increase in assets in the Special Revenue funds relates to the Affordable Housing fund from tax increment revenues. Revenues exceeded expenditures by \$935,625. Of the total cash, \$1,485,273 was loaned to the Redevelopment Debt Service fund to assist with the SERAF payment to the State. The decrease in expenditures relates to the purchase of land last year (\$3,711,517) for future development.

The increase in assets in the Debt Service funds relates to the issuance of bonds discussed earlier. This cash is for capitalized interest and the reserve fund. Liabilities and expenditures increased for the advance from the Affordable Housing fund to make the SERAF payment to the State.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (continued)

Assets in the Capital Projects funds increased from the bond proceeds to complete the remodel of the existing building that was purchased for the Scotts Valley Branch Library. Revenues came from State and Federal grants for two large street and sidewalk projects. Expenditures increased for these same two projects but mainly from the purchase of the property and building to be remodeled into a library. These costs were covered by bond proceeds transferred to the Redevelopment Capital Projects fund from the Redevelopment Debt Service fund.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

Total revenues were \$456,082 (6.1%) under budget. The two largest variances are in tax revenue which was under budget by \$594,043 (10%) and charges for services which was over budget by \$110,486 (31.5%).

The main tax revenues under budget were regular sales tax (\$330,773, utility users tax (\$118,507), and temporary sales tax (\$94,119). Both the regular and temporary sales tax were under budget by approximately 17%. This is in large part due to the downturn in the national economy. Part of the decrease, however, is also due to the lower monthly estimate payments by the State. The State makes estimate payments and then at the end of the following quarter settles up to the actual receipts. Although the estimate payments were low for the quarter ended June 30, 2010, the actual receipts were much higher. The City received positive payments of \$42,000 for the regular sales tax and \$28,000 for the temporary sales tax in September of 2010. However, these payments are recorded in the following fiscal year.

The decrease in utility users tax can be attributable to the high vacancy rate for commercial properties within the City. Empty buildings are not generating utility bills or utility users tax.

One of the few bright spots was charges for services being over budget, due in large part to construction permits which were over budget by \$68,296. The City issued permits to a few larger projects that were not anticipated at the time of the budget.

On the expenditure side, the General Fund was under budget by \$192,489. The main area under budget was street maintenance due to delaying some street overlays within the City. The final budget was not increased in total, but certain budget amounts were transferred to cover areas that were over budget. The main transfer was for legal costs for the lawsuit with the County of Santa Cruz over the amount of property taxes due to the City of Scotts Valley.

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 \$4,839,432, or 12.4%. The governmental activities had capital assets additions of \$6,128,587. Current year depreciation of \$1,289,155 brought capital assets to a net increase of \$3,920,879. The main capital asset addition was the purchase of a parcel of undeveloped land for the Town Center project (\$1,545,665). The business-type activities had capital assets additions of \$38,362 while depreciation of \$803,237 created a net decrease of \$764,875.

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
	2010	2009	2010	2009	2010	2009	
Land	\$12,398	\$10,917	\$429	\$429	\$12,827	\$11,346	13.1%
Buildings & Improvements	6,336	3,568	2,433	2,324	8,769	5,892	48.8%
Equipment	779	813	487	341	1,266	1,154	9.7%
Infrastructure	23,745	23,346	12,489	13,516	36,234	36,862	(1.7%)
Outfall Agreement	0	0	86	89	86	89	(3.4%)
Construction in Progress	521	296	10	0	531	296	79.4%
Total	<u>\$43,779</u>	<u>\$38,940</u>	<u>\$15,934</u>	<u>\$16,699</u>	<u>\$59,713</u>	<u>\$55,639</u>	7.3%

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 below. Total long-term debt increased \$8,809,676, or 60.2%. The increase in long-term debt is due to the issuance of lease revenue bonds to purchase property and building to be remodeled into a library. 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
	2010	2009	2010	2009	2010	2009	
Certificates of Participation	\$7,264	\$7,378	\$ 0	\$ 0	\$7,264	\$7,378	(1.5%)
Installment Notes	130	135	0	0	130	135	(3.7%)
Tax Allocation Bonds	5,655	5,935	0	0	5,655	5,935	(4.7%)
Lease Revenue Bonds	8,760	0	0	0	8,760	0	n/a
Accrued Comp Absences	746	665	159	146	905	811	11.6%
Net OPEB Obligation	568	295	153	72	721	367	96.5%
Total	<u>\$23,123</u>	<u>\$14,408</u>	<u>\$312</u>	<u>\$218</u>	<u>\$23,435</u>	<u>\$14,626</u>	60.2%

NEXT YEAR'S BUDGETS AND RATES

The City continues to have a hiring freeze. As positions become vacant, they are not being filled. The two exceptions are emergency dispatch and police officers. Police officer positions are capped at two vacancies. 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>	
2008-09	15.510%	28.192%	Actual
2009-10	16.176%	29.381%	Actual
2010-11	16.200%	29.500%	Actual
2011-12	20.258%	33.960%	Actual
2012-13	20.800%	35.200%	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, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments (Note 2)	\$ 12,687,001	\$ 5,014,895	\$ 17,701,896
Receivables:			
Due from other Governments	1,605,074	145,051	1,750,125
Sewer Fees	0	156,008	156,008
Other	90,135	42,219	132,354
Inventory	0	2,688	2,688
Prepaid Expenses	59,282	19,249	78,531
Long-Term Loans Receivable (Note 3)	2,071,816	0	2,071,816
Long-Term Note Receivable (Note 7)	0	1,600,000	1,600,000
Restricted Assets (Note 2):			
Cash and Investments with Fiscal Agents and Trustees	5,529,086	0	5,529,086
Unamortized Debt Issuance Costs, Net	1,113,397	0	1,113,397
Capital Assets (Note 4):			
Land and construction in progress	12,919,058	439,416	13,358,474
Other capital assets, net of depreciation	30,860,340	15,494,875	46,355,215
Total capital assets	<u>43,779,398</u>	<u>15,934,291</u>	<u>59,713,689</u>
Total Assets	<u>66,935,189</u>	<u>22,914,401</u>	<u>89,849,590</u>
LIABILITIES			
Accounts Payable	717,797	74,371	792,168
Accrued Liabilities	280,664	70,745	351,409
Accrued Interest	2,587,029	0	2,587,029
Unearned Revenues	156,994	108,795	265,789
Long-Term Note Payable (Note 7)	1,600,000		1,600,000
Long-Term Debt (Note 5):			
Current Portion of Long-Term Debt (Note 5)	742,786	80,185	822,971
Certificates of Participation	7,153,812	0	7,153,812
Installment Notes	125,000	0	125,000
Tax Allocation Bonds	5,365,000	0	5,365,000
Lease Revenue Bonds	8,760,000	0	8,760,000
Accrued Compensated Absences	408,414	78,872	487,286
Net OPEB Obligation	568,089	153,062	721,151
Total Liabilities	<u>28,465,585</u>	<u>566,030</u>	<u>29,031,615</u>
NET ASSETS			
Invested in Capital Assets, net of related debt	21,970,018	15,934,291	37,904,309
Restricted for:			
Capital Projects	4,021,483	2,271,452	6,292,935
Debt Service	2,159,512	0	2,159,512
Low/Moderate Income Housing	4,831,905	0	4,831,905
Unrestricted	<u>5,486,686</u>	<u>4,142,628</u>	<u>9,629,314</u>
Total Net Assets	<u>\$ 38,469,604</u>	<u>\$ 22,348,371</u>	<u>\$ 60,817,975</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, 2010**

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
General Government	\$ 1,810,197	\$ 54,805	0	6,396	61,201
Public Safety	4,478,827	42,941	185,425	6,528	234,894
Planning & Building	1,324,567	404,389	3,265	12,198	419,852
Public Works	2,893,508	164,243	381,447	1,264,887	1,810,577
Redevelopment	4,262,521	44,767	0	295,881	340,648
Interest on Long-Term Debt and Fiscal Agent Charges	1,089,220	0	0	0	0
Total Governmental Activities	15,858,840	711,145	570,137	1,585,890	2,867,172
Business-Type Activities:					
Wastewater	2,699,018	1,649,206	0	18,204	1,667,410
Recreation Programs	1,014,510	811,764	0	0	811,764
Total Business-Type Activities	3,713,528	2,460,970	0	18,204	2,479,174
Total Primary Government	\$ 19,572,368	\$ 3,172,115	\$ 570,137	\$ 1,604,094	\$ 5,346,346

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, As Originally Stated
Prior Period Adjustment (Note 14)

Net Assets - Beginning of Year, As Restated

Net Assets - End of Year

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

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (1,748,996)	\$ 0	\$ (1,748,996)
(4,243,933)	0	(4,243,933)
(904,715)	0	(904,715)
(1,082,931)	0	(1,082,931)
(3,921,873)	0	(3,921,873)
(1,089,220)	0	(1,089,220)
(12,991,668)	0	(12,991,668)
0	(1,031,608)	(1,031,608)
0	(202,746)	(202,746)
0	(1,234,354)	(1,234,354)
(12,991,668)	(1,234,354)	(14,226,022)
6,051,637	0	6,051,637
2,105,107	0	2,105,107
898,579	0	898,579
791,649	0	791,649
631,493	0	631,493
543,946	0	543,946
336,638	0	336,638
11,359,049	0	11,359,049
117,998	38,255	156,253
416,946	0	416,946
(228,180)	228,180	0
11,665,813	266,435	11,932,248
(1,325,855)	(967,919)	(2,293,774)
39,860,459	23,316,290	63,176,749
(65,000)	0	(65,000)
39,795,459	23,316,290	63,111,749
\$ 38,469,604	\$ 22,348,371	\$ 60,817,975

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, 2010**

	General Fund	Affordable Housing	Redevelopment Agency Debt Service
ASSETS			
Cash and Investments	\$ 915,095	\$ 2,866,025	\$ 1,277,806
Receivables:			
Due from other Governments	759,619	0	113,916
Other	1,239	0	0
Due from other Funds	366,698	0	0
Prepaid Expenses	59,282	0	0
Advances Due from other Funds	3,686,307	1,969,487	0
Long-Term Loans Receivable	0	0	0
Restricted Assets:			
Cash and Investments with Fiscal Agents and Trustees	433,367	0	1,610,987
 Total Assets	 \$ 6,221,607	 \$ 4,835,512	 \$ 3,002,709
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 136,587	\$ 2,311	\$ 267,976
Accrued Liabilities	269,232	1,296	0
Accrued Compensated Absenses	17,093	0	0
Due to other Funds	0	0	0
Advances Due to other Funds	0	0	5,516,262
Notes Payable	0	0	0
Deferred Revenues	85,053	0	0
 Total Liabilities	 507,965	 3,607	 5,784,238
 Fund Balances (Deficit): (Note 9)			
Reserved	4,119,674	4,831,905	0
Unreserved, reported in-			
General Fund:			
Designated	413,515	0	0
Undesignated	1,180,453	0	0
Special Revenue Funds:			
Designated	0	0	0
Undesignated	0	0	0
Debt Service Funds:			
Designated	0	0	0
Undesignated	0	0	(2,781,529)
Capital Project Funds - Undesignated	0	0	0
 Total Fund Balances (Deficit)	 5,713,642	 4,831,905	 (2,781,529)
 Total Liabilities and Fund Balances (Deficit)	 \$ 6,221,607	 \$ 4,835,512	 \$ 3,002,709

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

Other Governmental Funds	Total
\$ 7,626,419	\$ 12,685,345
731,539	1,605,074
88,896	90,135
0	366,698
0	59,282
0	5,655,794
0	0
<u>3,484,732</u>	<u>5,529,086</u>
<u>\$ 11,931,586</u>	<u>\$ 25,991,414</u>
\$ 309,267	\$ 716,141
10,136	280,664
92	17,185
366,698	366,698
139,532	5,655,794
1,600,000	1,600,000
0	85,053
<u>2,425,725</u>	<u>8,721,535</u>
4,021,483	12,973,062
0	413,515
0	1,180,453
387,679	387,679
2,990,892	2,990,892
1,726,145	1,726,145
0	(2,781,529)
379,662	379,662
<u>9,505,861</u>	<u>17,269,879</u>
<u>\$ 11,931,586</u>	<u>\$ 25,991,414</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, 2010**

Total Fund Balances - Total Governmental Funds (Page 21) \$ 17,269,879

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. 43,779,398

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. (2,587,029)

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. -

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	(113,792)
1997 Certificates of Participation	(1,250,588)
2003 Certificates of Participation	(3,455,000)
2006 Certificates of Participation	(2,445,000)
Tax Allocation Bonds	(5,655,000)
2009 Lease Revenue Bonds	(8,760,000)
Note Payable - Scotts Valley Water District	(130,000)
Compensated Absences	(728,447)
Net OPEB Obligation	(568,089)

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. 1,113,397

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. (71,941)

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. 2,071,816

Net Assets of Governmental Activities (Page 15) \$ 38,469,604

CITY OF SCOTTS VALLEY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDING JUNE 30, 2010

	<u>General Fund</u>	<u>Affordable Housing</u>	<u>Redevelopment Agency Debt Service</u>
Revenues:			
Taxes and Assessments	\$ 6,111,306	\$ 1,058,289	\$ 4,233,156
Intergovernmental Revenues	17,453	0	0
Fees and Services	460,786	0	0
Fines and Forfeitures	98,056	0	0
Investment Earnings	46,777	61,006	6,173
Contributions, Non-Government	13,000	0	0
Facility/Building Rental	0	30,000	0
Miscellaneous Revenues	325,040	33,179	0
	<u>7,072,418</u>	<u>1,182,474</u>	<u>4,239,329</u>
Total Revenues			
Expenditures:			
Current:			
General Government	1,723,271	0	0
Public Safety	4,111,721	0	0
Planning and Building	445,328	246,849	0
Public Works	1,363,227	0	0
Capital Outlay	13,576	0	0
Tax Increment Pass-Through	0	0	4,262,521
Debt Service:			
Principal	113,457	0	285,000
Interest and Finance Charges	314,748	0	556,617
Refunding Bond Issuance Costs	0	0	360,606
	<u>8,085,328</u>	<u>246,849</u>	<u>5,464,744</u>
Total Expenditures			
Excess of Revenues over (under) Expenditures	<u>(1,012,910)</u>	<u>935,625</u>	<u>(1,225,415)</u>
Other Financing Sources (Uses):			
Transfers In	201,320	0	0
Transfers Out	(269,219)	0	(7,104,597)
Issuance of Debt	0	0	8,760,000
Premium on Debt Issued	0	0	30,188
	<u>(67,899)</u>	<u>0</u>	<u>1,685,591</u>
Net Other Financing Sources (Uses)			
Net Change in Fund Balances	(1,080,809)	935,625	460,176
Beginning Fund Balances (Deficit)	<u>6,794,451</u>	<u>3,896,280</u>	<u>(3,241,705)</u>
Ending Fund Balances (Deficit)	<u>\$ 5,713,642</u>	<u>\$ 4,831,905</u>	<u>\$ (2,781,529)</u>

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

Other Governmental Funds	Total
\$ 373,715	\$ 11,776,466
1,136,653	1,154,106
378,187	838,973
0	98,056
44,594	158,550
3,883	16,883
0	30,000
359,912	718,131
<u>2,296,944</u>	<u>14,791,165</u>
0	1,723,271
23,484	4,135,205
594,865	1,287,042
352,629	1,715,856
6,180,011	6,193,587
0	4,262,521
0	398,457
0	871,365
0	360,606
<u>7,150,989</u>	<u>20,947,910</u>
<u>(4,854,045)</u>	<u>(6,156,745)</u>
7,243,422	7,444,742
(299,106)	(7,672,922)
0	8,760,000
0	30,188
<u>6,944,316</u>	<u>8,562,008</u>
2,090,271	2,405,263
<u>7,415,590</u>	<u>14,864,616</u>
<u>\$ 9,505,861</u>	<u>\$ 17,269,879</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, 2010**

Net change in fund balances - total governmental funds (Page 25)	\$ 2,405,263
<p>Amounts reported for governmental activities in the statement of activities (Page 15) are different because:</p>	
<p>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.</p>	
Current year capital outlays	6,193,587
Current year depreciation	(1,289,155)
<p>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.</p>	
	(30,000)
<p>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.</p>	
	(151)
<p>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.</p>	
Repayment of long-term debt principal	398,457
<p>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.</p>	
Debt issuance costs	360,606
Bond premium	(30,188)
Amortization of advance refunding payment and issuance costs	(5,051)
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.</p>	
	(8,760,000)
<p>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:</p>	
Accrual of compensated absences	(83,312)
Accrual of OPEB obligation	(273,107)
Accrual of interest expense on long-term debt	(212,804)
Change in net assets of governmental activities (Page 17)	\$ (1,325,855)

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

**CITY OF SCOTTS VALLEY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010**

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Recreation Fund	Wastewater Fund	Total	
ASSETS				
Current:				
Cash and Investments	\$ 20	\$ 5,014,875	\$ 5,014,895	\$ 1,656
Receivables:				
Due from other Governments	0	145,051	145,051	0
Sewer Fees	0	156,008	156,008	0
Other	42,219	0	42,219	0
Note Receivable	0	1,600,000	1,600,000	0
Inventory	0	2,688	2,688	0
Prepaid Expenses	11,407	7,842	19,249	0
Total Current Assets	53,646	6,926,464	6,980,110	1,656
Capital Assets (Note 4):				
Land and construction in progress	0	439,416	439,416	0
Other capital assets, net of depreciation	16,352	15,478,523	15,494,875	0
Total capital assets	16,352	15,917,939	15,934,291	0
 Total Assets	69,998	22,844,403	22,914,401	1,656
LIABILITIES				
Current Liabilities:				
Accounts Payable	5,604	69,287	74,891	1,656
Accrued Liabilities	40,860	29,365	70,225	0
Compensated Absences	27,264	52,921	80,185	0
Deferred Revenues	108,795	0	108,795	0
Total Current Liabilities	182,523	151,573	334,096	1,656
Noncurrent Liabilities:				
Compensated Absences	0	78,872	78,872	0
Net OPEB Obligation	74,664	78,398	153,062	0
Total Noncurrent Liabilities	74,664	157,270	231,934	0
 Total Liabilities	257,187	308,843	566,030	1,656
NET ASSETS				
Invested in Capital Assets	16,352	15,917,939	15,934,291	0
Restricted (Note 9):				
Construction and Improvments	0	2,271,452	2,271,452	0
Unrestricted	(203,541)	4,346,169	4,142,628	0
 Total Net Assets	\$ (187,189)	\$ 22,535,560	\$ 22,348,371	\$ 0

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, 2010

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Recreation Fund	Wastewater Fund	Total	
Operating Revenues:				
Fees and Services	\$ 811,764	\$ 1,649,206	\$ 2,460,970	\$ 91,334
Total Operating Revenues	811,764	1,649,206	2,460,970	91,334
Operating Expenses:				
Salaries	541,489	519,560	1,061,049	0
Taxes and Benefits	239,159	393,214	632,373	0
Maintenance and Operations	110,382	646,700	757,082	0
Advertising	9,034	0	9,034	0
Professional and Contractual Services	93,933	25,702	119,635	0
Utilities and Communications	11,767	295,072	306,839	0
Insurance and Bonds	2,205	22,074	24,279	91,501
Depreciation	6,541	796,696	803,237	0
Total Operating Expenses	1,014,510	2,699,018	3,713,528	91,501
(Loss) from Operations	(202,746)	(1,049,812)	(1,252,558)	(167)
Nonoperating Revenues (Expenses):				
Interest Income	0	38,255	38,255	16
Connection Fees	0	18,204	18,204	0
Total Nonoperating Revenues	0	56,459	56,459	16
Net (Loss) before Transfers	(202,746)	(993,353)	(1,196,099)	(151)
Transfers In	160,694	67,486	228,180	0
Change in Net Assets	(42,052)	(925,867)	(967,919)	(151)
Net Assets - Beginning of Year	(145,137)	23,461,427	23,316,290	151
Net Assets - End of Year	\$ (187,189)	\$ 22,535,560	\$ 22,348,371	\$ 0

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, 2010**

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Recreation Fund	Wastewater Fund	Total	
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 814,836	\$ 1,693,375	\$ 2,508,211	\$ 91,334
Cash Payments for Good and Services	(478,589)	(1,410,724)	(1,889,313)	(94,627)
Cash Payments to Employees	(496,941)	(466,551)	(963,492)	0
Net Cash Provided by (Used for) Operating Activities	(160,694)	(183,900)	(344,594)	(3,293)
Cash Flows from Noncapital Financing Activities:				
Rent and Other	0	0	0	0
Transfers In (Out)	160,694	67,486	228,180	0
Net Cash Provided by (Used for) Noncapital Financing Activities	160,694	67,486	228,180	0
Cash Flows from Capital and Related Financing Activities				
Receipts of Connection and Standby Fees	0	18,204	18,204	0
Purchase of Vehicles and Equipment	0	(28,362)	(28,362)	0
Construction of Improvements & Land Purchase	0	(10,000)	(10,000)	0
Net Cash Provided by (Used for) Capital and Related Financing Activities	0	(20,158)	(20,158)	0
Cash Flows from Investing Activities:				
Interest Received	0	38,255	38,255	16
Note Receivable	0	(1,600,000)	(1,600,000)	0
Net Cash Provided by Investing Activities	0	(1,561,745)	(1,561,745)	16
Net Increase (Decrease) in Cash	0	(1,698,317)	(1,698,317)	(3,277)
Cash and Investments, Beginning of Year	20	6,713,192	6,713,212	4,933
Cash and Investments, End of Year	\$ 20	\$ 5,014,875	\$ 5,014,895	\$ 1,656

(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)	\$ (202,746)	\$ (1,049,812)	\$ (1,252,558)	\$ (167)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities:				
Depreciation	6,541	796,696	803,237	0
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(5,773)	44,169	38,396	0
(Increase) Decrease in Prepaid Expenses	(7,502)	(7,842)	(15,344)	0
Increase (Decrease) in Accounts Payable	(4,607)	(20,120)	(24,727)	(3,126)
Increase(Decrease) in Acc Liabilities/Comp Absences	3,278	13,571	16,849	0
Increase(Decrease) in Net OPEB Obligation	41,270	39,438	80,708	
(Decrease) in Deferred Revenues	8,845	0	8,845	0
Net Cash Provided by (Used for) Operating Activities	<u>\$ (160,694)</u>	<u>\$ (183,900)</u>	<u>\$ (344,594)</u>	<u>\$ (3,293)</u>

(Concluded)

**CITY OF SCOTTS VALLEY
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2010**

	<u>Total</u>
ASSETS	
Restricted Assets:	
Cash and Investments Held for Others	\$ 882,106
Cash and Investments Held in Accordance with Bond Indentures	<u>832,004</u>
 Total Assets	 \$ <u><u>1,714,110</u></u>
 LIABILITIES	
Payable from Restricted Assets:	
Advance Assessments Collected	\$ 792,763
Bond Reserve Payable	832,004
Deposits	<u>89,343</u>
 Total Liabilities	 \$ <u><u>1,714,110</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, 2010**

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, 2010

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

Government – Wide Financial Statements

The Government-Wide Financial Statements include a Statement of 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, 2010

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 SCOTT'S VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

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 and 2) receipt and disbursement of monies held in General Trust.

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 valued at historical cost or estimated historical cost if actual cost is not available. Included in capital assets are land, buildings, and improvements, equipment, and infrastructure. Agency 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.

As required by GASB Statement 34, the City depreciates capital assets over their estimated useful lives. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of the capital asset. Depreciation is recorded on a straight-line basis over the estimated useful lives of the capital assets as follows:

- Equipment – 5 to 10 years
- Furniture and Fixtures – 5 to 10 years
- Software – 5 to 7 years
- Buildings and Improvements – 40 years
- Infrastructure – 20 to 75 years

Major capital outlay for capital assets and improvements are capitalized as projects are constructed.

Capital assets may be acquired using federal and state grants and contributions or grants from other governments. GASB34 required that these contributed assets be accounted for as revenue at the time they are contributed.

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, 2010

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 2009/2010, 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 2009/2010 was \$17,297. 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, 2010**

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, 2010.

Pooled Deposits	\$ 172,110
Pooled Investments:	
California Local Agency Investment Fund (LAIF)	16,022,706
Money Market	2,779,261
Petty Cash	<u>1,720</u>
Subtotal	18,975,797
Investments with Fiscal Agents and Trustees	<u>5,969,295</u>
Total Cash and Investments	<u>\$24,945,092</u>

CITY OF SCOTT'S VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

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	\$12,687,001	\$5,014,895	\$882,106	\$18,584,002
Restricted Cash & Investments	<u>5,529,086</u>	<u>-</u>	<u>832,004</u>	<u>6,361,090</u>
Total	<u>\$18,216,087</u>	<u>\$5,014,895</u>	<u>\$1,714,110</u>	<u>\$24,945,092</u>

Pooled Deposits

At June 30, 2010, the difference between the carrying amount of the City's book balance of \$172,110 and the corresponding bank balance of \$338,514 was due to outstanding checks and deposits in transit. Of the bank balance, \$250,000 was insured by federal depository insurance and \$88,514 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:

- | | |
|---------------------------------------------------------|-----------------------------|
| Securities of the U.S. Government, or its agencies | Bankers Acceptances |
| Negotiable Certificates of Deposit | Commercial Paper |
| Repurchase Agreements (Repos) | Corporate Medium Term Notes |
| Passbook Savings Account Demand Deposits | Money Market Funds |
| Local Agency Investment Fund(State Pool)Demand Deposits | |

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, 2010, 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, 2010, 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, 2010

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, 2010, the City had \$16,022,706 invested in LAIF, which had invested 10.84% 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 (\$69,555,776,591) by total aggregate amortized cost (\$69,441,630,091) resulting in a factor of 1.001643776.

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, 2010, 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	\$16,022,706	\$ -	\$ -	\$ -
Money Market	<u>2,779,261</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$18,801,967</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.

\$ 383,295 due from nine 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 (concluded)
JUNE 30, 2010

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance <u>July 1, 2009</u>	Additions	Deletions	Balance <u>June 30, 2010</u>
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land	\$10,917,267	\$1,545,665	\$ 65,000	\$12,397,932
Construction in progress	<u>295,673</u>	<u>989,918</u>	<u>764,465</u>	<u>521,126</u>
Total capital assets not being depreciated	<u>11,212,940</u>	<u>2,535,583</u>	<u>829,465</u>	<u>12,919,058</u>
<u>Capital assets being depreciated:</u>				
Buildings and Improvements	5,543,133	2,959,278	0	8,502,411
Machinery and equipment	2,594,220	139,341	70,255	2,663,306
Infrastructure	<u>35,983,667</u>	<u>1,323,850</u>	<u>0</u>	<u>37,307,517</u>
Total capital assets being depreciated	<u>44,121,020</u>	<u>4,422,469</u>	<u>70,255</u>	<u>48,473,234</u>
<u>Less accumulated depreciation for:</u>				
Buildings and Improvements	1,974,423	191,753	0	2,166,176
Machinery and equipment	1,781,387	172,764	70,255	1,883,896
Infrastructure	<u>12,638,184</u>	<u>924,638</u>	<u>0</u>	<u>13,562,822</u>
Total accumulated depreciation	<u>16,393,994</u>	<u>1,289,155</u>	<u>70,255</u>	<u>17,612,894</u>
Total capital assets being depreciated, net	<u>27,727,026</u>	<u>3,133,314</u>	<u>0</u>	<u>30,860,340</u>
Governmental capital assets, net	<u>\$38,939,966</u>	<u>\$ 5,668,897</u>	<u>\$ 829,465</u>	<u>\$43,779,398</u>
Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land	\$ 429,416	\$ 0	\$ 0	\$ 429,416
Construction in progress	<u>0</u>	<u>10,000</u>	<u>0</u>	<u>10,000</u>
Total capital assets not being depreciated	<u>429,416</u>	<u>10,000</u>	<u>0</u>	<u>439,416</u>
<u>Capital assets being depreciated:</u>				
Buildings and Improvements	5,276,516	0	0	5,276,516
Machinery and equipment	5,556,128	28,362	0	5,584,490
Infrastructure	22,769,503	0	0	22,769,503
Outfall agreement	<u>178,000</u>	<u>0</u>	<u>0</u>	<u>178,000</u>
Total capital assets being depreciated	<u>33,780,147</u>	<u>28,362</u>	<u>0</u>	<u>33,808,509</u>
<u>Less accumulated depreciation for:</u>				
Buildings and Improvements	2,705,477	138,043	0	2,843,520
Machinery and equipment	4,966,835	130,351	0	5,097,186
Infrastructure	9,749,078	531,876	0	10,280,954
Outfall agreement	<u>89,007</u>	<u>2,967</u>	<u>0</u>	<u>91,974</u>
Total accumulated depreciation	<u>17,510,397</u>	<u>803,237</u>	<u>0</u>	<u>18,313,634</u>
Total capital assets being depreciated, net	<u>16,269,750</u>	<u>(774,875)</u>	<u>0</u>	<u>15,494,875</u>
Business-type capital assets, net	<u>\$16,699,166</u>	<u>\$ (764,875)</u>	<u>\$ 0</u>	<u>\$15,934,291</u>
Total Capital Assets	<u>\$55,639,132</u>	<u>\$ 4,904,022</u>	<u>\$ 829,465</u>	<u>\$59,713,689</u>

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

4. CAPITAL ASSETS (concluded)

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

<u>Governmental Activities:</u>	
General government	\$ 42,427
Public safety	136,581
Planning & building	6,456
Public works	<u>1,103,691</u>
Total depreciation expense – government activities	<u>\$ 1,289,155</u>
 <u>Business-Type Activities:</u>	
Wastewater	\$ 796,696
Recreation	6,541
Total depreciation expense – business-type activities	<u>\$ 803,237</u>

5. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the fiscal year ended June 30, 2010:

	<u>GOVERNMENTAL ACTIVITIES</u>				
	<u>Balance at July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2010</u>	<u>Due Within One Year</u>
Certificates of Participation	\$ 7,377,837	\$ 0	\$113,457	\$ 7,264,380	\$110,568
Installment Notes	135,000	0	5,000	130,000	5,000
Tax Allocation Bonds	5,935,000	0	280,000	5,655,000	290,000
Lease Revenue Bonds	0	8,760,000	0	8,760,000	0
Accrued Compensated Absences	665,195	406,436	325,999	745,632	337,218
Net OPEB Obligation	<u>294,982</u>	<u>273,107</u>	<u>0</u>	<u>568,089</u>	<u>0</u>
Totals	<u>\$14,408,014</u>	<u>\$9,439,543</u>	<u>\$724,456</u>	<u>\$23,123,101</u>	<u>\$742,786</u>
	<u>BUSINESS-TYPE ACTIVITIES</u>				
	<u>Balance at July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2010</u>	<u>Due Within One Year</u>
Accrued Compensated Absences	\$145,176	\$101,185	\$ 87,304	\$159,057	\$ 80,185
Net OPEB Obligation	<u>72,354</u>	<u>80,708</u>	<u>0</u>	<u>153,062</u>	<u>0</u>
	<u>\$217,530</u>	<u>\$181,893</u>	<u>\$ 87,304</u>	<u>\$312,119</u>	<u>\$ 80,185</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, 2010

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, 2010:

Original issue - \$7,359,911, Refunding and 1992 Public Improvements Project	\$113,792
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>2,445,000</u>
Total Certificates of Participation	<u>\$7,264,380</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>
2011	40,568	99,432	140,000	140,000
2012	37,871	102,129	140,000	140,000
2013	<u>35,353</u>	<u>104,647</u>	<u>140,000</u>	<u>140,000</u>
Totals	<u>\$ 113,792</u>	<u>\$ 306,208</u>	<u>\$ 420,000</u>	<u>\$ 420,000</u>

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

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>
2011	\$ 0	\$159,283	\$159,283
2012	0	159,283	159,283
2013	0	159,283	159,283
2014	0	159,282	159,282
2015	0	159,282	159,282
2016-2020	400,000	770,987	1,170,987
2021-2025	360,000	659,612	1,019,612
2026-2030	1,640,000	487,305	2,127,305
2031-2032	<u>1,055,000</u>	<u>49,639</u>	<u>1,104,639</u>
Totals	<u>\$3,455,000</u>	<u>\$2,763,956</u>	<u>\$6,218,956</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, 2010

5. LONG-TERM DEBT (continued)

Fiscal Year Ending	<u>2006 Refunding Certificates of Participation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 70,000	\$ 100,525	\$ 170,525
2012	70,000	97,725	167,725
2013	75,000	94,925	169,925
2014	335,000	89,325	424,325
2015	345,000	75,825	420,825
2016-2018	<u>1,550,000</u>	<u>147,356</u>	<u>1,697,356</u>
Totals	<u>\$2,445,000</u>	<u>\$ 605,681</u>	<u>\$3,050,681</u>

Installment Notes:

The following installment notes were outstanding at June 30, 2010:

Scotts Valley Water District \$130,000

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>
2011	\$ 5,000	\$7,640	\$12,640
2012	5,000	7,350	12,350
2013	0	7,200	7,200
2014	5,000	7,050	12,050
2015	5,000	6,750	11,750
2016-2020	35,000	28,650	63,650
2021-2025	40,000	17,400	57,400
2026-2028	<u>35,000</u>	<u>3,450</u>	<u>38,450</u>
Totals	<u>\$ 130,000</u>	<u>\$ 85,490</u>	<u>\$ 215,490</u>

Tax Allocation Bonds:

The following Tax Allocation Bonds were outstanding at June 30, 2010:

Tax Allocation Refunding Bonds of 2006 \$5,655,000

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, 2010

5. LONG-TERM DEBT (concluded)

Tax Allocation Refunding Bonds of 2006			
Fiscal Year <u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	340,000	203,013	543,013
2016-2020	1,595,000	798,638	2,393,638
2021-2025	1,160,000	496,625	1,656,625
2026-2030	<u>1,325,000</u>	<u>170,875</u>	<u>1,495,875</u>
Totals	<u>\$5,655,000</u>	<u>\$2,602,734</u>	<u>\$8,257,734</u>

Lease Revenue Bonds:

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. Annual principal payments range from \$0 to \$725,000 plus interest from 5.5% to 7.7% per annum, through 2039.

2009 Lease Revenue Bond			
Fiscal Year <u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 0	\$562,485	\$562,485
2012	0	562,486	562,486
2013	0	562,486	562,486
2014	0	562,486	562,486
2015	0	562,486	562,486
2016-2020	190,000	2,805,662	2,995,662
2021-2025	1,185,000	2,537,993	3,722,993
2026-2030	1,700,000	2,005,457	3,705,457
2031-2035	2,445,000	1,299,926	3,744,926
2036-2040	<u>3,240,000</u>	<u>491,263</u>	<u>3,731,263</u>
Totals	<u>\$8,760,000</u>	<u>\$11,952,730</u>	<u>\$20,712,730</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, 2010:

Original issue - \$6,966,000, 2002 Consolidated Reassessment District	\$2,715,000
Original issue - \$4,800,000, Community Facilities District, 97-1 Series A	3,555,000
Original issue - \$1,700,000, Community Facilities District, 97-1 Series B	<u>1,340,000</u>
Total Special Assessment District Bonds (No City Liability)	<u>\$7,610,000</u>

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

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.

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, 2010:

	<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Major Funds:	General Fund	\$366,698		
Non Major Funds:			Community Center	\$ 16,227
			General Capital Imprvmts	336,328
			Homeland Security	14,143
Totals		<u>\$366,698</u>		<u>\$366,698</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	\$3,686,307	Redevelopment Agency	
	Affordable Housing	1,969,487	Debt Service	\$5,516,262
Non Major Fund:			General Facilities	139,532
Totals		<u>\$5,655,794</u>		<u>\$5,655,794</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.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

7. INTERFUND TRANSACTIONS (concluded)

The advance from Affordable Housing to the Redevelopment Agency Debt Service is being repaid with tax increment revenues. The funds were loaned to make the payment to the State for the Supplemental Educational Revenue Augmentation Fund (SERAF).

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.

Note Receivable / Note Payable: The Wastewater Fund loaned the Redevelopment Agency \$1,600,000 to assist with the purchase of a 22,650 square foot building. The loan is to be repaid prior to July 15, 2014. Interest is assessed at the rate of the City's investment portfolio. The loan will be repaid with tax increment revenues.

Interfund Transfers: In the governmental fund financial statements, total transfers in and out were \$7,642,622, as follows:

	Transfers In:			
	General Fund	Enterprise Funds	Non- Major Fund	Total
Transfers Out:				
General Fund	\$ 0	\$160,694	\$ 108,525	\$ 269,219
Redevelopment Debt Service Fund	0	0	7,104,597	7,104,597
Non Major Fund	<u>201,320</u>	<u>67,486</u>	<u>0</u>	<u>268,806</u>
Total	<u>\$ 201,320</u>	<u>\$ 228,180</u>	<u>\$ 7,213,122</u>	<u>\$7,642,622</u>

The General Fund transferred out a total of \$269,219 as follows: \$61,451 to the Senior Center and \$160,694 to the Recreation Fund for operations, and \$47,074 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 \$7,104,597 to the Redevelopment Agency's Capital Projects Fund for various projects and administration.

Non-Major Funds transferred out a total of \$268,806 as follows: \$201,320 from the Gas Tax Fund to the General Fund for street maintenance expenditures and \$67,486 from the Recycling Fund to the Wastewater Fund for recycling related costs.

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 \$292,601 at June 30, 2010 for the following projects:

<u>Project:</u>	<u>Commitments</u>
Bean Creek Pedestrian/Bike Path	\$46,542
Library Design	<u>246,059</u>
Total Contract Commitments	<u>\$292,601</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

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

8. COMMITMENTS AND CONTINGENCIES (concluded)

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	\$ 433,367	\$ 0	\$ 0	\$ 433,367
Advances Due from Other Funds	3,686,307	1,969,487	0	5,655,794
Low/Moderate Income Housing	0	2,862,418	0	2,862,418
Construction Projects	<u>0</u>	<u>0</u>	<u>4,021,483</u>	<u>4,021,483</u>
Total Reserved	<u>\$4,119,674</u>	<u>\$4,831,905</u>	<u>\$4,021,483</u>	<u>\$12,973,062</u>

	<u>General Fund</u>	<u>Non Major Funds</u>	<u>Total</u>
Designated for:			
Capital Acquisition	\$413,515	\$ 0	\$ 413,515
Debt Service	0	1,726,145	1,726,145
Future Expenditures	<u>0</u>	<u>387,679</u>	<u>387,679</u>
Total Designated	<u>\$413,515</u>	<u>\$2,113,824</u>	<u>\$2,527,339</u>

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

	<u>Wastewater Fund</u>
Restricted for:	
Wastewater System Construction and Improvements	<u>\$2,271,452</u>

10. DEFICIT FUND BALANCES

At June 30, 2010, the following City funds had deficit fund balances:

Major Fund:	
Redevelopment Agency Debt Service	<u>(\$2,781,529)</u>
Non Major Funds:	
General Facility	(\$87,687)
Senior Center	(1,882)
Homeland Security	<u>(10,455)</u>
Total Non Major Funds	<u>(\$100,024)</u>

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010**

10. DEFICIT FUND BALANCES (concluded)

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. The Homeland Security fund deficit will be eliminated by receipt of grant funds billed in current fiscal year.

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.

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 2009/2010 was 16.176% for Miscellaneous Plan employees and 29.381% 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 2009/2010, the City's annual pension cost for the Safety Plan and Miscellaneous Plan was \$507,324 and \$454,726, respectively, which was equal to the City's required and actual contribution.

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
6/30/2008	\$415,806	100%	\$0	\$397,742	100%	\$0
6/30/2009	\$430,173	100%	\$0	\$466,587	100%	\$0
6/30/2010	\$454,726	100%	\$0	\$507,324	100%	\$0

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2010

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. The Plan does not issue separate financial statements.

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 \$152,240 in post employment benefits for the 20 retired employees who were eligible for benefits during the fiscal year ended June 30, 2010.

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>(152,240)</u>
Increase in net OPEB obligation	353,815
Net OPEB obligation – beginning of year	<u>367,336</u>
Net OPEB obligation – end of year	<u>\$721,151</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 and June 30, 2010, were as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Annual OPEB</u> <u>Cost Contributed</u>	<u>OPEB</u> <u>Obligation</u>
2009	\$506,055	27.4%	\$367,336
2010	\$506,055	30.1%	\$353,815

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.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (concluded)
JUNE 30, 2010

12. POSTEMPLOYMENT BENEFITS (concluded)

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.

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, 2009 (fiscal year 2010 not available at the time of the printing of the City's financial statements):

Total Assets	\$14,512,890	Total Revenues	\$4,991,024
Total Liabilities	<u>17,455,967</u>	Total Expenditures	<u>2,872,734</u>
Net Assets (Deficit)	<u>(\$2,943,077)</u>	Change in Net Assets	<u>\$2,118,290</u>

The City paid \$470,344 for workers compensation and \$19,753 for liability premiums during the year ended June 30, 2010. The City's share of the fiscal year-end assets, liabilities, or fund equity has not been calculated by the MBASIA.

14. PRIOR PERIOD ADJUSTMENT

The prior period adjustment consists of the beginning net asset balance being decreased by \$65,000 for option payments made in prior years for the purchase of land. These payments were capitalized on the government-wide financial statements in prior years in error. They were to be expensed.

