

FINANCIAL SECTION

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

**CITY OF SCOTTS VALLEY
STATEMENT OF NET ASSETS
JUNE 30, 2011**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments (Note 2)	\$ 13,671,181	\$ 4,670,459	\$ 18,341,640
Receivables:			
Due from other Governments	787,692	213,638	1,001,330
Sewer Fees	0	123,945	123,945
Other	479	67,471	67,950
Inventory	0	2,688	2,688
Prepaid Expenses	0	8,843	8,843
Long-Term Loans Receivable (Note 3)	2,371,816	0	2,371,816
Internal Balances (Note 7)	(1,600,000)	1,600,000	0
Restricted Assets (Note 2):			
Cash and Investments with Fiscal Agents and Trustees	1,481,870	0	1,481,870
Unamortized Debt Issuance Costs, Net	1,052,504	0	1,052,504
Capital Assets (Note 4):			
Land and construction in progress	15,038,968	429,416	15,468,384
Other capital assets, net of depreciation	33,405,032	14,887,318	48,292,350
Total capital assets	<u>48,444,000</u>	<u>15,316,734</u>	<u>63,760,734</u>
Total Assets	<u>66,209,542</u>	<u>22,003,778</u>	<u>88,213,320</u>
LIABILITIES			
Accounts Payable	1,195,828	80,147	1,275,975
Accrued Liabilities	320,032	91,730	411,762
Accrued Interest	2,650,490	0	2,650,490
Deposits	11,505	0	11,505
Unearned Revenues	74,919	125,315	200,234
Long-Term Debt (Note 5):			
Current Portion of Long-Term Debt (Note 5)	776,087	107,802	883,889
Certificates of Participation	7,045,941	0	7,045,941
Installment Notes	120,000	0	120,000
Tax Allocation Bonds	5,060,000	0	5,060,000
Lease Revenue Bonds	8,760,000	0	8,760,000
Accrued Compensated Absences	390,129	67,619	457,748
Net OPEB Obligation	928,048	262,416	1,190,464
Total Liabilities	<u>27,332,979</u>	<u>735,029</u>	<u>28,068,008</u>
NET ASSETS			
FUND BALANCES			
Invested in Capital Assets, net of related debt	27,040,188	15,316,734	42,356,922
Restricted for:			
Capital Projects	4,239,957	2,298,653	6,538,610
Debt Service	433,369	0	433,369
Low/Moderate Income Housing	4,590,418	0	4,590,418
Unrestricted	<u>2,572,631</u>	<u>3,653,362</u>	<u>6,225,993</u>
Total Net Assets	<u>\$ 38,876,563</u>	<u>\$ 21,268,749</u>	<u>\$ 60,145,312</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, 2011**

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
General Government	\$ 1,616,506	\$ 42,810	0	5,708	48,518
Public Safety	4,545,261	44,752	174,657	6,111	225,520
Planning & Building	1,177,840	263,223	2,680	15,796	281,699
Public Works	2,964,358	179,191	374,586	194,464	748,241
Redevelopment	3,036,341	20,759		2,422,614	2,443,373
Interest on Long-Term Debt and Fiscal Agent Charges	1,327,314	0	0	0	0
Total Governmental Activities	14,667,620	550,735	551,923	2,644,693	3,747,351
Business-Type Activities:					
Wastewater	2,767,101	1,658,676	0	20,326	1,679,002
Recreation Programs	1,082,101	853,043	0	0	853,043
Total Business-Type Activities	3,849,202	2,511,719	0	20,326	2,532,045
Total Primary Government	\$ 18,516,822	\$ 3,062,454	\$ 551,923	\$ 2,665,019	\$ 6,279,396

General Revenues:

Taxes:

Property Tax

Sales Tax

Vehicle In-Lieu Fee (Intergovernmental / Unrestricted)

Franchise Taxes

Utility Users Tax

Transient Occupancy Tax

Other Taxes

Total Taxes

Investment Earnings

Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning of Year

Net Assets - Beginning of Year

Net Assets - End of Year

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

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (1,567,988)	\$ 0	\$ (1,567,988)
(4,319,741)	0	(4,319,741)
(896,141)	0	(896,141)
(2,216,117)	0	(2,216,117)
(592,968)	0	(592,968)
(1,327,314)	0	(1,327,314)
(10,920,269)	0	(10,920,269)
0	(1,088,099)	(1,088,099)
0	(229,058)	(229,058)
0	(1,317,157)	(1,317,157)
(10,920,269)	(1,317,157)	(12,237,426)
5,677,178	0	5,677,178
2,108,247	0	2,108,247
902,756	0	902,756
809,404	0	809,404
628,824	0	628,824
569,684	0	569,684
340,697	0	340,697
11,036,790	0	11,036,790
43,869	30,150	74,019
453,954		453,954
(207,385)	207,385	0
11,327,228	237,535	11,564,763
406,959	(1,079,622)	(672,663)
38,469,604	22,348,371	60,817,975
38,469,604	22,348,371	60,817,975
\$ 38,876,563	\$ 21,268,749	\$ 60,145,312

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, 2011**

	<u>General Fund</u>	<u>Affordable Housing</u>	<u>Redevelopment Agency Debt Service</u>
ASSETS			
Cash and Investments	\$ 4,005,490	\$ 2,617,987	\$ 260,243
Receivables:			
Due from other Governments	615,497	0	118,187
Other	479	0	0
Due from other Funds	15,932	0	0
Advances Due from other Funds	2,195,055	1,978,223	0
Restricted Assets:			
Cash and Investments with Fiscal Agents and Trustees	<u>433,369</u>	<u>0</u>	<u>1,048,501</u>
 Total Assets	 <u>\$ 7,265,822</u>	 <u>\$ 4,596,210</u>	 <u>\$ 1,426,931</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 180,764	\$ 1,978	\$ 250,755
Accrued Liabilities	303,792	3,814	0
Accrued Compensated Absences	12,871	0	0
Deposits	11,505	0	0
Due to other Funds	0	0	0
Advances Due to other Funds	0	0	4,033,746
Notes Payable	0	0	0
Deferred Revenues	<u>6,935</u>	<u>0</u>	<u>0</u>
 Total Liabilities	 <u>515,867</u>	 <u>5,792</u>	 <u>4,284,501</u>
 Fund Balances (Deficit): (Note 9)			
Restricted	433,369	4,590,418	0
Assigned	0	0	0
Unassigned	<u>6,316,586</u>	<u>0</u>	<u>(2,857,570)</u>
 Total Fund Balances (Deficit)	 <u>6,749,955</u>	 <u>4,590,418</u>	 <u>(2,857,570)</u>
 Total Liabilities and Fund Balances (Deficit)	 <u>\$ 7,265,822</u>	 <u>\$ 4,596,210</u>	 <u>\$ 1,426,931</u>

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

	Other Governmental Funds	Total
\$	6,779,227	\$ 13,662,947
	54,008	787,692
	0	479
	0	15,932
	0	4,173,278
	<u>0</u>	<u>1,481,870</u>
\$	<u>6,833,235</u>	<u>\$ 20,122,198</u>
\$	758,534	\$ 1,192,031
	12,426	320,032
	0	12,871
	0	11,505
	15,932	15,932
	139,532	4,173,278
	1,600,000	1,600,000
	<u>0</u>	<u>6,935</u>
	<u>2,526,424</u>	<u>7,332,584</u>
	4,239,957	9,263,744
	1,762,356	1,762,356
	<u>(1,695,502)</u>	<u>1,763,514</u>
	<u>4,306,811</u>	<u>12,789,614</u>
\$	<u>6,833,235</u>	<u>\$ 20,122,198</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, 2011

Total Fund Balances - Total Governmental Funds (Page 21) **\$ 12,789,614**

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.	48,444,000
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.	(2,650,490)
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.	4,436
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	(73,224)
1997 Certificates of Participation	(1,250,588)
2003 Certificates of Participation	(3,455,000)
2006 Certificates of Participation	(2,375,000)
Tax Allocation Bonds	(5,365,000)
2009 Lease Revenue Bonds	(8,760,000)
Note Payable - Scotts Valley Water District	(125,000)
Compensated Absences	(735,474)
Net OPEB Obligation	(928,048)
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.	1,052,504
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.	(67,983)
Long-term loans receivable are not current financial resources and, therefore, are offset in the Governmental Funds Balance Sheet by a corresponding amount of deferred revenue under liabilities.	<u>2,371,816</u>

Net Assets of Governmental Activities (Page 15) **\$ 38,876,563**

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

CITY OF SCOTTS VALLEY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR FISCAL YEAR ENDING JUNE 30, 2011

	<u>General Fund</u>	<u>Affordable Housing</u>	<u>Redevelopment Agency Debt Service</u>
Revenues:			
Taxes and Assessments	\$ 6,157,794	\$ 985,061	\$ 3,940,245
Intergovernmental Revenues	22,122	0	0
Fees and Services	364,212	0	0
Fines and Forfeitures	51,001	0	0
Investment Earnings	19,404	12,123	1,626
Contributions, Non-Government	17,200	0	0
Facility/Building Rental	0	30,000	0
Miscellaneous Revenues	1,071,390	20,002	0
Total Revenues	<u>7,703,123</u>	<u>1,047,186</u>	<u>3,941,871</u>
Expenditures:			
Current:			
General Government	1,475,238	0	0
Public Safety	4,193,222	0	0
Planning and Building	320,105	563,673	0
Public Works	1,419,636	0	0
Capital Outlay	0	725,000	0
Tax Increment Pass-Through	0	0	3,036,003
Debt Service:			
Principal	110,568	0	295,000
Interest and Finance Charges	315,038	0	887,922
Total Expenditures	<u>7,833,807</u>	<u>1,288,673</u>	<u>4,218,925</u>
Excess of Revenues over (under) Expenditures	<u>(130,684)</u>	<u>(241,487)</u>	<u>(277,054)</u>
Other Financing Sources (Uses):			
Transfers In	1,359,345	0	815,461
Transfers Out	(192,348)	0	(614,448)
Net Other Financing Sources (Uses)	<u>1,166,997</u>	<u>0</u>	<u>201,013</u>
Net Change in Fund Balances	1,036,313	(241,487)	(76,041)
Beginning Fund Balances (Deficit)	<u>5,713,642</u>	<u>4,831,905</u>	<u>(2,781,529)</u>
Ending Fund Balances (Deficit)	<u>\$ 6,749,955</u>	<u>\$ 4,590,418</u>	<u>\$ (2,857,570)</u>

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

Other Governmental Funds	Total
\$ 364,435	\$ 11,447,535
206,496	228,618
257,235	621,447
0	51,001
37,970	71,123
1,702	18,902
0	30,000
<u>2,442,989</u>	<u>3,534,381</u>
<u>3,310,827</u>	<u>16,003,007</u>
0	1,475,238
0	4,193,222
554,264	1,438,042
285,614	1,705,250
6,094,604	6,819,604
0	3,036,003
0	405,568
<u>0</u>	<u>1,202,960</u>
<u>6,934,482</u>	<u>20,275,887</u>
<u>(3,623,655)</u>	<u>(4,272,880)</u>
1,230,411	3,405,217
<u>(2,805,806)</u>	<u>(3,612,602)</u>
<u>(1,575,395)</u>	<u>(207,385)</u>
(5,199,050)	(4,480,265)
<u>9,505,861</u>	<u>17,269,879</u>
<u>\$ 4,306,811</u>	<u>\$ 12,789,614</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, 2011**

Net change in fund balances - total governmental funds (Page 25) **\$ (4,480,265)**

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

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

Current year capital outlays	6,058,435
Current year depreciation	(1,393,833)

Governmental funds report amounts loaned as long term notes receivable as expenditures. However, in the statement of activities these amounts would be a increase of the receivable.

300,000

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.

4,436

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

Repayment of long-term debt principal	405,568
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Governmental funds report payments for the advance refunding of debt, bond premiums, and debt issuance costs as income and expenditures. However, in the statement of activities these amounts are amortized over the remaining life of the refunded debt.

Amortization of bond premium	3,957
Amortization of advance refunding payment and issuance costs	(60,893)

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

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

Accrual of compensated absences	(7,026)
Accrual of OPEB obligation	(359,959)
Accrual of interest expense on long-term debt	(63,461)

Change in net assets of governmental activities (Page 17)

\$ 406,959

**CITY OF SCOTTS VALLEY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011**

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Recreation Fund	Wastewater Fund	Total	
ASSETS				
Current:				
Cash and Investments	\$ 220	\$ 4,670,239	\$ 4,670,459	\$ 8,234
Receivables:				
Due from other Governments	0	213,638	213,638	0
Sewer Fees	0	123,945	123,945	0
Other	67,471	0	67,471	0
Note Receivable	0	1,600,000	1,600,000	0
Inventory	0	2,688	2,688	0
Prepaid Expenses	8,843	0	8,843	0
Total Current Assets	76,534	6,610,510	6,687,044	8,234
Capital Assets (Note 4):				
Land and construction in progress	0	429,416	429,416	0
Other capital assets, net of depreciation	9,811	14,877,507	14,887,318	0
Total capital assets	9,811	15,306,923	15,316,734	0
Total Assets	86,345	21,917,433	22,003,778	8,234
LIABILITIES				
Current Liabilities:				
Accounts Payable	20,009	60,138	80,147	3,798
Accrued Liabilities	56,989	34,741	91,730	0
Compensated Absences	34,991	72,811	107,802	0
Deferred Revenues	125,315	0	125,315	0
Total Current Liabilities	237,304	167,690	404,994	3,798
Noncurrent Liabilities:				
Compensated Absences	0	67,619	67,619	0
Net OPEB Obligation	127,906	134,510	262,416	0
Total Noncurrent Liabilities	127,906	202,129	330,035	0
Total Liabilities	365,210	369,819	735,029	3,798
NET ASSETS				
Invested in Capital Assets	9,811	15,306,923	15,316,734	0
Restricted (Note 9):				
Construction and Improvements	0	2,298,653	2,298,653	0
Unrestricted	(288,676)	3,942,038	3,653,362	4,436
Total Net Assets	\$ (278,865)	\$ 21,547,614	\$ 21,268,749	\$ 4,436

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, 2011**

	<u>Enterprise Funds</u>			<u>Governmental Activities - Internal Service Fund</u>
	<u>Recreation Fund</u>	<u>Wastewater Fund</u>	<u>Total</u>	
Operating Revenues:				
Fees and Services	\$ 853,043	\$ 1,658,676	\$ 2,511,719	\$ 86,103
Total Operating Revenues	<u>853,043</u>	<u>1,658,676</u>	<u>2,511,719</u>	<u>86,103</u>
Operating Expenses:				
Salaries	565,085	527,666	1,092,751	0
Taxes and Benefits	254,445	392,432	646,877	0
Maintenance and Operations	135,676	706,425	842,101	0
Advertising	12,555	0	12,555	0
Professional and Contractual Services	93,104	46,755	139,859	0
Utilities and Communications	10,848	308,196	319,044	0
Insurance and Bonds	3,847	26,205	30,052	81,701
Depreciation	6,541	759,422	765,963	0
Total Operating Expenses	<u>1,082,101</u>	<u>2,767,101</u>	<u>3,849,202</u>	<u>81,701</u>
(Loss) from Operations	<u>(229,058)</u>	<u>(1,108,425)</u>	<u>(1,337,483)</u>	<u>4,402</u>
Nonoperating Revenues (Expenses):				
Interest Income	0	30,150	30,150	34
Connection Fees	0	20,326	20,326	0
Total Nonoperating Revenues	<u>0</u>	<u>50,476</u>	<u>50,476</u>	<u>34</u>
Net (Loss) before Transfers	(229,058)	(1,057,949)	(1,287,007)	4,436
Transfers In	<u>137,382</u>	<u>70,003</u>	<u>207,385</u>	<u>0</u>
Change in Net Assets	(91,676)	(987,946)	(1,079,622)	4,436
Net Assets - Beginning of Year	<u>(187,189)</u>	<u>22,535,560</u>	<u>22,348,371</u>	<u>0</u>
Net Assets - End of Year	<u>\$ (278,865)</u>	<u>\$ 21,547,614</u>	<u>\$ 21,268,749</u>	<u>\$ 4,436</u>

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

**CITY OF SCOTTS VALLEY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDING JUNE 30, 2011**

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Recreation Fund	Wastewater Fund	Total	
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 844,311	\$ 1,622,152	\$ 2,466,463	\$ 86,103
Cash Payments for Good and Services	(493,506)	(1,481,320)	(1,974,826)	(79,559)
Cash Payments to Employees	(487,987)	(457,541)	(945,528)	0
Net Cash Provided by (Used for) Operating Activities	(137,182)	(316,709)	(453,891)	6,544
Cash Flows from Noncapital Financing Activities:				
Rent and Other	0	0	0	0
Transfers In (Out)	137,382	70,003	207,385	0
Net Cash Provided by (Used for) Noncapital Financing Activities	137,382	70,003	207,385	0
Cash Flows from Capital and Related Financing Activities				
Receipts of Connection and Standby Fees	0	20,326	20,326	0
Purchase of Vehicles and Equipment	0	(72,389)	(72,389)	0
Construction of Improvements & Land Purchase	0	(76,017)	(76,017)	0
Net Cash Provided by (Used for) Capital and Related Financing Activities	0	(128,080)	(128,080)	0
Cash Flows from Investing Activities:				
Interest Received	0	30,150	30,150	34
Note Receivable	0	0	0	0
Net Cash Provided by Investing Activities	0	30,150	30,150	34
Net Increase (Decrease) in Cash	200	(344,636)	(344,436)	6,578
Cash and Investments, Beginning of Year	20	5,014,875	5,014,895	1,656
Cash and Investments, End of Year	\$ 220	\$ 4,670,239	\$ 4,670,459	\$ 8,234

(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)	\$ (229,058)	\$ (1,108,425)	\$ (1,337,483)	\$ 4,402
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities:				
Depreciation	6,541	759,422	765,963	0
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(25,252)	(36,524)	(61,776)	0
(Increase) Decrease in Prepaid Expenses	2,564	7,842	10,406	0
Increase (Decrease) in Accounts Payable	14,405	(9,149)	5,256	2,142
Increase(Decrease) in Acc Liabilities/Comp Absences	23,856	14,013	37,869	0
Increase(Decrease) in Net OPEB Obligation	53,242	56,112	109,354	0
(Decrease) in Deferred Revenues	16,520	0	16,520	0
Net Cash Provided by (Used for) Operating Activities	<u>\$ (137,182)</u>	<u>\$ (316,709)</u>	<u>\$ (453,891)</u>	<u>\$ 6,544</u>

(Concluded)

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

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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, 2011

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, 2011

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

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

Proprietary Fund Financial Statements

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

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

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

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

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

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

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

Fiduciary Fund Financial Statements

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

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2011

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, 2011

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 2010/2011, 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 decrease in the fair value of investments during fiscal year 2010/2011 was \$1,100. 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, 2011**

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/L 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.

Change in Fund Reporting

Effective June 30, 2011, the Natural Disaster Assistance fund, a Special Revenue fund, was closed into the General Fund. The effect of this closure was a \$683,510 transfer to the General Fund. Also effective June 30, 2011, two Capital Projects funds were closed into the General Fund. The effect of the closures was a transfer from Mt. Hermon Road Improvement fund of \$231,905 to the General Fund, and a transfer from Scotts Valley Drive A Improvement District fund of \$143,930 to the General 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, 2011.

Pooled Deposits	\$ 828,684
Pooled Investments: California Local Agency Investment Fund (LAIF)	16,006,960
Money Market	2,792,346
Petty Cash	<u>1,920</u>
Subtotal	19,629,910
Investments with Fiscal Agents and Trustees	<u>1,922,080</u>
Total Cash and Investments	<u>\$21,551,990</u>

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

	<u>Government-Wide Statement of Net Assets</u>		Fiduciary Funds	<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Statement of Net Assets</u>	
Cash & Investments	\$13,671,181	\$4,670,459	\$894,571	\$19,236,211
Restricted Cash & Investments	<u>1,481,870</u>	<u>-</u>	<u>833,909</u>	<u>2,315,779</u>
Total	<u>\$15,153,051</u>	<u>\$4,670,459</u>	<u>\$1,728,480</u>	<u>\$21,551,990</u>

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2011

2. CASH AND INVESTMENTS (continued)

Pooled Deposits

At June 30, 2011, the difference between the carrying amount of the City's book balance of \$828,686 and the corresponding bank balance of \$716,269 was due to outstanding checks and deposits in transit. Of the bank balance, \$250,000 was insured by federal depository insurance and \$466,269 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, 2011, 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, 2011, 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.

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, 2011, the City had \$15,981,765 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 (\$66,489,270,508) by total aggregate amortized cost (\$66,384,617,119) resulting in a factor of 1.001576470.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2011

2. CASH AND INVESTMENTS (concluded)

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, 2011, 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	\$16,006,960	\$ -	\$ -	\$ -
Money Market	<u>2,792,346</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$18,799,306</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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 the "applicable federal rate" as of the date of the Note, all due and payable by September 15, 2054. Funds were loaned by the City of Scotts Valley under the HOME Investment Partnerships Program to facilitate the construction of residential units that are occupied by and affordable to Very-Low Income Persons for the term of the loan. The loan is administered by the City as set forth by federal regulations dated April 30, 1999 between the City and the State of California, by and through the Department of Housing and Community Development. The loan is secured by a deed of trust on the housing units.

\$300,000 due from a California Non-profit Public Benefit Corporation with simple interest at the Local Agency Investment Fund (LAIF) rate, due and payable at maturity. Loan matures and is fully due and payable five years from the date the third unit on the Property is issued a certificate of occupancy or no later than 10 years from the date of the Promissory Note. Funds were loaned by the Scotts Valley Redevelopment Agency Affordable Housing Fund to facilitate the construction of three Assisted Units, in accordance with Agency requirements related to Low and Moderate Income Housing Trust Funds. The loan is secured by a deed of trust on the real property.

CITY OF SCOTT'S VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2011

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land	\$12,397,932	\$ 2,410,509	\$ 0	\$14,808,441
Construction in progress	<u>521,126</u>	<u>3,233,816</u>	<u>3,524,415</u>	<u>230,527</u>
Total capital assets not being depreciated	<u>12,919,058</u>	<u>5,644,325</u>	<u>3,524,415</u>	<u>15,038,968</u>
<u>Capital assets being depreciated:</u>				
Buildings and Improvements	8,502,411	3,563,126	0	12,065,537
Machinery and equipment	2,663,306	288,615	34,492	2,917,429
Infrastructure	<u>37,307,517</u>	<u>86,784</u>	<u>0</u>	<u>37,394,301</u>
Total capital assets being depreciated	<u>48,473,234</u>	<u>3,938,525</u>	<u>34,492</u>	<u>52,377,267</u>
<u>Less accumulated depreciation for:</u>				
Buildings and Improvements	2,166,176	266,571	0	2,432,747
Machinery and equipment	1,883,896	182,800	34,492	2,032,204
Infrastructure	<u>13,562,822</u>	<u>944,462</u>	<u>0</u>	<u>14,507,284</u>
Total accumulated depreciation	<u>17,612,894</u>	<u>1,393,833</u>	<u>34,492</u>	<u>18,972,235</u>
Total capital assets being depreciated, net	<u>30,860,340</u>	<u>2,544,692</u>	<u>0</u>	<u>33,405,032</u>
Governmental capital assets, net	<u>\$43,779,398</u>	<u>\$ 8,189,017</u>	<u>\$ 3,524,415</u>	<u>\$48,444,000</u>
Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land	\$ 429,416	\$ 0	\$ 0	\$ 429,416
Construction in progress	<u>10,000</u>	<u>0</u>	<u>10,000</u>	<u>0</u>
Total capital assets not being depreciated	<u>439,416</u>	<u>0</u>	<u>10,000</u>	<u>429,416</u>
<u>Capital assets being depreciated:</u>				
Buildings and Improvements	5,276,516	0	0	5,276,516
Machinery and equipment	5,584,490	72,389	53,850	5,603,029
Infrastructure	22,769,503	86,017	0	22,855,520
Outfall agreement	<u>178,000</u>	<u>0</u>	<u>0</u>	<u>178,000</u>
Total capital assets being depreciated	<u>33,808,509</u>	<u>158,406</u>	<u>53,850</u>	<u>33,913,065</u>
<u>Less accumulated depreciation for:</u>				
Buildings and Improvements	2,843,520	138,043	0	2,981,563
Machinery and equipment	5,097,186	92,015	53,850	5,135,351
Infrastructure	10,280,954	532,938	0	10,813,892
Outfall agreement	<u>91,974</u>	<u>2,967</u>	<u>0</u>	<u>94,941</u>
Total accumulated depreciation	<u>18,313,634</u>	<u>765,963</u>	<u>53,850</u>	<u>19,025,747</u>
Total capital assets being depreciated, net	<u>15,494,875</u>	<u>(607,557)</u>	<u>0</u>	<u>14,887,318</u>
Business-type capital assets, net	<u>\$15,934,291</u>	<u>\$ (607,557)</u>	<u>\$ 10,000</u>	<u>\$15,316,734</u>
Total Capital Assets	<u>\$59,713,689</u>	<u>\$ 7,581,460</u>	<u>\$ 3,534,415</u>	<u>\$63,760,734</u>

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2011**

4. CAPITAL ASSETS (concluded)

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

<u>Governmental Activities:</u>	
General government	\$ 104,622
Public safety	134,213
Planning & building	6,456
Public works	<u>1,148,542</u>
Total depreciation expense – government activities	<u>\$ 1,393,833</u>
 <u>Business-Type Activities:</u>	
Wastewater	\$ 759,422
Recreation	<u>6,541</u>
Total depreciation expense – business-type activities	<u>\$ 765,963</u>

5. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the fiscal year ended June 30, 2011:

	GOVERNMENTAL ACTIVITIES				
	Balance at July 1, 2010	Additions	Reductions	Balance at June 30, 2011	Due Within One Year
Certificates of Participation	\$ 7,264,380	\$ 0	\$ 110,568	\$ 7,153,812	\$ 107,871
Installment Notes	130,000	0	5,000	125,000	5,000
Tax Allocation Bonds	5,655,000	0	290,000	5,365,000	305,000
Lease Revenue Bonds	8,760,000	0	0	8,760,000	0
Accrued Compensated Absences	745,632	404,564	401,851	748,345	358,216
Net OPEB Obligation	<u>568,089</u>	<u>547,599</u>	<u>187,640</u>	<u>928,048</u>	<u>0</u>
Totals	<u>\$23,123,101</u>	<u>\$ 952,163</u>	<u>\$995,059</u>	<u>\$23,080,205</u>	<u>\$776,087</u>
	BUSINESS-TYPE ACTIVITIES				
	Balance at July 1, 2010	Additions	Reductions	Balance at June 30, 2011	Due Within One Year
Accrued Compensated Absences	\$ 159,057	\$ 89,678	\$ 73,314	\$ 175,421	\$ 107,802
Net OPEB Obligation	<u>153,062</u>	<u>119,271</u>	<u>9,917</u>	<u>262,416</u>	<u>0</u>
	<u>\$312,119</u>	<u>\$208,949</u>	<u>\$ 83,231</u>	<u>\$437,837</u>	<u>\$ 107,802</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, 2011

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, 2011:

Original issue - \$7,359,911, Refunding and 1992 Public Improvements Project	\$ 73,224
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>2,375,000</u>
Total Certificates of Participation	<u>\$7,153,812</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	<u>1992 Refunding Certificates of Participation</u>			
	<u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012		\$ 37,871	\$ 102,129	\$ 140,000
2013		<u>35,353</u>	<u>104,647</u>	<u>140,000</u>
Totals		<u>\$ 73,224</u>	<u>\$ 206,776</u>	<u>\$ 280,000</u>

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.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2011

5. LONG-TERM DEBT (continued)

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>
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	0	159,283	159,283
2017-2021	580,000	748,937	1,328,937
2022-2026	285,000	645,074	930,074
2027-2031	2,050,000	401,695	2,451,695
2032	<u>540,000</u>	<u>12,555</u>	<u>552,555</u>
Totals	<u>\$3,455,000</u>	<u>\$2,604,674</u>	<u>\$6,059,674</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%.

Fiscal Year <u>Ending</u>	2006 Refunding Certificates of Participation		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	365,000	61,825	426,825
2017-2019	<u>1,185,000</u>	<u>85,531</u>	<u>1,270,531</u>
Totals	<u>\$2,375,000</u>	<u>\$ 505,156</u>	<u>\$2,880,156</u>

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2011

5. LONG-TERM DEBT (continued)

Installment Notes:

The following installment notes were outstanding at June 30, 2011:

Scotts Valley Water District \$125,000

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.

Installment Note – Scotts Valley Water District			
Fiscal Year Ending	Principal	Interest	Total
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	5,000	6,450	11,450
2017-2021	35,000	26,550	61,550
2022-2026	45,000	14,850	59,850
2027-2028	<u>25,000</u>	<u>1,650</u>	<u>26,650</u>
Totals	<u>\$ 125,000</u>	<u>\$ 77,850</u>	<u>\$ 202,850</u>

Tax Allocation Bonds:

The following Tax Allocation Bonds were outstanding at June 30, 2011:

Tax Allocation Refunding Bonds of 2006 \$5,365,000

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.

Tax Allocation Refunding Bonds of 2006			
Fiscal Year Ending	Principal	Interest	Total
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	355,000	189,398	544,398
2017-2021	1,450,000	730,865	2,180,865
2022-2026	1,220,000	437,875	1,657,875
2027-2030	<u>1,055,000</u>	<u>108,000</u>	<u>1,163,000</u>
Totals	<u>\$5,365,000</u>	<u>\$2,352,465</u>	<u>\$7,717,465</u>

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2011

5. LONG-TERM DEBT (concluded)

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.

Fiscal Year Ending	2009 Lease Revenue Bond		
	Principal	Interest	Total
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	0	562,486	562,486
2017-2021	395,000	2,784,694	3,179,694
2022-2026	1,270,000	2,446,829	3,716,829
2027-2031	1,835,000	1,871,494	3,706,494
2032-2036	2,595,000	1,154,493	3,749,493
2037-2040	<u>2,665,000</u>	<u>320,305</u>	<u>2,985,305</u>
Totals	<u>\$8,760,000</u>	<u>\$11,390,245</u>	<u>\$20,150,245</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, 2011:

Original issue - \$6,966,000, 2002 Consolidated Reassessment District	\$2,295,000
Original issue - \$4,800,000, Community Facilities District, 97-1 Series A	3,435,000
Original issue - \$1,700,000, Community Facilities District, 97-1 Series B	<u>1,300,000</u>
Total Special Assessment District Bonds (No City Liability)	<u>\$7,030,000</u>

6. RISK MANAGEMENT

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

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

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2011**

6. RISK MANAGEMENT (concluded)

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, 2011:

	<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Major Funds:	General Fund	\$ 15,932		
Non Major Funds:			Homeland Security	\$ 15,932
Totals		<u>\$ 15,932</u>		<u>\$ 15,932</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	\$2,195,055	Redevelopment Agency	
	Affordable Housing	1,978,223	Debt Service	\$4,033,746
Non Major Fund:			General Facilities	139,532
Totals		<u>\$4,173,278</u>		<u>\$4,173,278</u>

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

The advance from Affordable Housing to the Redevelopment Agency Debt Service is being repaid with tax increment revenues. The funds were loaned to 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 \$763,364, as follows:

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2011

7. INTERFUND TRANSACTIONS (concluded)

	Transfers In:				Total
	General Fund	Redevlmt Debt Fund	Enterprise Funds	Non- Major Fund	
Transfers Out:					
General Fund	\$ 0	\$ 0	\$ 137,382	\$ 54,966	\$ 192,348
Non Major Fund	<u>1,359,345</u>	<u>201,013</u>	<u>70,003</u>	<u>0</u>	<u>1,630,361</u>
Total	<u>\$1,359,345</u>	<u>\$ 201,013</u>	<u>\$ 207,385</u>	<u>\$ 54,966</u>	<u>\$1,822,709</u>

The General Fund transferred out a total of \$192,348 as follows: \$137,382 to the Recreation Fund for operations, \$12,030 to the Non-Major Senior Center Fund for operations, and \$42,936 to the Non-Major General Capital Projects Fund for the City's General Plan update.

Non-Major Funds transferred out a total of \$1,630,361 as follows: \$300,000 from the Gas Tax Fund to the General Fund for street maintenance expenditures, \$683,510 from the Natural Disaster Assistance Fund for repayment of qualified expenditures previously paid by the General Fund, \$231,905 from the Mt. Hermon Road Improvement Construction Fund for repayment of qualified expenditures previously paid by the General Fund, \$143,930 from the Scotts Valley Drive Improvement District Fund for repayment of qualified expenditures previously paid by the General Fund, \$70,003 from the Recycling Fund to the Wastewater Fund for recycling related costs and \$201,013 from Redevelopment Agency's Capital Projects Fund to the Redevelopment Agency's Debt Service Fund for debt expense.

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 had no construction contract commitments as June 30, 2011 for any construction projects.

In December of 2003 the City entered into a Memorandum of Understanding (MOU) with the Land Trust of Santa Cruz County. The Land Trust is to manage approximately 162 acres of open space in accordance with the Glenwood Open Space Management Plan approved by the City Council on June 4, 2004. The City has placed \$1,070,000 in an endowment trust fund managed by the Land

Trust. All costs associated with the management of the open space are to be paid by investment earnings and principal of this endowment. If the Land Trust is unable to provide management services or if the agreement is terminated, any remaining amount in the endowment trust fund will be returned to the City.

9. FUND BALANCES – GOVERNMENTAL FUNDS

As of these financial statements, the City has adopted GASB Statement 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Nonspendable – amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action by City Council ordinance or resolution.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2011

9. FUND BALANCES – GOVERNMENTAL FUNDS (concluded)

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Only the City Council may assign amounts for specific purposes.

Unassigned – all amounts not included in other spendable classifications.

As of June 30, 2011, fund balances are composed of the following:

	<u>General Fund</u>	<u>Affordable Housing</u>	<u>Redevlmt Debt Fund</u>	<u>Non-Major Governmentl Funds</u>	<u>Total</u>
Restricted:					
Debt Service	\$ 433,369	\$ 0	\$ 0	\$ 0	\$ 433,369
Low/Moderate Hsg	0	4,590,418	0	0	4,590,418
Impact Fees	0	0	0	1,218,722	1,218,722
Public Works	0	0	0	984,444	984,444
Public Safety	0	0	0	792,198	792,198
Parks & Recreation	0	0	0	660,661	660,661
Community Development	0	0	0	554,461	554,461
Planning	0	0	0	29,471	29,471
Assigned:					
Debt Service	0	0	0	1,734,530	1,734,530
Parks & Recreation	0	0	0	27,826	27,826
Unassigned	<u>6,316,586</u>	<u>0</u>	<u>(2,857,570)</u>	<u>(1,695,502)</u>	<u>1,763,514</u>
Total	<u>\$6,749,955</u>	<u>\$4,590,418</u>	<u>\$(2,857,570)</u>	<u>\$4,306,811</u>	<u>\$12,789,614</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which assigned or unassigned fund balances are available, the City considers amounts to have been spent first out of assigned funds, and finally unassigned funds, as needed, unless City Council has provided otherwise in its commitment or assignment actions.

10. DEFICIT FUND BALANCES

At June 30, 2011, the following City funds had deficit fund balances:

Major Fund:

Redevelopment Agency Debt Service (\$2,857,570)

Non Major Funds:

General Facility (\$85,283)
Redevelopment Agency Capital Projects (1,599,765)
Homeland Security (10,454)
Total Non Major Funds (\$1,695,502)

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 Redevelopment Agency Capital Projects fund deficit will be eliminated by future tax increments. The Homeland Security fund deficit will be eliminated by receipt of grant funds billed but not received until following fiscal year.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2011

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 2010/2011 was 16.621% for Miscellaneous Plan employees and 29.725% 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 2010/2011, the City's annual pension cost for the Safety Plan and Miscellaneous Plan was \$516,429 and \$438,155, respectively, which was equal to the City's required and actual contribution.

Three-Year Trend Information

Fiscal Year	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
6/30/2009	\$430,173	100%	\$0	\$466,587	100%	\$0
6/30/2010	\$454,726	100%	\$0	\$507,324	100%	\$0
6/30/2011	\$438,155	100%	\$0	\$516,429	100%	\$0

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2011

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 \$197,557 in post employment benefits for the 23 retired employees who were eligible for benefits during the fiscal year ended June 30, 2011.

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	\$ 654,850
Interest on the net OPEB obligation	36,058
Adjustment to Annual Required Contribution	<u>(24,038)</u>
Annual OPEB cost	666,870
Payments made	<u>(197,557)</u>
Increase in net OPEB obligation	469,313
Net OPEB obligation – beginning of year	<u>721,151</u>
Net OPEB obligation – end of year	<u>\$1,190,464</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, 2010 and June 30, 2011, 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>
2010	\$506,055	27.4%	\$367,336
2011	\$666,870	29.6%	\$469,313

As of October 1, 2010, the most recent actuarial valuation date, the Plan was 0% funded. The actuarial accrued liability (AAL) for benefits was \$5,479,515, and the actuarial value of the Plan assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,479,515. The covered payroll (annual payroll of active employees covered by the Plan) was \$4,377,087 and the ratio of UAAL to the covered payroll was 125%.

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

CITY OF SCOTT VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2011

12. POSTEMPLOYMENT BENEFITS (concluded)

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.

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 October 1, 2010, 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 October 1, 2010, 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 and Aggregate Payroll are assumed to increase 3% per annum. Both post-retirement benefit increases and the healthcare cost trend rate are assumed to increase 4% 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, 2010 (fiscal year 2011 not available at the time of the printing of the City's financial statements):

Total Assets	\$14,087,133	Total Revenues	\$4,376,621
Total Liabilities	<u>17,343,800</u>	Total Expenditures	<u>4,690,211</u>
Net Assets (Deficit)	<u>(\$3,256,667)</u>	Change in Net Assets	<u>\$ (313,590)</u>

The City paid \$254,658 for workers compensation and \$39,506 for liability premiums during the year ended June 30, 2011. The City's share of the fiscal year-end assets, liabilities, or fund equity has not been calculated by the MBASIA.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (concluded)
JUNE 30, 2011

14. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES

During fiscal year 2010/11, the Agency and the City entered into an agreement in which the Agency acquired certain City-owned real property assets for \$725,000. The City sold to the Agency the land on Erba Lane of Scotts Valley for redevelopment valued at \$725,000.

The Agency has agreements termed pass-throughs with government entities. These agreements require the Agency to pass through to these entities a portion of the property tax increases it collects, representing the increases these entities would have expected to collect if the Agency had not been formed.

As part of the 2011/12 State budget package, the California legislature enacted and the Governor signed two companion bills addressing redevelopment, AB1x26 ("Dissolution Act") and AB1x27 ("Voluntary Program Act"), which took effect on June 29, 2011.

The Dissolution Act, which is discussed more fully below, immediately suspended all new redevelopment activities and incurrence of indebtedness, and eliminates redevelopment agencies as of October 1, 2011.

The Voluntary Program Act, which is discussed more fully below, allows the community that created the redevelopment agency to avoid dissolution by opting to pay a substantial community remittance ("Remittance") beginning FY 2011/12 and each year thereafter. If all communities with redevelopment agencies opt in to the Voluntary Program Act, the total statewide remittance would be \$1.7 billion in FY 2011/12. Remittance each succeeding year would be approximately \$400 million statewide. If the City opts in to the Voluntary Program Act, the FY 2011/12 payment is \$1,431,154 million and each subsequent year is approximately \$350,000 based on preliminary estimates by the California Redevelopment Association. Biannual payments would be due by January 15 and May 15 each year.

On July 18, 2011, the California Redevelopment Association, the League of California Cities, and others filed a Petition for Writ of Mandate in the Supreme Court of the State of California (California Redevelopment Association, et al. v. Ana Matosantos, et al., Case No. 5194861), challenging the constitutionality of the companion bills, the Dissolution Act and the Voluntary Program Act, on behalf of cities, counties and redevelopment agencies, and requesting a stay of their enforcement.

As of the date of this report, a partial stay of enforcement of the companion bills has been granted by the California Supreme court. The partial stay continues to prohibit RDA's from taking on any new obligations or engaging in any RDA activities (other than meeting prior enforceable obligations) on or after the effective date of the companion bills, but it is unclear whether cities may still adopt opt-in ordinances during the stay.