

**City of Scotts Valley  
California**



**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT  
For Fiscal Year Ended  
June 30, 2011**



**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**Of**

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

**For the Fiscal Year Ended June 30, 2011**

**Stephen H. Ando  
City Manager**

**CITY OF SCOTTS VALLEY  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
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# **INTRODUCTORY SECTION**





# CITY OF SCOTTS VALLEY

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## OFFICE OF THE CITY MANAGER

One Civic Center Drive · Scotts Valley · California · 95066  
Phone (831) 440-5600 · Facsimile (831) 438-2793 · [www.scottsvalley.org](http://www.scottsvalley.org)

December 19, 2011

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

### **SUBJECT: COMPREHENSIVE ANNUAL FINANCIAL REPORT - JUNE 30, 2011**

Honorable Mayor and Council Members:

The Comprehensive Annual Financial Report for the City of Scotts Valley for the fiscal year ended June 30, 2011 is hereby submitted. The responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with City management. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activity have been included. These statements have been audited by the City's independent auditor, C. G. Uhlenberg, LLP, who has issued an unqualified opinion thereon. The Auditors' report is also included.

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

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

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

## **REPORTING ENTITY AND SERVICES PROVIDED**

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

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

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

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

## **MAJOR INITIATIVES**

During 2010 / 2011, the City accomplished the following:

- Completed the Scotts Valley Public Library Branch Library remodel project.
- Completed the purchase of a fourth parcel in the Town Center Project area.
- Woodside project was approved for 50 single family homes.
- Approved refinancing of assessment district CFD 97-1 which netted savings of \$358,000 to property owners within the City over the remaining 17 years of assessments.
- The City sold a vacant parcel to the Scotts Valley Redevelopment Agency for \$725,000.
- Approved ordinance to amortize liquefied petroleum gas uses in two years within all city commercial zoning districts.
- Approved a three-unit project for Habitat for Humanity.
- Proclaimed a local emergency due to damage caused by heavy storms in March 2011; however, no state or federal funding was approved for this disaster.

The following are current and future projects:

- Complete the upgrading of our Police Department Mobile Data Consoles (MDC) and records management system.
- Relocation of existing propane fueling station out of the Town Center Project area.
- The Police Department is currently updating and improving their General Orders Manual.
- A 119-room hotel building.
- Submittal of a \$3.5 million federal grant application to the Economic Development Administration for infrastructure costs for the City's Town Center Project.

## **FINANCIAL POLICIES**

In November 2005 the voters of Scotts Valley approved a temporary five-year sales tax of a half-cent for the first three years and dropping to a quarter-cent for the final two years for the City's General Fund. The temporary tax ended March 31, 2011. Council approved setting aside revenues from this temporary sales tax as they came in above what was needed for each year's budget. Council also approved budget cuts for 2009-10 of approximately \$445,000 in salaries and benefits annually to help with the City budget deficit. A one-day-a-month furlough was a part of budget reductions and was extended to the 2010-11 fiscal year.

The City filed a lawsuit against the County of Santa Cruz regarding the amount of property taxes distributed to the City. In May 2009 the court ruled in the City's favor. The County has appealed this decision. In late October 2011 the Appellate Court affirmed in part and reversed in part the decision of the trial court. The County of Santa Cruz has now petitioned the State Supreme Court to consider the issues. The State Supreme Court has until early March 2012 to decide whether or not it will hear the case.

The downturn in the national economy has created a delay in the Town Center Project. However, the City's Redevelopment Agency in prior years purchased two undeveloped parcels as well as a building to be remodeled into the Scotts Valley Branch Library in the Town Center Project Area. During 2010-11 the Redevelopment Agency purchased another parcel in the Town Center Project Area. The City of Scotts Valley is also in the process of applying for an Federal EDA grant for a portion of infrastructure costs.

## **FINANCIAL INFORMATION**

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

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

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

## **ECONOMIC FACTORS**

The City of Scotts Valley is located in Santa Cruz County, approximately 75 miles south of San Francisco. The unemployment rates for the City of Scotts Valley, the County of Santa Cruz, and the State of California as of June for the last five fiscal years are shown below. As reflective of the national economy, all three rates increased dramatically in 2009. However, Scotts Valley's 2011 rate is 52% lower than the County rate and 55% lower than the State rate.

<u>June 30,</u>	<u>Unemployment Rate</u>		
	<u>Scotts Valley</u>	<u>Santa Cruz County</u>	<u>California</u>
2007	2.1%	5.0%	5.2%
2008	2.6%	6.1%	7.0%
2009	4.7%	10.6%	11.6%
2010	5.4%	11.2%	12.2%
2011	5.5%	11.4%	12.1%

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

<u>June 30,</u>	<u>Single-Family Homes</u>			
	<u>Average Price</u>	<u>Increase (Decrease) Over (Under) Prior Year</u>	<u>Median Price</u>	<u>Increase (Decrease) Over (Under) Prior Year</u>
2007	\$889,656	6.1%	\$761,000	0.1%
2008	684,996	(23.0%)	610,000	(19.8%)
2009	569,814	(16.8%)	519,000	(14.9%)
2010	544,321	(4.5%)	503,750	(2.9%)
2011	627,248	15.2%	545,000	8.2%

## **OTHER INFORMATION**

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

**Awards:** The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Scotts Valley for its comprehensive annual financial report for the fiscal year ended June 30, 2010. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standard for preparation of state and local government financial reports.

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

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

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

## **ACKNOWLEDGMENTS**

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

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

Respectfully submitted,



Stephen H. Ando  
City Manager



**LIST OF PRINCIPAL OFFICIALS**

**JUNE 30, 2011**

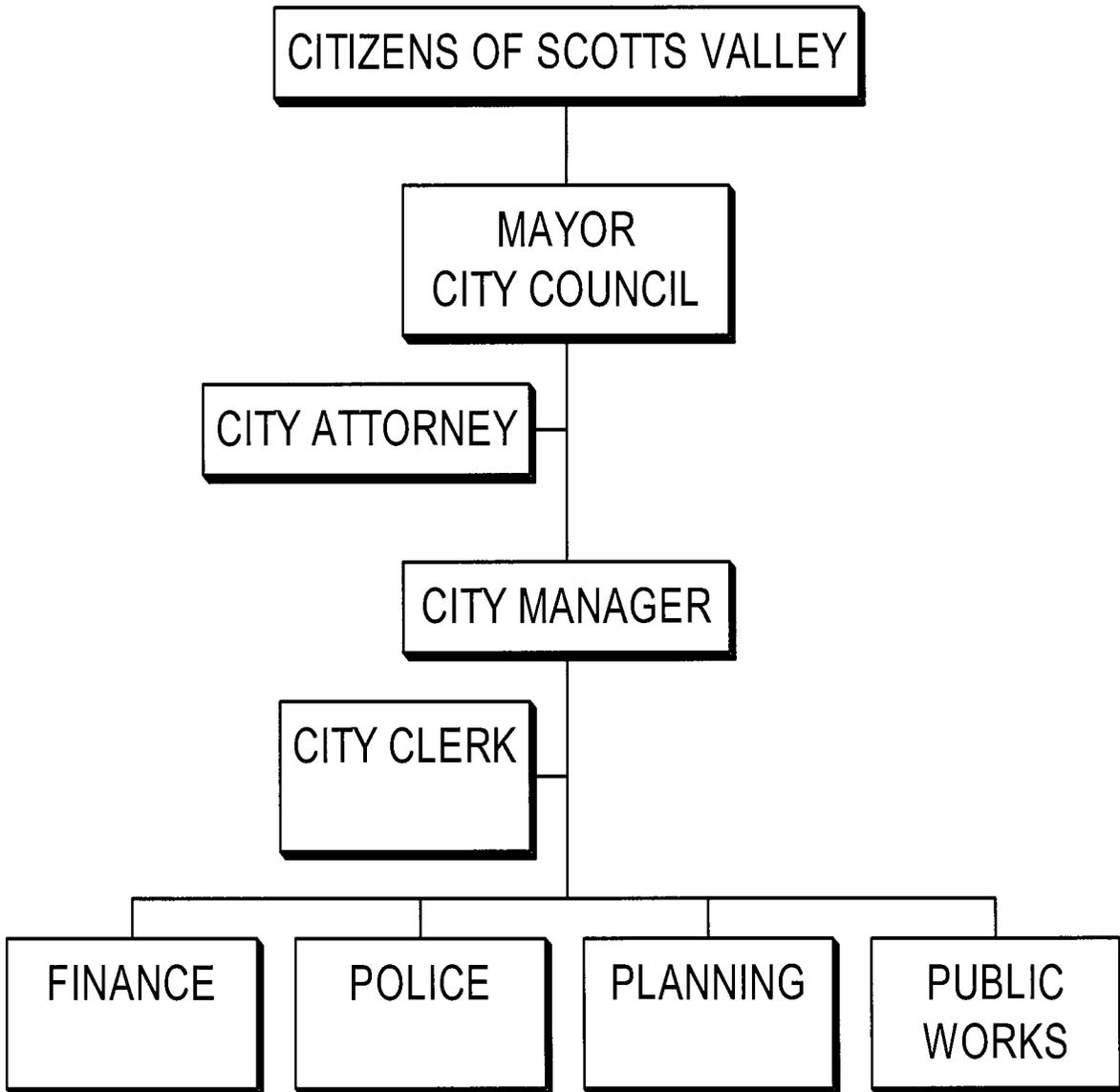
**CITY COUNCIL MEMBERS**

<b>Dene Bustichi</b>	<b>Mayor</b>
<b>Donna Lind</b>	<b>Vice Mayor</b>
<b>Stephany E. Aguilar</b>	<b>Councilmember</b>
<b>Randy Johnson</b>	<b>Councilmember</b>
<b>Jim Reed</b>	<b>Councilmember</b>

**CHIEF ADMINISTRATIVE PERSONNEL**

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

CITY OF SCOTTS VALLEY  
ORGANIZATION CHART



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Scotts Valley  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2010

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



*Linda C. Davidson*

President

*Jeffrey R. Emer*

Executive Director



# **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, 2011, 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, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 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.

*C. G. Yehlinberg LLP*

December 19, 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, 2011. 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, 2011, by \$60,114,312. The current year change in net assets was a decrease of \$672,663. Of the total net assets, \$42,356,922 was invested in capital assets (net of related debt) and \$11,562,397 had restrictions on their use leaving \$6,225,993 as unrestricted. The current decrease in City net assets is a combination of the governmental activities increasing \$406,959 and the business-type activities decreasing \$1,079,622.

As of June 30, 2011, the City's governmental funds (General Fund, special revenue funds, debt service funds, and capital project funds) had a combined fund balance of \$12,789,614, a decrease of \$4,480,265 from the previous year. This was primarily due to a decrease of \$3,484,497 in the Redevelopment Agency Capital Projects Fund. Construction funds were spent on the remodel a building into the Scotts Valley Branch Library. Construction began at the beginning of the fiscal year. Of the total City governmental fund balance, \$9,263,744 was restricted, \$1,762,356 was assigned, and \$1,763,514 was unassigned.

The City's voters approved a temporary sales tax in November 2005. It became effective April 1, 2006, and ended March 31, 2011. For the first three years it was an additional half-cent sales tax. For the final two years it was reduced 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 \$60,145,312 as of June 30, 2011. This is a decrease of \$672,663, or 1.1%, from the previous year. It is a combination of a decrease in total assets of \$36,270 and an increase in total liabilities of \$636,393. 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
	2011	2010	2011	2010	2011	2010	
Current and other assets	\$17,766	\$21,556	\$6,687	\$ 6,980	\$24,453	\$28,536	(14.3%)
Capital assets, net	48,444	43,779	15,317	15,934	63,761	59,713	6.8%
<b>Total assets</b>	<b>66,210</b>	<b>65,335</b>	<b>22,004</b>	<b>22,914</b>	<b>88,214</b>	<b>88,249</b>	<b>0.0%</b>
Long-term debt outstanding	22,304	22,380	330	232	22,634	22,612	0.1%
Other liabilities	5,029	4,485	405	334	5,434	4,819	12.8%
<b>Total liabilities</b>	<b>27,333</b>	<b>26,865</b>	<b>735</b>	<b>566</b>	<b>28,068</b>	<b>27,431</b>	<b>2.3%</b>
Net assets:							
Invested in capital assets, net or related debt	27,040	21,970	15,317	15,934	42,357	37,904	11.7%
Restricted	9,264	11,013	2,298	2,271	11,562	13,284	(13.0%)
Unrestricted	2,573	5,487	3,656	4,143	6,238	9,630	(35.2%)
<b>Total net assets</b>	<b>\$38,877</b>	<b>\$38,470</b>	<b>\$21,271</b>	<b>\$22,348</b>	<b>\$60,157</b>	<b>\$60,818</b>	<b>(1.1%)</b>

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

Cash and Investments	\$639,744
Receivable Due from Other Gov'ts	(748,795)
Cash and Investments with Fiscal Agents and Trustees	(4,047,216)
Capital Assets, net of depreciation	4,047,045

The increase in Cash and Investments coincides with the decrease in Receivable Due from Other Governments. The decrease in Cash and Investments with Fiscal Agents and Trustees and the increase in Capital Assets are also related. The Cash and Investments with Fiscal Agents and Trustees came from the issuance of bonds to remodel an existing building into the Scotts Valley Branch Library. The funds were spent, and the project was completed this fiscal year.

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

The main increases in total liabilities were as follows:

Accounts Payable \$483,807

The increase in accounts payable relates to the remodel of an existing building into the Scotts Valley Branch Library. A large construction payment to the contractor was accrued at the end of the fiscal year.

**Changes in Net Assets:** City-wide the change in net assets went from a decrease of \$2,293,774 in fiscal year 2010 to a decrease of \$660,643 in fiscal year 2011. This is a result of total revenues increasing \$565,565, or 3.3%, and total expenses decreasing \$1,067,566, or 5.5%. A further analysis is shown below.

	<u>2011</u>	<u>2010</u>	<u>Percent Change</u>
Program Revenues	\$ 6,279	\$ 5,347	17.4%
General Revenues	11,565	11,932	(3.1%)
Governmental Expenses	(14,668)	(15,859)	(7.5%)
Business-type Expenses	<u>(3,849)</u>	<u>(3,714)</u>	3.6%
Net Increase (Decrease)	<u>\$ (673)</u>	<u>\$ (2,294)</u>	70.7%

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 \$933,050, primarily in the governmental activities under Capital Grants and Contributions for Public Works and Redevelopment. Capital grants are not consistent and can vary widely from year to year. Public Works decreased \$1,070,423 after receiving a number of grant revenues in fiscal year 2009-10. Redevelopment increased \$2,126,733 primarily from amounts received from the County of Santa Cruz for the Scotts Valley Branch Library Project. Starting in fiscal year 1997-98 per an agreement with the County of Santa Cruz, the Scotts Valley Redevelopment Agency began setting aside funds for a Scotts Valley Branch Library. The funds were held by the County. The Redevelopment Agency drew down those funds from the County as the construction of the Library progressed.

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

General revenues decreased \$367,485. Of that amount, \$359,380 relates to governmental activities and only \$8,105 relates to business-type activities. The majority of the decrease in the governmental activities relates to property tax which decreased \$374,459. This is a reflection of the downturn in the national economy and property values.

**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
	2011	2010	2011	2010	2011	2010	
Program revenues:							
Charges for services	\$551	\$711	\$2,512	\$2,461	\$3,063	\$3,172	(3.4%)
Operating grants	552	570	0	0	552	570	(3.2%)
Capital grants	2,645	1,586	20	18	2,665	1,604	66.1%
General revenues:							
Property tax	5,677	6,052	0	0	5,677	6,052	(6.2%)
Sales tax	2,108	2,105	0	0	2,108	2,105	.1%
Other taxes	3,251	3,202	0	0	3,251	3,202	1.5%
Investment earnings	44	118	30	38	74	156	(52.6%)
Miscellaneous	454	417	0	0	454	417	8.9%
<b>Total revenues</b>	<b>15,282</b>	<b>14,761</b>	<b>2,562</b>	<b>2,517</b>	<b>17,844</b>	<b>17,278</b>	<b>3.3%</b>
Expenses:							
General government	1,617	1,810	0	0	1,617	1,810	(10.7%)
Public safety	4,545	4,479	0	0	4,545	4,479	1.5%
Planning & building	1,178	1,324	0	0	1,178	1,324	(11.0%)
Public works	2,965	2,865	0	0	2,965	2,865	3.5%
Redevelopment	3,036	4,291	0	0	3,036	4,291	(29.2%)
Interest on debt	1,327	1,089	0	0	1,327	1,089	21.9%
Wastewater	0	0	2,767	2,699	2,767	2,699	2.5%
Recreation	0	0	1,082	1,015	1,082	1,015	6.4%
<b>Total expenses</b>	<b>14,668</b>	<b>15,858</b>	<b>3,849</b>	<b>3,714</b>	<b>18,517</b>	<b>19,572</b>	<b>(5.4%)</b>
<b>Excess or (Deficiency)</b>	<b>614</b>	<b>(1,097)</b>	<b>(1,287)</b>	<b>(1,197)</b>	<b>(673)</b>	<b>(2,294)</b>	<b>70.7%</b>
<b>Transfers</b>	<b>(207)</b>	<b>(228)</b>	<b>207</b>	<b>228</b>	<b>0</b>	<b>0</b>	
<b>Change in Net Assets</b>	<b>\$407</b>	<b>(\$1,325)</b>	<b>(\$1,080)</b>	<b>(\$969)</b>	<b>(\$673)</b>	<b>\$ (2,294)</b>	<b>70.7%</b>

**Net Cost of Services:** The table on the next page presents the total cost of each of the City's governmental and business-type activities as well as each activity's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

For governmental activities, the total costs of \$14,667,620 were offset by charges for services (\$550,735), operating grants/contributions (\$551,923), and capital grants/contributions (\$2,644,693), bringing the net cost of services down to \$10,920,269. The three areas with the largest change between years are General Government, Public Works, and Redevelopment. General Government decreased due to lower workers compensation premiums and lower legal costs. The City is a member of an insurance pool with nine other cities. Workers compensation premiums are assessed in part based on experience. Scotts Valley's recent experience has been low, and the premium was reduced accordingly. Legal costs decreased due to little activity this past year regarding the City's lawsuit with the County of Santa Cruz while the case was being reviewed by the Appellate Court. The City initially won the lawsuit which involves the amount of property taxes distributed to the City of Scotts Valley, but the County appealed the decision. Public Works increased and Redevelopment decreased due to changes in Capital Grants and Contributions revenues as discussed above.

**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
	2011	2010		2011	2010	
General Government	\$1,617	\$1,810	(10.7%)	\$1,568	\$1,749	(10.3%)
Public Safety	4,545	4,479	1.5%	4,320	4,244	1.8%
Planning & Building	1,178	1,324	11.0%	896	905	(1.0%)
Public Works	2,965	2,865	3.5 %	2,216	1,054	110.2%
Redevelopment	3,036	4,291	(29.2%)	593	3,951	(85.0%)
Interest on L-T Debt	1,327	1,089	21.9%	1,327	1,089	21.9%
Total	<u>\$14,668</u>	<u>\$15,858</u>	(7.5%)	<u>\$10,920</u>	<u>\$12,992</u>	(15.9%)
Wastewater	\$2,767	\$2,699	2.5%	\$1,088	\$1,031	5.5%
Recreation	1,082	1,015	6.6%	229	203	12.8%
Total	<u>\$3,849</u>	<u>\$3,714</u>	3.6%	<u>\$1,317</u>	<u>\$1,234</u>	6.7%

**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 2010 to 2011. The total revenues and expenditures do not include any "other financing sources (uses)."

	Increase (Decrease) from Prior Year			
	Assets	Liabilities	Revenues	Expenditures
General Fund	\$1,044,215	\$7,902	\$630,705	(\$251,521)
Affordable Hsg	(239,302)	2,185	(135,288)	1,041,824
RDA Debt	(1,575,778)	(1,499,737)	(297,458)	(1,245,819)
Other Gov't	(5,098,351)	100,699	1,013,883	(216,507)

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

The six largest variances other than the General Fund are the expenditures in the Affordable Housing Fund; assets, liabilities, and expenditures in the Redevelopment Agency Debt Service Fund; and assets and revenues in Other Governmental Funds.

The increase in the Affordable Housing Fund expenditures is due to two reasons. First, the Redevelopment Agency Board loaned \$300,000 to Habitat for Humanity for a project they are building in the City of Scotts Valley. The loan is detailed in footnote 3 to the financial statements. Second, the Agency purchased a \$725,000 parcel of undeveloped land from the City of Scotts Valley for future development of affordable housing.

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

The decrease in assets and liabilities in the Redevelopment Agency Debt Service Fund relates to the Agency making payments on its advance from the General Fund. In addition, Cash and Investments with Fiscal Agents and Trustees was used on the remodel of an existing building into the Scotts Valley Branch Library. Expenditures decreased due to the \$1,485,273 that was paid last year to the State for its Supplemental Education Revenue Augmentation Fund obligation.

The decrease in assets in Other Governmental Funds relates to a decrease in cash for construction of the Scotts Valley Branch Library. The Redevelopment Agency Capital Projects Fund used \$3,484,732 in restricted bond proceeds funds and the Library Impact Fee Fund in Special Revenue Funds used \$554,559 in cash for this project.

As discussed earlier, the increase in revenue in Other Governmental Funds relates to the Redevelopment Agency which increased \$2,107,114 from amounts received from the County of Santa Cruz for the Scotts Valley Branch Library Project. Starting in fiscal year 1997-98 per an agreement with the County of Santa Cruz, the Scotts Valley Redevelopment Agency began setting aside funds for a Scotts Valley Branch Library. The funds were held by the County. The Redevelopment Agency drew down those funds from the County as the construction of the Library progressed. This increase was offset by a reduction of \$913,610 in grant revenues in the General Capital Improvements Fund. Grant revenues vary greatly year to year.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

Total revenues were \$802,073 (11.6%) over budget. The main reason for this is the sale of property for \$725,000 to the Affordable Housing Fund of the Redevelopment Agency. Without this sale, General Fund revenues would have been only \$77,073 (1.1%) over budget. This is a combination of taxes being \$230,690 over budget and charges for services being \$170,488 under budget

The two largest variances in tax revenue were regular sales tax and transient occupancy tax. Regular sales tax was over budget by \$162,535, or 10%, and transient occupancy tax was over budget by \$89,684, or 19%. Revenues are budgeted conservatively each year. From prior year to current year sales tax increased \$43,308 (2.6%) and transient occupancy tax increased \$25,738 (4.7%).

Charges for services was under budget from construction permits being \$217,797 under budget. Although the national economic slump is still with us, this account being under budget is due to several projects that were anticipated to occur in 2010-11, will more likely be constructed in the following fiscal year.

On the expenditure side, the General Fund was under budget by \$95,457. The main variances to the original budget were the general government being \$133,677 over budget and police being \$168,177 under budget. General government was over budget due to a number of accounts. Six accounts were over \$10,000 over budget. Police was under budget due to vacancies in the police officer and dispatcher positions.

## CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets:** A recap of the City's capital assets, net of accumulated depreciation, is shown in the table below. The City-wide increase (net of depreciation) is \$4,047,045, or 6.8%. The governmental activities had capital assets additions of \$6,058,435. Current year depreciation of \$1,393,833 brought capital assets to a net increase of \$4,664,602. The main capital asset additions were the purchase of a parcel of undeveloped land for the Town Center project (\$2,410,509) and the completion of the Scotts Valley Branch Library project (\$3,809,107, of which \$421,126 was in construction in progress at the beginning of the year). The business-type activities had capital assets additions of \$148,406 while depreciation of \$765,963 created a net decrease of \$617,557.

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

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2011	2010	2011	2010	2011	2010	
Land	\$14,808	\$12,398	\$429	\$429	\$15,237	\$12,827	18.8%
Buildings & Improvements	9,633	6,336	2,295	2,433	11,928	8,769	36.0%
Equipment	885	779	468	487	1,353	1,266	6.9%
Infrastructure	22,887	23,745	12,042	12,489	34,929	36,234	(3.6%)
Outfall Agreement	0	0	83	86	83	86	(3.5%)
Construction in Progress	231	521	0	10	231	531	(56.5%)
Total	<u>\$48,444</u>	<u>\$43,779</u>	<u>\$15,317</u>	<u>\$15,934</u>	<u>\$63,761</u>	<u>\$59,713</u>	6.8%

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 \$82,822, or .3%. The annual debt service payments on long-term debt were offset by increases in accrued compensated absences and net OPEB obligation. The net OPEB obligation is an actuarially determined amount for Other Post Employment Benefits in accordance with GASB (Governmental Accounting Standards Board) Statement 45. 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
	2011	2010	2011	2010	2011	2010	
Certificates of Participation	\$7,154	\$7,264	\$ 0	\$ 0	\$7,154	\$7,264	(1.5%)
Installment Notes	125	130	0	0	125	130	(3.8%)
Tax Allocation Bonds	5,365	5,655	0	0	5,365	5,655	(5.1%)
Lease Revenue Bonds	8,760	8,760	0	0	8,760	8,760	n/a
Accrued Comp Absences	748	746	175	159	923	905	2.0%
Net OPEB Obligation	928	568	262	153	1,190	721	65.0%
Total	<u>\$23,080</u>	<u>\$23,123</u>	<u>\$437</u>	<u>\$312</u>	<u>\$23,517</u>	<u>\$23,435</u>	.3%

## NEXT YEAR'S BUDGETS AND RATES

The City continues to have a hiring freeze. As positions become vacant, they are reviewed before deciding whether to fill the vacancy or not. The two exceptions are emergency dispatch and police officers. Police officer positions are capped at two vacancies. The 2011-12 General Fund budget was approved with a \$263,421 (3.3%) increase. Although regular salaries decreased \$35,722 (1.0%) and services and supplies decreased \$29,909 (2.8%), these were offset by increases in retirement (\$127,608), workers compensation (\$89,859), and group insurance (\$73,019).

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.