

FINANCIAL SECTION

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

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CITY OF SCOTT'S VALLEY
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments (Note 2)	\$ 11,027,635	\$ 4,104,462	\$ 15,132,097
Receivables:			
Due from other Governments	735,148	311,307	1,046,455
Sewer Fees	0	246,846	246,846
Other	1,839	47,182	49,021
Inventory	0	2,688	2,688
Prepaid Expenses	0	10,078	10,078
Advances to Redevelopment Successor Agency (Note 3)	4,155,044	1,600,000	5,755,044
Long-Term Loans Receivable (Note 3)	2,371,816	0	2,371,816
Restricted Assets (Note 2):			
Cash and Investments with Fiscal Agents and Trustees	447,746	0	447,746
Unamortized Debt Issuance Costs, Net	409,069	0	409,069
Capital Assets (Note 4):			
Land and construction in progress	7,248,320	480,856	7,729,176
Other capital assets, net of depreciation	25,765,024	14,236,375	40,001,399
Total capital assets	<u>33,013,344</u>	<u>14,717,231</u>	<u>47,730,575</u>
Total Assets	<u>52,161,641</u>	<u>21,039,794</u>	<u>73,201,435</u>
LIABILITIES			
Accounts Payable	126,410	99,960	226,370
Accrued Liabilities	262,985	32,154	295,139
Deposits	1,528	0	1,528
Unearned Revenues	157,585	101,525	259,110
Long-Term Debt (Note 5):			
Current Portion of Long-Term Debt (Note 5)	618,681	101,085	719,766
Accrued Interest	2,468,719	0	2,468,719
Certificates of Participation	5,935,588	0	5,935,588
Pension Obligation Bonds	4,280,000	0	4,280,000
Accrued Compensated Absences	503,760	74,001	577,761
Net OPEB Obligation	1,290,296	355,143	1,645,439
Total Liabilities	<u>15,645,552</u>	<u>763,868</u>	<u>16,409,420</u>
NET ASSETS			
FUND BALANCES			
Invested in Capital Assets, net of related debt	22,507,403	14,717,231	37,224,634
Restricted for:			
Capital Projects	4,459,156	2,298,653	6,757,809
Debt Service	433,346	0	433,346
Low/Moderate Income Housing	4,275,035	0	4,275,035
Unrestricted	4,841,149	3,260,042	8,101,191
Total Net Assets	<u>\$ 36,516,089</u>	<u>\$ 20,275,926</u>	<u>\$ 56,792,015</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, 2012**

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
General Government	\$ 5,563,325	\$ 240,540	0	10,580	251,120
Public Safety	4,855,212	46,587	258,093	26,896	331,576
Planning & Building	1,185,758	366,747	1,764	22,052	390,563
Public Works	2,961,167	225,471	410,472	284,505	920,448
Interest on Long-Term Debt and Fiscal Agent Charges	967,148	0	0	0	0
Total Governmental Activities	15,532,610	879,345	670,329	344,033	1,893,707
Business-Type Activities:					
Wastewater	3,291,469	1,636,584	0	137,245	1,773,829
Recreation Programs	1,410,728	810,703	0	0	810,703
Total Business-Type Activities	4,702,197	2,447,287	0	137,245	2,584,532
Total Primary Government	\$ 20,234,807	\$ 3,326,632	\$ 670,329	\$ 481,278	\$ 4,478,239

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

Extraordinary Gain (Note 14)

Change in Net Assets

Net Assets - Beginning of Year

Net Assets - End of Year

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

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (5,312,205)	\$ 0	\$ (5,312,205)
(4,523,636)	0	(4,523,636)
(795,195)	0	(795,195)
(2,040,719)	0	(2,040,719)
<u>(967,148)</u>	<u>0</u>	<u>(967,148)</u>
<u>(13,638,903)</u>	<u>0</u>	<u>(13,638,903)</u>
0	(1,517,640)	(1,517,640)
<u>0</u>	<u>(600,025)</u>	<u>(600,025)</u>
0	(2,117,665)	(2,117,665)
<u>(13,638,903)</u>	<u>(2,117,665)</u>	<u>(15,756,568)</u>
2,143,174	0	2,143,174
1,887,496	0	1,887,496
840,480	0	840,480
770,730	0	770,730
600,478	0	600,478
712,605	0	712,605
<u>345,945</u>	<u>0</u>	<u>345,945</u>
7,300,908	0	7,300,908
85,866	13,548	99,414
450,130		450,130
<u>(1,111,294)</u>	<u>1,111,294</u>	<u>0</u>
<u>6,725,610</u>	<u>1,124,842</u>	<u>7,850,452</u>
<u>4,552,819</u>	<u>0</u>	<u>4,552,819</u>
<u>(2,360,474)</u>	<u>(992,823)</u>	<u>(3,353,297)</u>
<u>38,876,563</u>	<u>21,268,749</u>	<u>60,145,312</u>
<u>\$ 36,516,089</u>	<u>\$ 20,275,926</u>	<u>\$ 56,792,015</u>

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

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FUND
FINANCIAL STATEMENTS

**CITY OF SCOTT'S VALLEY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	<u>General Fund</u>	<u>Affordable Housing</u>	<u>Redevelopment Agency Debt Service</u>
ASSETS			
Cash and Investments	\$ 2,385,594	\$ 0	\$ 0
Receivables:			
Due from other Governments	638,746	0	0
Other	1,839	0	0
Due from other Funds	86,262	0	0
Advances Due from other Funds	139,532	0	0
Restricted Assets:			
Cash and Investments with Fiscal Agents and Trustees	<u>433,346</u>	<u>0</u>	<u>0</u>
 Total Assets	 <u>\$ 3,685,319</u>	 <u>\$ 0</u>	 <u>\$ 0</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 105,777	\$ 0	\$ 0
Accrued Liabilities	262,342	0	0
Accrued Compensated Absences	14,226	0	0
Deposits	1,528	0	0
Due to other Funds	0	0	0
Advances Due to other Funds	0	0	0
Notes Payable	0	0	0
Deferred Revenues	<u>148,208</u>	<u>0</u>	<u>0</u>
 Total Liabilities	 <u>532,081</u>	 <u>0</u>	 <u>0</u>
Fund Balances (Deficit): (Note 9)			
Restricted	433,346	0	0
Assigned	0	0	0
Unassigned	<u>2,719,892</u>	<u>0</u>	<u>0</u>
 Total Fund Balances (Deficit)	 <u>3,153,238</u>	 <u>0</u>	 <u>0</u>
 Total Liabilities and Fund Balances (Deficit)	 <u>\$ 3,685,319</u>	 <u>\$ 0</u>	 <u>\$ 0</u>

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

**CITY OF SCOTTS VALLEY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

Successor Housing Agency	General Facility	Other Governmental Funds	Total
\$ 2,405,395	\$ 64,828	\$ 6,141,796	\$ 10,997,613
0	0	96,402	735,148
0	0	0	1,839
0	0	0	86,262
0	0	0	139,532
<u>0</u>	<u>0</u>	<u>14,400</u>	<u>447,746</u>
<u>\$ 2,405,395</u>	<u>\$ 64,828</u>	<u>\$ 6,252,598</u>	<u>\$ 12,408,140</u>
\$ 1,129	\$ 0	\$ 17,347	\$ 124,253
0	0	643	262,985
0	0	0	14,226
0	0	0	1,528
49,342	0	36,920	86,262
0	139,532	0	139,532
0	0	0	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>148,208</u>
<u>50,471</u>	<u>139,532</u>	<u>54,910</u>	<u>776,994</u>
2,354,924	0	4,726,902	7,515,172
0	0	1,474,699	1,474,699
<u>0</u>	<u>(74,704)</u>	<u>(3,913)</u>	<u>2,641,275</u>
<u>2,354,924</u>	<u>(74,704)</u>	<u>6,197,688</u>	<u>11,631,146</u>
<u>\$ 2,405,395</u>	<u>\$ 64,828</u>	<u>\$ 6,252,598</u>	<u>\$ 12,408,140</u>

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

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CITY OF SCOTTS VALLEY
RECONCILIATION OF THE STATEMENT OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2012

Total Fund Balances - Total Governmental Funds (Page 21) **\$ 11,631,146**

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. 33,013,344

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. (2,468,719)

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. 27,865

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	(35,353)
1997 Certificates of Participation	(1,250,588)
2003 Certificates of Participation	(2,455,000)
2006 Certificates of Participation	(2,305,000)
Pension Obligaion Bonds	(4,460,000)
Compensated Absences	(817,862)
Net OPEB Obligation	(1,290,296)

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. 409,069

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. (9,377)

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. 6,526,860

Net Assets of Governmental Activities (Page 15) **\$ 36,516,089**

CITY OF SCOTTS VALLEY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR FISCAL YEAR ENDING JUNE 30, 2012

	<u>General Fund</u>	<u>Affordable Housing</u>	<u>Redevelopment Agency Debt Service</u>
Revenues:			
Taxes and Assessments	\$ 5,981,591	\$ 0	\$ 1,369,337
Intergovernmental Revenues	79,047	0	0
Fees and Services	509,050	0	0
Fines and Forfeitures	57,815	0	0
Investment Earnings	5,762	4,653	198
Contributions, Non-Government	13,000	0	0
Facility/Building Rental	0	19,800	0
Miscellaneous Revenues	532,954	2,522	0
Total Revenues	<u>7,179,219</u>	<u>26,975</u>	<u>1,369,535</u>
Expenditures:			
Current:			
General Government	5,407,571	0	0
Public Safety	4,495,974	0	0
Planning and Building	526,856	371,120	0
Public Works	1,453,167	0	0
Capital Outlay	72,870	0	0
Debt Service:			
Principal	107,871	0	155,000
Interest and Finance Charges	313,034	0	432,923
Debt Issuance Costs	0	0	0
Total Expenditures	<u>12,377,343</u>	<u>371,120</u>	<u>587,923</u>
Excess of Revenues over (under) Expenditures	<u>(5,198,124)</u>	<u>(344,145)</u>	<u>781,612</u>
Other Financing Sources (Uses):			
Transfers In	4,147,982	0	0
Transfers Out	(311,642)	0	0
Proceeds from Issuance of Debt	0	0	0
Net Other Financing Sources (Uses)	<u>3,836,340</u>	<u>0</u>	<u>0</u>
Extraordinary Gain (Loss) (Note 14)	<u>(2,234,933)</u>	<u>(4,246,273)</u>	<u>2,075,958</u>
Net Change in Fund Balances	<u>(3,596,717)</u>	<u>(4,590,418)</u>	<u>2,857,570</u>
Beginning Fund Balances (Deficit)	<u>6,749,955</u>	<u>4,590,418</u>	<u>(2,857,570)</u>
Ending Fund Balances	<u>\$ 3,153,238</u>	<u>\$ 0</u>	<u>\$ 0</u>

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, 2012

Successor Housing Agency	General Facility	Other Governmental Funds	Total
\$ 0	\$ 0	\$ 397,096	\$ 7,748,024
0	0	137,981	217,028
0	10,396	498,987	1,018,433
0	0	0	57,815
66,933	183	19,815	97,544
0	0	1,340	14,340
12,300	0	0	32,100
0	0	6,820	542,296
<u>79,233</u>	<u>10,579</u>	<u>1,062,039</u>	<u>9,727,580</u>
0	0	0	5,407,571
0	0	0	4,495,974
50,471	0	185,493	1,133,940
0	0	215,290	1,668,457
0	0	614,828	687,698
0	0	0	262,871
0	0	0	745,957
0	0	158,332	158,332
<u>50,471</u>	<u>0</u>	<u>1,173,943</u>	<u>14,560,800</u>
<u>28,762</u>	<u>10,579</u>	<u>(111,904)</u>	<u>(4,833,220)</u>
0	0	817,729	4,965,711
0	0	(5,765,363)	(6,077,005)
0	0	4,460,000	4,460,000
<u>0</u>	<u>0</u>	<u>(487,634)</u>	<u>3,348,706</u>
<u>2,326,162</u>	<u>0</u>	<u>2,405,132</u>	<u>326,046</u>
2,354,924	10,579	1,805,594	(1,158,468)
<u>0</u>	<u>(85,283)</u>	<u>4,392,094</u>	<u>12,789,614</u>
<u>\$ 2,354,924</u>	<u>\$ (74,704)</u>	<u>\$ 6,197,688</u>	<u>\$ 11,631,146</u>

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

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**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, 2012**

Net change in fund balances - total governmental funds (Page 25) \$ (1,158,468)

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	610,649
Current year depreciation	(1,361,264)

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.

23,429

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	262,871
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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.

Payment of debt issuance costs	158,332
Amortization of bond premium	3,031
Amortization of advance refunding payment and issuance costs	(52,085)

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

(4,460,000)

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	(82,388)
Accrual of OPEB obligation	(362,248)
Accrual of interest expense on long-term debt	(169,106)

Difference in the extraordinary item from dissolution of Redevelopment Agency due to differences in accounting methods in the Governmental Funds and the Governmental Activities.

4,226,773

Change in net assets of governmental activities (Page 17) \$ (2,360,474)

**CITY OF SCOTTS VALLEY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012**

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Recreation Fund	Wastewater Fund	Total	
ASSETS				
Current:				
Cash and Investments	\$ 220	\$ 4,104,242	\$ 4,104,462	\$ 30,022
Receivables:				
Due from other Governments	0	311,307	311,307	0
Sewer Fees	0	246,846	246,846	0
Other	47,182	0	47,182	0
Advances Due from other Funds	0	1,600,000	1,600,000	0
Inventory	0	2,688	2,688	0
Prepaid Expenses	10,078	0	10,078	0
Total Current Assets	57,480	6,265,083	6,322,563	30,022
Capital Assets (Note 4):				
Land and construction in progress	0	480,856	480,856	0
Other capital assets, net of depreciation	3,270	14,233,105	14,236,375	0
Total capital assets	3,270	14,713,961	14,717,231	0
Total Assets	60,750	20,979,044	21,039,794	30,022
LIABILITIES				
Current Liabilities:				
Accounts Payable	16,093	83,867	99,960	2,157
Accrued Liabilities	18,719	13,435	32,154	0
Compensated Absences	28,274	72,811	101,085	0
Deferred Revenues	101,525	0	101,525	0
Total Current Liabilities	164,611	170,113	334,724	2,157
Noncurrent Liabilities:				
Compensated Absences	0	74,001	74,001	0
Net OPEB Obligation	173,139	182,004	355,143	0
Total Noncurrent Liabilities	173,139	256,005	429,144	0
Total Liabilities	337,750	426,118	763,868	2,157
NET ASSETS				
Invested in Capital Assets	3,270	14,713,961	14,717,231	0
Restricted (Note 9):				
Construction and Improvements	0	2,298,653	2,298,653	0
Unrestricted	(280,270)	3,540,312	3,260,042	27,865
Total Net Assets	\$ (277,000)	\$ 20,552,926	\$ 20,275,926	\$ 27,865

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, 2012

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Recreation Fund	Wastewater Fund	Total	
Operating Revenues:				
Fees and Services	\$ 810,703	\$ 1,636,584	\$ 2,447,287	\$ 93,036
Total Operating Revenues	810,703	1,636,584	2,447,287	93,036
Operating Expenses:				
Salaries	605,997	527,725	1,133,722	0
Taxes and Benefits	562,350	943,210	1,505,560	0
Maintenance and Operations	115,021	653,206	768,227	0
Advertising	18,203	0	18,203	0
Professional and Contractual Services	85,458	66,859	152,317	0
Utilities and Communications	12,169	318,356	330,525	0
Insurance and Bonds	4,989	29,104	34,093	69,679
Depreciation	6,541	753,009	759,550	0
Total Operating Expenses	1,410,728	3,291,469	4,702,197	69,679
(Loss) from Operations	(600,025)	(1,654,885)	(2,254,910)	23,357
Nonoperating Revenues (Expenses):				
Interest Income	0	13,548	13,548	72
Connection Fees	0	137,245	137,245	0
Total Nonoperating Revenues	0	150,793	150,793	72
Net (Loss) before Transfers	(600,025)	(1,504,092)	(2,104,117)	23,429
Transfers In	601,890	509,404	1,111,294	0
Change in Net Assets	1,865	(994,688)	(992,823)	23,429
Net Assets - Beginning of Year	(278,865)	21,547,614	21,268,749	4,436
Net Assets - End of Year	\$ (277,000)	\$ 20,552,926	\$ 20,275,926	\$ 27,865

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	\$ 807,202	\$ 1,416,014	\$ 2,223,216	\$ 93,036
Cash Payments for Good and Services	(803,341)	(1,987,006)	(2,790,347)	
Cash Payments to Employees	(605,751)	(495,155)	(1,100,906)	0
Net Cash Provided by (Used for) Operating Activities	(601,890)	(1,066,147)	(1,668,037)	93,036
Cash Flows from Noncapital Financing Activities:				
Rent and Other	0	0	0	0
Transfers In (Out)	601,890	509,404	1,111,294	0
Net Cash Provided by (Used for) Noncapital Financing Activities	601,890	509,404	1,111,294	0
Cash Flows from Capital and Related Financing Activities				
Receipts of Connection and Standby Fees	0	137,245	137,245	0
Purchase of Vehicles and Equipment	0	(102,607)	(102,607)	0
Construction of Improvements & Land Purchase	0	(57,440)	(57,440)	0
Net Cash Provided by (Used for) Capital and Related Financing Activities	0	(22,802)	(22,802)	0
Cash Flows from Investing Activities:				
Interest Received	0	13,548	13,548	72
Note Receivable	0	0	0	0
Net Cash Provided by Investing Activities	0	13,548	13,548	72
Net Increase (Decrease) in Cash	0	(565,997)	(565,997)	93,108
Cash and Investments, Beginning of Year	220	4,670,239	4,670,459	8,234
Cash and Investments, End of Year	\$ 220	\$ 4,104,242	\$ 4,104,462	\$ 101,342

(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)	\$ (600,025)	\$ (1,654,885)	\$ (2,254,910)	\$ 23,357
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities:				
Depreciation	6,541	753,009	759,550	0
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	20,289	(220,570)	(200,281)	0
(Increase) Decrease in Prepaid Expenses	(1,235)	0	(1,235)	0
Increase (Decrease) in Accounts Payable	(3,916)	23,729	19,813	2,142
Increase(Decrease) in Acc Liabilities/Comp Absences	(44,987)	(14,924)	(59,911)	0
Increase(Decrease) in Net OPEB Obligation	45,233	47,494	92,727	0
(Decrease) in Deferred Revenues	(23,790)	0	(23,790)	0
Net Cash Provided by (Used for) Operating Activities	<u>\$ (601,890)</u>	<u>\$ (1,066,147)</u>	<u>\$ (1,668,037)</u>	<u>\$ 25,499</u>

(Concluded)

**CITY OF SCOTTS VALLEY
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012**

	Successor Agency Private Purpose Trust Fund	Agency Funds
ASSETS		
Cash and Investments Held for Others, restricted	\$ 0	\$ 978,548
Cash and Investments Held in Accordance with Bond Indentures, restricted	767,257	813,020
Depreciable Capital Assets, Net	14,651,661	0
 Total Assets	 \$ 15,418,918	 \$ 1,791,568
 LIABILITIES		
Accounts Payable	\$ 4,602	\$ 0
Deposits	0	57,206
Accrued Interest Payable	303,188	0
Advance Assessments Collected	0	921,342
Unearned Revenues	54,495	
Bond Reserve Payable	0	813,020
Long-Term Debt:		
Due in one year	315,000	0
Due in more than one year	20,380,044	0
 Total Liabilities	 21,057,329	 \$ 1,791,568
 NET ASSETS		
Held in Trust for Other Governments	\$ (5,638,411)	

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

**CITY OF SCOTTS VALLEY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
JUNE 30, 2012**

		Successor Agency Private Purpose Trust Fund
ADDITIONS		
Redevelopment Property Tax Trust Fund	\$	410,056
Investment Earnings		1,101
Total Additions		411,157
DEDUCTIONS		
Enforceable Obligations of Former Redevelopment Agency	\$	286,338
Depreciation		78,570
Interest Expense		382,159
Total Deductions		747,067
Extraordinary Loss (Note 14)		(5,302,501)
Change in Net Assets		(5,638,411)
Net Assets - Beginning		0
Net Assets - Ending	\$	(5,638,411)

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

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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. California state law eliminated redevelopment agencies effective February 1, 2012 (see Note 14 to the financial statements). Separate financial statements are issued by the Agency to comply with redevelopment agency requirements as established by the State of California. A copy of the unaudited financial statements as of January 31, 2012, 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.

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.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2012

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

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 was used to account for the 20% state required set-aside funds of the Redevelopment Agency's tax increment revenues. These monies were only able to be spent on low and moderate-income housing purposes until the February 1, 2012, dissolution of the Redevelopment Agency.

The Redevelopment Agency Debt Service fund was used to account for the tax increment revenue as well as payments on Redevelopment Agency Debt until the February 1, 2012, dissolution of the Redevelopment Agency.

The Successor Housing Agency fund is used to account for the affordable housing funds of the former Scotts Valley Redevelopment Agency.

The General Facilities fund is used to account for the impact fees imposed on new development to mitigate impacts on the City's general facilities (i.e. City Hall, Corporation Yard, etc.).

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2012

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.

Additionally, the City reports the following funds:

The City maintains one private purpose trust fund to account for activities of the Successor Agency to the former Redevelopment Agency

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2012

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

Six Agency 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 SCOTT'S VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2012

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 2011/2012, 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 2011/2012 was \$8,999. 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, 2012**

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/Lewy Dates	July 1	July 1
Due Dates	50% November 1 50% February 1	July 1
Delinquent as of	December 10 (for November) April 10 (for February)	August 31

Property taxes are recognized in the fiscal year for which taxes have been levied and collected within sixty days of the fiscal year end. Beginning in fiscal year 1993-94 under the Alternative Method of Tax Assessment and Collections (Teeter Plan), Santa Cruz County began providing the Agency 100% of the property tax increment whether or not the property owners actually paid their tax bills.

Transactions Between Funds

In the Fund Financial Statements, the City records numerous transactions between funds, including expenditures and transfers of resources, to provide services and to construct assets. All interfund transactions, except loans or advances, interfund services provided and used, and reimbursements, are treated as transfers. Interfund services provided and used include internal service fund charges for services to City departments. In those interfund transactions where one fund pays expenditures or expenses of another fund, a transfer of funds is treated as a credit against the fund that originally paid for the expenditure or expense, and is charged to expenditures or expenses in the appropriate fund.

2. CASH AND INVESTMENTS

The City follows the practice of pooling cash and investments of all funds except for restricted funds required to be held by outside custodians, fiscal agents or trustees under the provisions of bond indentures. Cash and investments are summarized below as of June 30, 2012.

Pooled Deposits		\$ 406,074
Pooled Investments:	California Local Agency Investment Fund (LAIF)	13,295,005
	Money Market	2,802,601
Petty Cash		1,920
Subtotal		<u>16,505,600</u>
Investments with Fiscal Agents and Trustees		<u>1,633,068</u>
Total Cash and Investments		<u>\$18,138,668</u>

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

	<u>Government-Wide Statement of Net Assets</u>		<u>Fiduciary Funds Statement of Net Assets</u>	<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>		
Cash & Investments	\$ 11,027,635	\$ 4,104,462	\$ -	\$ 15,132,097
Restricted Cash & Investments	<u>447,746</u>	<u>-</u>	<u>2,558,825</u>	<u>3,006,571</u>
Total	<u>\$ 11,475,381</u>	<u>\$ 4,104,462</u>	<u>\$ 2,558,825</u>	<u>\$18,138,668</u>

Pooled Deposits

At June 30, 2012, the difference between the carrying amount of the City's book balance of \$406,074 and the corresponding bank balance of \$684,811 was due to outstanding checks and deposits in transit. Of the bank balance, \$250,000 was insured by federal depository insurance and \$434,811 was collateralized 110% in accordance with the California Government Code with securities held by the pledging financial institution in the City's name.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2012**

2. CASH AND INVESTMENTS (concluded)

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, 2012, 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, 2012, 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, 2012, the City had \$13,295,005 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 (\$60,588,263,603) by total aggregate amortized cost (\$60,514,457,551) resulting in a factor of 1.001219643.

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, 2012, 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	\$13,295,005	\$ -	\$ -	\$ -
Money Market	<u>2,802,601</u>	-	-	-
Totals	<u>\$16,097,606</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2012

3. LONG-TERM LOANS RECEIVABLE

Governmental Activities:

Advances to Redevelopment Successor Agency:

Advances to Redevelopment Successor Agency consist of loans from the City's General Fund (\$2,234,933) and the former Redevelopment Agency Affordable Housing Fund, now the Successor Housing Agency, (\$1,920,111). The advance from the General Fund was for start-up expenses, initial formation of the Redevelopment Agency, and improvement projects. The advance from the former Affordable Housing Fund was for the payment to the State for the Educational Revenue Augmentation Fund (ERAF) and Supplemental Educational Revenue Augmentation Fund (SERAF). The advance will be repaid with tax increment revenues allocated to the Successor Agency Private Purpose Trust Fund (see Note 14 to the Financial Statements).

\$4,155,044

Long-Term Loans Receivable:

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.

\$1,288,521

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.

383,295

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.

400,000

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.

300,000

Total Long-Term Loans Receivable

\$2,371,816

Business-Type Activities:

Advance to Redevelopment Successor Agency is from the City's Wastewater Fund to the former Redevelopment Agency for the purchase of property. The advance will be repaid with tax increment revenues allocated to the Successor Agency Private Purpose Trust Fund (see Note 14 to the Financial Statements).

\$1,600,000

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2012

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Deletions	Transfer to Private Purpose Trust Fund	Balance June 30, 2012
Governmental Activities:					
<u>Capital assets not being depreciated:</u>					
Land	\$14,808,411	\$ 0	\$ 0	\$7,796,521	\$7,011,920
Construction in progress	<u>230,527</u>	<u>5,873</u>	<u>0</u>	<u>0</u>	<u>236,400</u>
Total capital assets not being depreciated	<u>15,038,968</u>	<u>5,873</u>	<u>0</u>	<u>7,796,521</u>	<u>7,248,320</u>
<u>Capital assets being depreciated:</u>					
Buildings and Improvements	12,065,537	366,062	0	6,983,019	5,448,580
Machinery and equipment	2,917,429	238,714	0	245,037	2,911,106
Infrastructure	<u>37,394,301</u>	<u>0</u>	<u>0</u>	<u>4,759</u>	<u>37,389,542</u>
Total capital assets being depreciated	<u>52,377,267</u>	<u>604,776</u>	<u>0</u>	<u>7,232,815</u>	<u>45,749,228</u>
<u>Less accumulated depreciation for:</u>					
Buildings and Improvements	2,432,747	242,885	0	320,269	2,355,363
Machinery and equipment	2,032,204	174,283	0	28,897	2,177,590
Infrastructure	<u>14,507,284</u>	<u>944,096</u>	<u>0</u>	<u>129</u>	<u>15,451,251</u>
Total accumulated depreciation	<u>18,972,235</u>	<u>1,361,264</u>	<u>0</u>	<u>349,295</u>	<u>19,984,204</u>
Total capital assets being depreciated, net	<u>33,405,032</u>	<u>(756,488)</u>	<u>0</u>	<u>6,883,520</u>	<u>25,765,024</u>
Governmental capital assets, net	<u>\$48,444,000</u>	<u>\$(750,615)</u>	<u>\$ 0</u>	<u>\$ 14,680,041</u>	<u>\$33,013,344</u>
Business-Type Activities:					
<u>Capital assets not being depreciated:</u>					
Land	\$ 429,416	\$ 0	\$ 0	\$ 0	\$ 429,416
Construction in progress	<u>0</u>	<u>51,440</u>	<u>0</u>	<u>0</u>	<u>51,440</u>
Total capital assets not being depreciated	<u>429,416</u>	<u>51,440</u>	<u>0</u>	<u>0</u>	<u>480,856</u>
<u>Capital assets being depreciated:</u>					
Buildings and Improvements	5,276,516	6,000	0	0	5,282,516
Machinery and equipment	5,603,029	102,607	110,045	0	5,595,591
Infrastructure	22,855,520	0	0	0	22,855,520
Outfall agreement	<u>178,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>178,000</u>
Total capital assets being depreciated	<u>33,913,065</u>	<u>108,607</u>	<u>110,045</u>	<u>0</u>	<u>33,911,627</u>
<u>Less accumulated depreciation for:</u>					
Buildings and Improvements	2,981,563	138,043	0	0	3,119,606
Machinery and equipment	5,135,351	93,381	110,045	0	5,118,687
Infrastructure	10,813,892	525,159	0	0	11,339,051
Outfall agreement	<u>94,941</u>	<u>2,967</u>	<u>0</u>	<u>0</u>	<u>97,908</u>
Total accumulated depreciation	<u>19,025,747</u>	<u>759,550</u>	<u>110,045</u>	<u>0</u>	<u>19,675,252</u>
Total capital assets being depreciated, net	<u>14,887,318</u>	<u>(650,943)</u>	<u>0</u>	<u>0</u>	<u>14,236,375</u>
Business-type capital assets, net	<u>\$15,316,734</u>	<u>\$(599,503)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$14,717,231</u>
 Total Capital Assets	 <u>\$63,760,734</u>	 <u>\$(1,350,118)</u>	 <u>\$ 0</u>	 <u>\$ 14,680,041</u>	 <u>\$47,730,575</u>

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2012

4. CAPITAL ASSETS (concluded)

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

<u>Governmental Activities:</u>	
General government	\$ 115,372
Public safety	125,982
Planning & building	6,456
Public works	<u>1,113,454</u>
Total depreciation expense – government activities	<u>\$ 1,361,264</u>
 <u>Business-Type Activities:</u>	
Wastewater	\$ 753,009
Recreation	<u>6,541</u>
Total depreciation expense – business-type activities	<u>\$ 759,550</u>

5. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the fiscal year ended June 30, 2012:

	<u>GOVERNMENTAL ACTIVITIES</u>					
	<u>Balance at July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Transfer to Private Purpose Trust Fund</u>	<u>Balance at June 30, 2012</u>	<u>Due Within One Year</u>
Certificates of Participation	\$ 7,153,812	\$ 0	\$ 107,871	\$ 1,000,000	\$ 6,045,941	\$ 110,353
Installment Notes	125,000	0	5,000	120,000	-	0
Tax Allocation Bonds	5,365,000	0	150,000	5,215,000	-	0
Lease Revenue Bonds	8,760,000	0	0	8,760,000	-	0
Pension Obligation Bonds	0	4,460,000	0	0	4,460,000	180,000
Accrued Compensated Absences	748,345	417,773	334,030	0	832,088	328,328
Net OPEB Obligation	<u>928,048</u>	<u>568,028</u>	<u>205,780</u>	<u>0</u>	<u>1,290,296</u>	<u>0</u>
Totals	<u>\$23,080,205</u>	<u>\$5,445,801</u>	<u>\$802,681</u>	<u>\$15,095,000</u>	<u>\$12,628,325</u>	<u>\$618,681</u>
	<u>BUSINESS-TYPE ACTIVITIES</u>					
	<u>Balance at July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>		<u>Balance at June 30, 2012</u>	<u>Due Within One Year</u>
Accrued Compensated Absences	\$175,421	\$ 87,345	\$ 87,680		\$175,086	\$ 106,805
Net OPEB Obligation	<u>262,416</u>	<u>106,663</u>	<u>13,936</u>		<u>355,143</u>	<u>0</u>
	<u>\$437,837</u>	<u>\$194,008</u>	<u>\$101,616</u>		<u>\$530,229</u>	<u>\$ 106,805</u>

Debt service payments are generally provided from the following sources:

Certificates of Participation - General revenues recorded in the General Fund.

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.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2012

5. LONG-TERM DEBT (continued)

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 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, 2012:

Original issue - \$7,359,911, Refunding and 1992 Public Improvements Project	\$ 35,353
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	2,455,000
Original issue - \$2,735,000, 2006 Refunding Certificates of Participation	<u>2,305,000</u>
Total Certificates of Participation	<u>\$6,045,941</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 Ending	<u>1992 Refunding Certificates of Participation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Total-2013	<u>\$ 35,353</u>	<u>\$ 104,647</u>	<u>\$ 140,000</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.

Fiscal Year Ending	<u>1997-1 Refunding Certificates of Participation</u>		
	<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>

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2012

5. LONG-TERM DEBT (continued)

In 2003, the Scotts Valley Public Financing Authority issued \$2,455,000 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 Ending	2003 Refunding Certificates of Participation		
	Principal	Interest	Total
2013	\$ 0	\$113,181	\$113,181
2014	0	113,181	113,181
2015	0	113,181	113,181
2016	0	113,181	113,181
2017	0	113,181	113,181
2018-2022	412,127	513,624	925,751
2023-2027	294,884	447,116	742,000
2028-2032	<u>1,747,989</u>	<u>210,970</u>	<u>1,958,959</u>
Totals	<u>\$2,455,000</u>	<u>\$1,737,615</u>	<u>\$4,192,615</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 Ending	2006 Refunding Certificates of Participation		
	Principal	Interest	Total
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	375,000	46,431	421,431
2018-2019	<u>810,000</u>	<u>39,100</u>	<u>849,100</u>
Totals	<u>\$2,305,000</u>	<u>\$ 407,431</u>	<u>\$2,712,431</u>

Pension Obligation Bonds:

On June 21, 2012, the City of Scotts Valley Public Financing Authority issued \$4,460,000 par value bonds. The proceeds of the Bonds were used to refund the City's outstanding "side fund" obligations to the California Public Employees' Retirement System ("PERS") pursuant to a contract between the City and the Board of Administration of PERS. Annual principal payments range from \$180,000 to \$430,000 plus interest from .75% to 4.4% per annum, through 2024.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2012

5. LONG-TERM DEBT (continued)

Fiscal Year <u>Ending</u>	2012 Pension Obligation Bond		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 180,000	\$114,194	\$294,194
2014	310,000	133,267	443,267
2015	315,000	129,202	444,202
2016	320,000	124,357	444,357
2017	325,000	118,305	443,305
2018-2022	1,775,000	434,959	2,209,959
2023-2025	<u>1,235,000</u>	<u>81,843</u>	<u>1,316,843</u>
Totals	<u>\$4,460,000</u>	<u>\$1,136,127</u>	<u>\$5,596,127</u>

Successor Agency Private Purpose Trust Fund Debt

Certificates of Participation:

In 2003, the Scotts Valley Public Financing Authority issued \$1,000,000 of 2003 Capital Improvement Project Certificates of Participation. The proceeds were used to provide partial funding for the purchase of an existing building to be used as a City community center. The interest rates for this COP range from 4.5% to 4.7% per annum. \$1,000,000

Installment Notes:

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 former 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. 120,000

Tax Allocation Bonds:

In 2006, the former 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. 5,060,000

Lease Revenue Bonds:

On November 19, 2009, the former 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. 8,760,000

Advances from City of Scotts Valley:

Advance from the City's General Fund (\$2,234,933), former Redevelopment Agency Affordable Housing Fund (\$1,920,111), and Wastewater Enterprise Fund (\$1,600,000). The advances will be repaid with tax increment revenues allocated to the Successor Agency Private Trust Fund (see Note 14 to the Financial Statements). 5,755,044

Total Successor Agency Private Purpose Trust Fund Debt **\$20,695,044**

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2012**

5. LONG-TERM DEBT (concluded)

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, 2012:

Original issue - \$6,966,000, 2002 Consolidated Reassessment District	\$1,855,000
Original issue - \$3,445,000, Community Facilities District, 97-1 Series A	3,445,000
Original issue - \$1,285,000, Community Facilities District, 97-1 Series B	<u>1,285,000</u>
Total Special Assessment District Bonds (No City Liability)	<u>\$6,585,000</u>

6. RISK MANAGEMENT

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

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

During fiscal year 1993, the City established a Dental Insurance Fund (an internal service fund) to account for and finance its uninsured risks of loss for employee dental care. The Dental Insurance Fund finances employee and dependent claims up to a maximum of \$1,500 per participant per calendar year entirely through self-insurance. The amount of unpaid claims was immaterial at fiscal year end.

The City continues to carry commercial insurance for all other insured risks of loss. The City paid no settlements in excess of insurance coverage in any of the past three fiscal years.

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, 2012:

	<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Major Funds:	General Fund	\$ 86,262	Successor Housing Agency	\$ 49,342
Non Major Funds:			Recycling	20,988
			Homeland Security	<u>15,932</u>
Totals		<u>\$ 86,262</u>		<u>\$ 86,262</u>

The above transfers resulted from the normal course of the City's operations.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2012**

7. INTERFUND TRANSACTIONS (concluded)

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>
General	<u>\$ 139,532</u>	General Facilities	<u>\$139,532</u>

The advance from the General Fund to the General Facilities Fund will be repaid with future impact fee revenues. The funds were loaned for the construction of the current City Hall.

Interfund Transfers: In the governmental fund financial statements, total transfers in and out were \$763,364, as follows:

	<u>Transfers In:</u>			<u>Total</u>
	<u>General Fund</u>	<u>Enterprise Funds</u>	<u>Non-Major Fund</u>	
Transfers Out:				
General Fund	\$ 0	\$ 311,642	\$ 0	\$ 311,642
Non Major Fund	<u>4,147,982</u>	<u>799,652</u>	<u>817,729</u>	<u>5,765,363</u>
Total	<u>\$4,147,982</u>	<u>\$1,111,294</u>	<u>\$817,729</u>	<u>\$ 6,077,005</u>

The General Fund transferred out a total of \$311,642 to the Recreation Fund for operations,

Non-Major Funds transferred out a total of \$5,765,363 as follows: \$4,287,268 from the Pension Obligation Bonds debt service to General Fund (\$3,497,982), Recreation (\$290,248), Wastewater (\$487,034) Senior Center (\$6,002), and Community Center (\$6,002) for their share of the bond proceeds to pay off the PERS side fund; \$300,000 from the Gas Tax Fund to the General Fund for street maintenance expenditures; \$50,000 from General Capital Improvements to the General Fund for park construction costs; \$22,370 from the Recycling Fund to the Wastewater Fund for recycling related costs; \$350,000 from the Supplemental Law Enforcement Services fund to the Police Facility fund for capital improvement costs; \$300,000 from the COP Debt Service fund to the General Fund for debt service payments; \$346,181 from the Redevelopment Agency Capital Projects fund to the Library Fees fund to return excess construction funds; \$311,642 from the General Fund to the Recreation Fund for operations; \$74,8041 from Parks and Recreation Facilities and \$19,060 from Traffic Impact Mitigation to General Capital Improvements for capital improvement costs, and \$5,633 from General Capital Improvements to Gas Tax for capital improvement costs.

8. COMMITMENTS AND CONTINGENCIES

Under an agreement with the City of Santa Cruz, the City is obligated to pay 4% of the actual new outfall facilities operation and maintenance costs in order to use the Santa Cruz sewer outfall facility.

The City had no construction contract commitments as June 30, 2012 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.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2012**

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.

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, 2012, fund balances are composed of the following:

	<u>General Fund</u>	<u>Successor Housing Agency</u>	<u>General Facilities</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
Restricted:					
Debt Service	\$ 433,346	\$ 0	\$ 0	\$ 14,400	\$ 447,746
Low/Moderate Hsg	0	2,354,924	0	0	2,354,924
Impact Fees	0	0	0	1,661,364	1,661,364
Public Works	0	0	0	1,042,964	1,042,964
Public Safety	0	0	0	673,365	673,365
Parks & Recreation	0	0	0	728,730	728,730
Community Development	0	0	0	556,226	556,226
Planning	0	0	0	49,853	49,853
Assigned:					
Debt Service	0	0	0	1,440,017	1,440,017
Public Works	0	0	0	5,375	5,375
Parks & Recreation	0	0	0	29,307	29,307
Unassigned	<u>2,719,892</u>	<u>0</u>	<u>(74,704)</u>	<u>(3,913)</u>	<u>2,641,275</u>
Total	<u>\$3,153,238</u>	<u>\$2,354,924</u>	<u>\$(74,704)</u>	<u>\$6,197,688</u>	<u>\$11,631,146</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.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2012**

10. DEFICIT FUND BALANCES

At June 30, 2012, the following City funds had deficit fund balances:

Major Fund:	
General Facility	<u>(\$74,704)</u>
Non Major Funds:	
Homeland Security	<u>(\$3,913)</u>

The General Facility fund deficit will be eliminated by future impact fee revenues. The Homeland Security fund deficit will be eliminated by receipt of grant funds billed but not received until following fiscal year.

11. PENSION PLAN

Plan Description

The City's defined benefit pension plans, the Safety Plan of the City of Scotts Valley ("Safety Plan") and the Miscellaneous Plan of the City of Scotts Valley ("Miscellaneous Plan"), provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Safety Plan and the Miscellaneous Plan are part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. Menus of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from CalPERS Executive Office – 400 P Street – Sacramento, CA 95814.

Funded Status

Because the City has less than 100 employees, it is required to participate in a risk pool. Therefore, no required supplementary information is provided in this report regarding the funded status of the City's Plans.

Funding Policy

The City contributes for active plan members in the Safety Plan and Miscellaneous Plan 9% and 8%, 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 2011/2012 was 20.258% for Miscellaneous Plan employees and 33.960% 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 2011/2012, the City's annual pension cost for the Safety Plan and Miscellaneous Plan was \$627,232 and \$546,876, respectively, which was equal to the City's required and actual contribution.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2012

11. PENSION PLAN (concluded)

Three-Year Trend Information

Fiscal Year Ending	Miscellaneous Plan			Safety Plan		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	\$454,726	100%	\$0	\$507,324	100%	\$0
6/30/2011	\$438,155	100%	\$0	\$516,429	100%	\$0
6/30/2012	\$546,876	100%	\$0	\$627,232	100%	\$0

12. POSTEMPLOYMENT BENEFITS

The City administers a single-employer defined benefit post employment healthcare plan (Plan) which provides postemployment benefits to eligible employees in the form of partial reimbursement for postretirement health insurance premiums. Eligibility requirements include a minimum of ten years employment with the City and minimum retirement ages of 50 years for safety employees and 55 years for non-safety employees. For eligible employees, the City will pay 33-75% of the retired employee's health insurance premiums, the exact amount determined by years of service, employee group, and age. In addition, there is a cap on what the City will contribute that is indexed to the cost of CalPERS postretirement medical insurance premiums. 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 \$219,716 in post employment benefits for the 23 retired employees who were eligible for benefits during the fiscal year ended June 30, 2012.

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	59,523
Adjustment to Annual Required Contribution	<u>(39,682)</u>
Annual OPEB cost	674,691
Payments made	<u>(219,715)</u>
Increase in net OPEB obligation	454,976
Net OPEB obligation – beginning of year	<u>1,190,463</u>
Net OPEB obligation – end of year	<u>\$1,645,439</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, 2011 and June 30, 2012, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	OPEB Obligation
2011	\$666,870	29.6%	\$469,313
2012	\$674,691	32.6%	\$454,975

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2012

12. POSTEMPLOYMENT BENEFITS (concluded)

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

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, 2011 (fiscal year 2012 not available at the time of the printing of the City's financial statements):

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2012**

13. JOINT POWERS AUTHORITY (concluded)

Total Assets	\$14,355,298	Total Revenues	\$5,022,254
Total Liabilities	<u>16,618,345</u>	Total Expenditures	<u>3,259,526</u>
Net Assets (Deficit)	<u>(\$2,263,047)</u>	Change in Net Assets	<u>\$ 1,762,728</u>

The City paid \$370,138 for workers compensation and \$49,383 for liability premiums during the year ended June 30, 2012. The City's share of the fiscal year-end assets, liabilities, or fund equity has not been calculated by the MBASIA.

14. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Scotts Valley that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On January 11, 2012 the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City Resolution No. 1873.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations, or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment have been paid in full and all assets have been liquidated.

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law, and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final seven months of the activity of the redevelopment agency continued to be reported in the governmental funds of the City Redevelopment Agency Debt Service and Redevelopment Agency Capital Projects Funds). After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (concluded)
JUNE 30, 2012**

**14. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY
(concluded)**

The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary gain in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012, was reported in the private-purpose trust fund as an extraordinary loss.

Because of the different measurement focus of the governmental funds (current financial resources measurement focus) and the measurement focus of the trust funds (economic resources measurement focus), the extraordinary loss (gain) recognized in the government funds was not the same amount as the extraordinary gain (loss) that was recognized in the fiduciary fund financial statements.

The difference between the extraordinary gain recognized in the fund financial statements and the extraordinary loss recognized in the fiduciary fund financial statements is reconciled as follows:

Total extraordinary gain reported in governmental funds – decrease to net assets of the Successor Agency Trust Fund	\$ (326,046)
Capital assets reported in the government-wide financial statements – increase to net assets of the Successor Agency Trust Fund	14,680,041
Long-term loans receivable recorded in the government-wide financial statements but not recorded in governmental financial statements due to current financial resources measurement focus	(4,155,044)
Accrued bond interest reported in the government-wide financial statements – decrease to net assets of the Successor Agency Trust Fund	(350,877)
Unearned revenues reported in governmental funds – decrease to net assets of the Successor Agency Trust Fund	(55,575)
Long-term debt reported in the government-wide financial statements – decrease to net assets of the Successor Agency Trust Fund	<u>(15,095,000)</u>
Net decrease to net assets of the Successor Agency Trust Fund as a result of initial transfers	(5,302,501)
Unamortized bond issuance costs and premium/discount recorded in the government-wide financial statements but not transferred to the Successor Agency	<u>749,682</u>
Total extraordinary gain reported in the government-wide financial statements	<u>(\$4,552,819)</u>

15. SUBSEQUENT EVENT

As part of the dissolution process of redevelopment agencies (see Note 14), the California State Department of Finance ("State") was given the authority to determine the amount of excess cash on hand with redevelopment agencies that would be distributed to taxing entities. The Scotts Valley Redevelopment Successor Agency ("Successor Agency") disagreed with the State's determination but was unsuccessful in its appeal to the State to hold onto cash on hand to pay enforceable obligations. The State also incorrectly denied the Successor Agency's submittal of an enforceable obligation for payment. As a result, the Successor Agency did not have enough cash on hand to meet its enforceable obligations. The State's recommended solution was to have the City's General Fund loan funds to the Successor Agency to be repaid in the future in accordance with the law governing the dissolution process. The amount of the loan was \$942,750 in February 2013 and will not be repaid in the near term.