

FINANCIAL SECTION

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C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Member of City Council
City of Scotts Valley, California

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The *combining and individual non-major fund financial statement, introductory and statistical sections* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statement is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2014 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* in considering the City's internal control over financial reporting and compliance.

C. D. Uhlenberg LLP

August 1, 2014
Redwood City, California

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, 2013. 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 position exceeded liabilities at June 30, 2013, by \$51,554,038. The current year change in net position was a decrease of \$4,728,908. Of the total net position, \$40,467,791 was invested in capital assets (net of related debt) and \$7,484,271 had restrictions on their use leaving \$3,601,976 as unrestricted. The current decrease in City net position is a combination of the governmental activities decreasing \$3,689,789 and the business-type activities decreasing \$1,039,119. The governmental net position was further reduced \$509,069 by two prior period adjustments which are discussed further in Note 16.

As of June 30, 2013, the City's governmental funds (General Fund, special revenue funds, debt service funds, and capital project funds) had a combined fund balance of \$7,834,891, a decrease of \$3,796,255 from the previous year. This was primarily due to the dissolution process of the redevelopment agencies. Because of this process, the State of California ordered \$2,405,395 of Successor Housing funds be transmitted to the County of Santa Cruz for distribution to taxing entities. In addition, the General Fund needed to loan an additional \$1,112,463 to the Successor Agency in order to make the necessary enforceable obligation payments. Of the total City governmental fund balance, \$5,168,329 was restricted, \$1,297,844 was assigned, and \$1,368,718 was unassigned.

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 position Statement of activities	Balance sheet, Statement of revenues, expenditures, and changes in fund balances	Statement of net position; Statement of revenues, expenses, and changes in net position; Statement of cash flows	Statement of fiduciary net position; Statement of changes in fiduciary net position
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 position 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 position and how they have changed. Net position (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 position 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 two other entities in its report - 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 position and a statement of changes in fiduciary net position. 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 Position: A condensed presentation of the City's net position shown below totals \$51,554,038 as of June 30, 2013. This is a decrease of \$5,237,977, or 9.2%, from the previous year. It is a combination of a decrease in total assets of \$5,089,917 and an increase in total liabilities of \$148,060. The full Statement of Net Position can be seen on Page 15.

City of Scotts Valley Net Position (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2013	2012	2013	2012	2013	2012	
Current and other assets	\$15,885	\$19,149	\$ 5,822	\$ 6,323	\$21,707	\$25,472	(14.8%)
Capital assets, net	32,080	33,013	14,324	14,717	46,404	47,730	(2.8%)
Total assets	47,965	52,162	20,146	21,040	68,111	73,202	(7.0%)
Long-term debt outstanding	12,627	12,629	603	530	13,230	13,159	0.5%
Other liabilities	3,021	3,017	306	234	3,327	3,251	2.3%
Total liabilities	15,648	15,646	909	764	16,557	16,410	0.9%
Net position:							
Invested in capital assets, net or related debt	26,144	22,507	14,324	14,717	40,468	37,224	8.7%
Restricted	5,041	9,168	2,443	2,299	7,484	11,467	(34.7%)
Unrestricted	1,132	4,841	2,470	3,260	3,602	8,101	(55.5%)
Total net position	\$32,317	\$36,516	\$19,237	\$20,276	\$51,554	\$56,792	(9.2%)

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

Cash and Investments	(\$4,322,879)
Advances to Redevelopment Successor Agency	957,363
Capital Assets, net of depreciation	(1,327,196)

The decrease in cash is a combination of the Successor Housing Agency (\$2,279,465) and the General Fund (\$1,399,283). Per the dissolution process of the former redevelopment agencies, \$2,405,395 of former low/moderate income monies that transferred to the Successor Housing Agency were required to be turned over to the County for distribution to the taxing entities. The General Fund needed to loan an additional \$1,112,463 to the Successor Agency in order to make the necessary enforceable obligation payments. This accounts for the additional decrease in cash as well as the increase in Advances to Redevelopment Successor Agency. The decrease in capital assets, net of depreciation, is mainly the current year depreciation expense of \$2,027,704 adjusted for \$800,508 of current year additions and a prior year adjustment reduction of \$100,000.

There were no significant increases or decreases in liabilities.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (continued)

Changes in Net Position: City-wide the change in net position went from a decrease of \$3,353,297 in fiscal year 2012 to a decrease of \$4,728,908 in fiscal year 2013. This is a result of total revenues decreasing \$248,161, or 2.0%, total expenses decreasing \$3,425,369, or 16.9%, and a decrease in extraordinary gain of \$4,552,819, or 100%. A further analysis is shown below.

	<u>2013</u>	<u>2012</u>	<u>Percent Change</u>
Program Revenues	\$ 4,354	\$ 4,478	(2.8%)
General Revenues	7,726	7,850	(1.6%)
Extraordinary Gain	0	4,553	(100.0%)
Governmental Expenses	(13,113)	(15,532)	(15.6%)
Business-type Expenses	<u>(3,696)</u>	<u>(4,702)</u>	(21.4%)
Net Increase (Decrease)	<u>\$ (4,729)</u>	<u>\$ (3,353)</u>	(41.0%)

On the next page is a current and prior fiscal year recap of the changes in net position. The full Statement of Activities can be seen on Page 16.

Revenues:

Program revenues for governmental activities decreased \$54,523, or 2.9%. This is made up of a decrease in operating grant and contributions of \$171,671 offset by increase in charges for services of \$21,219 and capital grants and contributions of \$95,929. Charges for services increased mainly in Planning/Building (\$38,729) and Public Works (\$38,583) which is reflective of increased development activity in the city. Operating grants decreased mainly in Public Safety (\$93,726) and Public Works (\$77,266). Operating grants and capital grants are not consistent and can vary widely from year to year. For capital grants and contributions the main increase was in Public Works (\$90,282).

Program revenues for business-type activities decreased \$69,607, or 2.7%. This is made up of a decrease in charges for services of \$103,446 offset by an increase in capital grants and contributions of \$33,839. Charges for services decreased in both Wastewater (\$29,778) and Recreation Programs (\$73,668). Wastewater charges for services decreased due to a new agreement for providing recycled water to the Scotts Valley Water District. Charges for services in recreation programs has decreased due to a slower recovery in the economy for recreational activities. Capital grants increased entirely in Wastewater for impact fees which, again, is reflective of increased development activity in the city.

Expenses:

Governmental activities decreased \$2,419,278. In fiscal year 2012 the City paid off its side fund liability with the Public Employees Retirement System (PERS). This amounted to \$3,497,982 of expense in the governmental activities in last fiscal year that did not occur in the current year. Also in fiscal year 2012 activity for part of the year was presented for the former redevelopment agency before its dissolution on February 1, 2012. Therefore, expenses decreased \$959,043 due to the elimination of the redevelopment agency. These decreases were offset by the \$2,405,395 paid by the Successor Housing Agency as part of the dissolution process of the former redevelopment agency, as discussed earlier.

Business-type activities decrease \$1,006,091 with \$777,282 relating to the PERS side fund payoff. Expenses were also decreased by not filling one position when it became vacant.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (continued)

**City of Scotts Valley
Change in Net Position
(in thousands of dollars)**

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2013	2012	2013	2012	2013	2012	
Program revenues:							
Charges for services	\$900	\$879	\$2,344	\$2,447	\$3,244	\$3,326	(2.5%)
Operating grants	499	670	0	0	499	670	(25.5%)
Capital grants	440	344	171	137	611	481	27.0%
General revenues:							
Sales tax	1,976	1,887	0	0	1,976	1,887	4.7%
Property tax	1,855	2,143	0	0	1,855	2,143	(13.4%)
Other taxes	3,383	3,271	0	0	3,383	3,271	3.4%
Investment earnings	60	86	7	14	67	100	(33.0%)
Miscellaneous	445	450	0	0	445	450	(1.1%)
Extraordinary Item	0	4,553	0	0	0	4,553	(100.0%)
Total revenues	9,558	14,283	2,522	2,598	12,080	16,881	(28.4%)
Expenses:							
General government	1,814	5,563	0	0	1,814	5,563	(67.4%)
Public safety	4,591	4,855	0	0	4,591	4,855	(5.4%)
Planning & building	3,157	1,186	0	0	3,157	1,186	266.2%
Public works	2,924	2,961	0	0	2,924	2,961	(1.2%)
Interest on debt	627	967	0	0	627	967	(35.2%)
Wastewater	0	0	2,765	3,291	2,765	3,291	(16.0%)
Recreation	0	0	931	1,411	931	1,411	(34.0%)
Total expenses	13,113	15,532	3,696	4,702	16,809	20,234	(16.9%)
Excess or (Deficiency)	(3,555)	(1,249)	(1,174)	(2,104)	(4,729)	(3,353)	(41.0%)
Transfers	(135)	(1,111)	135	1,111	0	0	
Change in Net Position	(\$3,690)	(\$2,360)	(\$1,039)	(\$993)	(\$4,729)	(\$3,353)	(41.0%)

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.

Because program revenues decreased only 2.9% for governmental activities and 2.7% for business-type activities, this did not have a substantial impact in the change in net cost of services from the prior fiscal year.

For governmental activities, the total costs of \$13,113,332 were offset by charges for services (\$900,564), operating grants/contributions (\$498,658), and capital grants/contributions (\$439,962), bringing the net cost of services down to \$11,274,148. This is a decrease of \$2,364,755 from the prior fiscal year. The decreases are primarily the same as discussed on the previous: PERS side fund payoff and redevelopment expenses occurring in the prior fiscal year but not in the current year and the payment in the current year by the Successor Housing Agency as part of the redevelopment agency dissolution process.

For business-type activities, the decreases were also the same as described on the previous page: PERS side fund payoff and not filling a position when it became open.

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
	2013	2012		2013	2012	
General Government	\$1,814	\$5,563	(67.4%)	\$1,596	\$5,312	(70.0%)
Public Safety	4,591	4,855	(5.4%)	4,365	4,524	(3.5%)
Planning & Building	3,157	1,186	266.2%	2,733	795	343.8%
Public Works	2,924	2,961	(1.2%)	1,952	2,041	(4.4%)
Interest on L-T Debt	627	967	(35.2%)	627	967	(35.2%)
Total	\$13,113	\$15,532	(15.3%)	\$11,273	\$13,639	(17.3%)
Wastewater	\$2,765	\$3,291	(16.0%)	\$987	\$1,518	(35.0%)
Recreation	931	1,411	(34.0%)	194	600	(67.7%)
Total	\$3,936	\$4,702	(16.3%)	\$1,181	\$2,118	(44.2%)

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 2012 to 2013. The total revenues and expenditures do not include any "other financing sources (uses)."

	Increase (Decrease) from Prior Year			
	Assets	Liabilities	Revenues	Expenditures
General Fund	(\$1,330,110)	(\$44,552)	\$1,226,609	(\$2,626,443)
Special Rev Funds	(2,262,793)	(80,203)	135,394	2,222,501
Debt Service Funds	(207,200)	-	(1,372,212)	(442,052)
Capital Project Funds	(119,307)	1,600	(5,319)	(341,428)

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

The largest variances other than the General Fund are the assets and expenditures in the Special Revenue Funds along with revenues in the Debt Service Funds.

The decrease in the Special Revenue Funds assets and expenditures is due to the dissolution process of the former redevelopment agencies whereby \$2,405,395 of former low/moderate income monies that transferred to the Successor Housing Agency were required to be turned over to the County for distribution to the taxing entities. This decreased cash and increased expenditures from the previous fiscal year.

The decrease in revenues in the Debt Service Funds is due to the elimination of redevelopment agencies. In fiscal year 2012 \$1,369,535 of revenues were presented in the Redevelopment Agency Debt Service Fund. Because of the elimination of redevelopment agencies, there were no revenues presented in fiscal year 2013.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total revenues were \$276,628 (3.4%) over budget. The main reason for this is due to taxes (\$414,238) and charges for services (\$80,910) being over budget while other revenue (\$200,658) was under budget. The main accounts over budget in taxes are property taxes distributed through the Successor Agency (\$214,908), sales tax (\$125,872) and transient occupancy tax (\$60,648). The property tax from the Successor Agency is the City's share of the \$2,405,395 paid out of the former low/moderate income funds (discussed earlier) which the County distributed to the taxing entities, the City being one of them. The City cautiously budgets sales tax each year, and it came in stronger than anticipated. Transient occupancy tax continues to show increases as marketing of Santa Cruz County by the Conference and Visitors Council and a rebound in the economy. Charges for services mainly relate to the planning and building fees as construction has rebounded strongly with many residential construction projects. Other revenue was under budget due to \$150,000 budgeted to be repaid on the City loan to the former redevelopment agency; however, that payment has been delayed due to repayment restrictions written in the law governing the dissolution process.

Comparing expenditures to the original budget, the City was \$1,112,573 over budget. This is entirely due to the \$1,112,463 that needed to be loaned to the Successor Agency in order to make the necessary enforceable obligation payments. Other offsetting variances are the Police being \$296,757 under budget due to staffing vacancies, Legal being \$70,273 over budget due to the shift of expenses from the elimination of the redevelopment agency, and Street Maintenance being \$69,770 over budget due to some emergency street repairs.

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 decrease (net of depreciation) is \$1,327,196, or 2.8%. The governmental activities had capital assets additions of \$437,468. Current year depreciation of \$1,271,179 brought capital assets to a net decrease of \$833,711. The main capital asset addition was the purchase of a new computerized records management system in the Police Department (\$233,467). The business-type activities had capital assets additions of \$363,040 while depreciation of \$756,525 created a net decrease of \$393,485. The main capital asset addition was an aeration diffuser in the Wastewater Treatment Plant (\$180,376).

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

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2013	2012	2013	2012	2013	2012	
Land	\$7,012	\$7,012	\$429	\$429	\$7,441	\$7,441	(0.0%)
Buildings & Improvements	2,944	3,093	2,033	2,163	4,977	5,256	(5.3%)
Equipment	855	734	787	477	1,642	1,211	35.6%
Infrastructure	21,059	21,938	10,997	11,517	32,056	33,455	(4.2%)
Outfall Agreement	0	0	77	80	77	80	(3.7%)
Construction in Progress	210	236	0	51	210	287	(26.8%)
Total	<u>\$32,080</u>	<u>\$33,013</u>	<u>\$14,323</u>	<u>\$14,717</u>	<u>\$46,403</u>	<u>\$47,730</u>	(2.8%)

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 \$71,242, or 0.5%. The main changes during the year were annual debt service payments on long-term debt and increases in both 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
	2013	2012	2013	2012	2013	2012	
Certificates of Participation	\$5,936	\$6,046	\$ 0	\$ 0	\$5,936	\$6,046	(1.8%)
Pension Obligation Bonds	4,280	4,460	0	0	4,280	4,460	(4.0%)
Accrued Comp Absences	893	832	189	175	1,082	1,007	7.4%
Net OPEB Obligation	1,518	1,290	414	355	1,932	1,645	17.4%
Total	<u>\$12,627</u>	<u>\$12,628</u>	<u>\$603</u>	<u>\$530</u>	<u>\$13,230</u>	<u>\$13,158</u>	0.5%

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 2013-14 General Fund expenditure budget was approved with a \$75,559 (0.9%) increase. The General Fund revenue budget was approved with a \$95,505 (1.2%) increase.

CalPERS has provided the City with next year's rate and a projected 2014-15 rate. A recap of the retirement rates by fiscal year is shown below. The decrease effective in the 2012-13 fiscal year was due to the City issuing pension obligation bonds to pay off its side fund obligation. The savings from issuing these bonds is approximately \$1.3 million over the next twelve years.

Fiscal Year	Miscellaneous Group	Safety Group	
2010-11	16.200%	29.500%	Actual
2011-12	20.258%	33.960%	Actual
2012-13	13.914%	23.681%	Actual
2013-14	14.660%	25.168%	Actual
2014-15	15.700%	27.000%	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.

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GOVERNMENT-WIDE
FINANCIAL STATEMENTS

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**CITY OF SCOTTS VALLEY
STATEMENT OF NET POSITION
JUNE 30, 2013**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments (Note 2)	\$ 7,114,767	\$ 3,694,451	\$ 10,809,218
Receivables:			
Due from other Governments	844,991	322,186	1,167,177
Sewer Fees	0	148,341	148,341
Other	2,794	45,670	48,464
Inventory	0	2,688	2,688
Prepaid Expenses	0	8,804	8,804
Advances to Redevelopment Successor Agency (Note 3)	5,112,407	1,600,000	6,712,407
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	439,224	0	439,224
Capital Assets (Note 4):			
Land and construction in progress	7,222,326	429,416	7,651,742
Other capital assets, net of depreciation	24,857,307	13,894,330	38,751,637
Total capital assets	<u>32,079,633</u>	<u>14,323,746</u>	<u>46,403,379</u>
Total Assets	<u>47,965,632</u>	<u>20,145,886</u>	<u>68,111,518</u>
LIABILITIES			
Accounts Payable	185,129	191,365	376,494
Accrued Liabilities	234,109	28,164	262,273
Unearned Revenues	93,048	86,722	179,770
Long-Term Debt (Note 5):			
Current Portion of Long-Term Debt (Note 5)	1,034,051	76,680	1,110,731
Accrued Interest	2,509,147	0	2,509,147
Certificates of Participation	5,600,588	0	5,600,588
Pension Obligation Bonds	3,970,000	0	3,970,000
Accrued Compensated Absences	504,522	112,244	616,766
Net OPEB Obligation	1,517,807	413,904	1,931,711
Total Liabilities	<u>15,648,401</u>	<u>909,079</u>	<u>16,557,480</u>
NET POSITION			
Invested in Capital Assets, net of related debt	26,144,045	14,323,746	40,467,791
Restricted for:			
Capital Projects	4,487,742	2,443,372	6,931,114
Debt Service	433,352	0	433,352
Low/Moderate Income Housing	119,805	0	119,805
Unrestricted	1,132,287	2,469,689	3,601,976
Total Net Assets	<u>\$ 32,317,231</u>	<u>\$ 19,236,807</u>	<u>\$ 51,554,038</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, 2013**

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
General Government	\$ 1,813,920	\$ 203,234	\$ 0	\$ 14,254	\$ 217,488
Public Safety	4,590,667	27,800	164,367	33,122	225,289
Planning & Building	3,157,314	405,476	1,085	17,799	424,360
Public Works	2,924,033	264,054	333,206	374,787	972,047
Interest on Long-Term Debt and Fiscal Agent Charges	627,398	0	0	0	0
Total Governmental Activities	13,113,332	900,564	498,658	439,962	1,839,184
Business-Type Activities:					
Wastewater	2,765,435	1,606,806	0	171,084	1,777,890
Recreation Programs	930,671	737,035	0	0	737,035
Total Business-Type Activities	3,696,106	2,343,841	0	171,084	2,514,925
Total Primary Government	\$ 16,809,438	\$ 3,244,405	\$ 498,658	\$ 611,046	\$ 4,354,109

General Revenues:

Taxes:

Sales Tax

Property Tax

Vehicle In-Lieu Fee (Intergovernmental / Unrestricted)

Franchise Taxes

Transient Occupancy Tax

Utility Users Tax

Other Taxes

Total Taxes

Investment Earnings

Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning of Year

Prior Period Adjustment (Note 16)

Net Position - Beginning of Year, as adjusted

Net Position - End of Year

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, 2013**

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (1,596,432)	\$ 0	\$ (1,596,432)
(4,365,378)	0	(4,365,378)
(2,732,954)	0	(2,732,954)
(1,951,986)	0	(1,951,986)
(627,398)	0	(627,398)
(11,274,148)	0	(11,274,148)
0	(987,545)	(987,545)
0	(193,636)	(193,636)
0	(1,181,181)	(1,181,181)
(11,274,148)	(1,181,181)	(12,455,329)
1,976,580	0	1,976,580
1,855,084	0	1,855,084
828,062	0	828,062
798,514	0	798,514
780,648	0	780,648
602,892	0	602,892
372,313	0	372,313
7,214,093	0	7,214,093
60,497	7,133	67,630
444,698	0	444,698
(134,929)	134,929	0
7,584,359	142,062	7,726,421
(3,689,789)	(1,039,119)	(4,728,908)
36,516,089	20,275,926	56,792,015
(509,069)	0	(509,069)
36,007,020	20,275,926	56,282,946
\$ 32,317,231	\$ 19,236,807	\$ 51,554,038

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

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FUND
FINANCIAL STATEMENTS

**CITY OF SCOTTS VALLEY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	<u>General Fund</u>	<u>Successor Housing Agency</u>
ASSETS		
Cash and Investments	\$ 986,311	\$ 125,930
Receivables:		
Due from other Governments	788,141	0
Other	2,794	0
Due from other Funds	5,079	0
Advances Due from other Funds	139,532	0
Restricted Assets:		
Cash and Investments with Fiscal Agents and Trustees	<u>433,352</u>	<u>0</u>
 Total Assets	 <u>\$ 2,355,209</u>	 <u>\$ 125,930</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts Payable	\$ 159,751	\$ 6,125
Accrued Liabilities	233,372	0
Accrued Compensated Absenses	9,215	0
Due to other Funds	0	0
Advances Due to other Funds	0	0
Unearned Revenues	<u>85,191</u>	<u>0</u>
 Total Liabilities	 <u>487,529</u>	 <u>6,125</u>
Fund Balances (Deficit): (Note 9)		
Restricted	433,352	119,805
Assigned	0	0
Unassigned	<u>1,434,328</u>	<u>0</u>
 Total Fund Balances (Deficit)	 <u>1,867,680</u>	 <u>119,805</u>
 Total Liabilities and Fund Balances (Deficit)	 <u>\$ 2,355,209</u>	 <u>\$ 125,930</u>

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

**CITY OF SCOTTS VALLEY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

General Facility	Other Governmental Funds	Total
\$ 79,001	\$ 5,865,868	\$ 7,057,110
0	56,850	844,991
0	0	2,794
0	0	5,079
0	0	139,532
0	5,872	439,224
\$ 79,001	\$ 5,928,590	\$ 8,488,730
\$ 0	\$ 14,837	\$ 180,713
0	737	234,109
0	0	9,215
0	5,079	5,079
139,532	0	139,532
0	0	85,191
139,532	20,653	653,839
0	4,615,172	5,168,329
0	1,297,844	1,297,844
(60,531)	(5,079)	1,368,718
(60,531)	5,907,937	7,834,891
\$ 79,001	\$ 5,928,590	\$ 8,488,730

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, 2013**

Total Fund Balances - Total Governmental Funds (Page 21) \$ 7,834,891

Amounts reported for Governmental Activities in the Statement of Net Position 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. 32,079,633

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. (2,509,147)

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 Position. 53,241

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the Governmental Funds Balance Sheet.

1997 Certificates of Participation	(1,250,588)
2003 Certificates of Participation	(2,455,000)
2006 Certificates of Participation	(2,230,000)
Pension Obligaion Bonds	(4,280,000)
Compensated Absences	(884,358)
Net OPEB Obligation	(1,517,807)

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 Position. (7,857)

Long-term loans receivable are not current financial resourses and, therefore, are offset in the Governmental Funds Balance Sheet by a corresponding amount of deferred revenue under liabilities. 7,484,223

Net Position of Governmental Activities (Page 15) \$ 32,317,231

**CITY OF SCOTTS VALLEY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR FISCAL YEAR ENDING JUNE 30, 2013**

	<u>General Fund</u>	<u>Successor Housing Agency</u>
Revenues:		
Taxes and Assessments	\$ 7,267,152	\$ 0
Intergovernmental Revenues	10,256	0
Fees and Services	567,660	0
Fines and Forfeitures	54,438	0
Investment Earnings	9,236	46,929
Contributions, Non-Government Facility/Building Rental	41,720	0
Miscellaneous Revenues	0	32,400
	<u>455,366</u>	<u>158,337</u>
Total Revenues	<u>8,405,828</u>	<u>237,666</u>
Expenditures:		
Current:		
General Government	1,763,889	0
Public Safety	4,293,339	0
Planning and Building	1,741,427	2,472,785
Public Works	1,481,864	0
Capital Outlay	47,275	0
Debt Service:		
Principal	110,353	0
Interest and Finance Charges	<u>312,753</u>	<u>0</u>
Total Expenditures	<u>9,750,900</u>	<u>2,472,785</u>
Excess of Revenues over (under) Expenditures	<u>(1,345,072)</u>	<u>(2,235,119)</u>
Other Financing Sources (Uses):		
Transfers In	547,000	0
Transfers Out	<u>(487,486)</u>	<u>0</u>
Net Other Financing Sources (Uses)	<u>59,514</u>	<u>0</u>
Net Change in Fund Balances	(1,285,558)	(2,235,119)
Beginning Fund Balances (Deficit)	<u>3,153,238</u>	<u>2,354,924</u>
Ending Fund Balances	<u><u>\$ 1,867,680</u></u>	<u><u>\$ 119,805</u></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, 2013

General Facility	Other Governmental Funds	Total
\$ 0	\$ 331,732	\$ 7,598,884
0	100,572	110,828
14,126	605,529	1,187,315
0	0	54,438
128	11,912	68,205
0	4,283	46,003
0	0	32,400
0	276	613,979
14,254	1,054,304	9,712,052
81	0	1,763,970
0	3,814	4,297,153
0	701	4,214,913
0	214,136	1,696,000
0	476,744	524,019
0	180,000	290,353
0	274,217	586,970
81	1,149,612	13,373,378
14,173	(95,308)	(3,661,326)
0	353,381	900,381
0	(547,824)	(1,035,310)
0	(194,443)	(134,929)
14,173	(289,751)	(3,796,255)
(74,704)	6,197,688	11,631,146
\$ (60,531)	\$ 5,907,937	\$ 7,834,891

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, 2013**

Net change in fund balances - total governmental funds (Page 25) **\$ (3,796,255)**

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	437,468
Current year depreciation	(1,271,179)

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.

25,376

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	290,353
---------------------------------------	---------

Governmental funds report bond premiums as income. However, in the statement of activities these amounts are amortized over the remaining life of the refunded debt.

Amortization of bond premium	1,520
------------------------------	-------

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	(66,496)
Accrual of OPEB obligation	(227,511)
Accrual of interest expense on long-term debt	(40,428)

Governmental funds report repayment of long-term loans receivable as income and additional loans as expenditures. However, the repayment of loans reduce the long-term loans receivable asset and additional loans increase long-term loans receivable asset in the Statement of Net Position:

Repayment of long-term loans receivable	(155,100)
Additional long-term loans receivable	1,112,463

Change in net assets of governmental activities (Page 17) **\$ (3,689,789)**

**CITY OF SCOTTS VALLEY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013**

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Recreation Fund	Wastewater Fund	Total	
ASSETS				
Current:				
Cash and Investments	\$ 2,861	\$ 3,691,590	\$ 3,694,451	\$ 57,657
Receivables:				
Due from other Governments	0	322,186	322,186	0
Sewer Fees	0	148,341	148,341	0
Other	45,670	0	45,670	0
Advances Due from other Funds	0	1,600,000	1,600,000	0
Inventory	0	2,688	2,688	0
Prepaid Expenses	8,804	0	8,804	0
Total Current Assets	<u>57,335</u>	<u>5,764,805</u>	<u>5,822,140</u>	<u>57,657</u>
Capital Assets (Note 4):				
Land and construction in progress	0	429,416	429,416	0
Other capital assets, net of depreciation	0	13,894,330	13,894,330	0
Total capital assets	<u>0</u>	<u>14,323,746</u>	<u>14,323,746</u>	<u>0</u>
 Total Assets	<u>57,335</u>	<u>20,088,551</u>	<u>20,145,886</u>	<u>57,657</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	20,920	170,445	191,365	4,416
Accrued Liabilities	14,800	13,364	28,164	0
Compensated Absences	35,377	153,547	188,924	0
Unearned Revenues	86,722	0	86,722	0
Total Current Liabilities	<u>157,819</u>	<u>337,356</u>	<u>495,175</u>	<u>4,416</u>
Noncurrent Liabilities:				
Compensated Absences	0	0	0	0
Net OPEB Obligation	201,803	212,101	413,904	0
Total Noncurrent Liabilities	<u>201,803</u>	<u>212,101</u>	<u>413,904</u>	<u>0</u>
 Total Liabilities	<u>359,622</u>	<u>549,457</u>	<u>909,079</u>	<u>4,416</u>
NET POSITION				
Invested in Capital Assets	0	14,323,746	14,323,746	0
Restricted (Note 9):				
Construction and Improvements	0	2,298,653	2,298,653	0
Unrestricted	(302,287)	2,916,695	2,614,408	53,241
 Total Net Position	<u>\$ (302,287)</u>	<u>\$ 19,539,094</u>	<u>\$ 19,236,807</u>	<u>\$ 53,241</u>

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 POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDING JUNE 30, 2013

	<u>Enterprise Funds</u>			<u>Governmental Activities - Internal Service Fund</u>
	<u>Recreation Fund</u>	<u>Wastewater Fund</u>	<u>Total</u>	
Operating Revenues:				
Fees and Services	\$ 737,035	\$ 1,606,806	\$ 2,343,841	\$ 88,853
Total Operating Revenues	<u>737,035</u>	<u>1,606,806</u>	<u>2,343,841</u>	<u>88,853</u>
Operating Expenses:				
Salaries	507,441	533,347	1,040,788	0
Taxes and Benefits	194,215	380,453	574,668	0
Maintenance and Operations	117,691	674,574	792,265	0
Advertising	7,772	0	7,772	0
Professional and Contractual Services	82,219	72,370	154,589	0
Utilities and Communications	11,429	317,836	329,265	0
Insurance and Bonds	6,634	33,600	40,234	63,550
Depreciation	3,270	753,255	756,525	0
Total Operating Expenses	<u>930,671</u>	<u>2,765,435</u>	<u>3,696,106</u>	<u>63,550</u>
Income (Loss) from Operations	<u>(193,636)</u>	<u>(1,158,629)</u>	<u>(1,352,265)</u>	<u>25,303</u>
Nonoperating Revenues (Expenses):				
Interest Income	0	7,133	7,133	73
Connection Fees	0	171,084	171,084	0
Total Nonoperating Revenues	<u>0</u>	<u>178,217</u>	<u>178,217</u>	<u>73</u>
Net Income (Loss) before Transfers	(193,636)	(980,412)	(1,174,048)	25,376
Transfers In	188,266	0	188,266	0
Transfers Out	<u>(19,917)</u>	<u>(33,420)</u>	<u>(53,337)</u>	<u>0</u>
Change in Net Position	(25,287)	(1,013,832)	(1,039,119)	25,376
Net Position - Beginning of Year	<u>(277,000)</u>	<u>20,552,926</u>	<u>20,275,926</u>	<u>27,865</u>
Net Position - End of Year	<u>\$ (302,287)</u>	<u>\$ 19,539,094</u>	<u>\$ 19,236,807</u>	<u>\$ 53,241</u>

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

**CITY OF SCOTTS VALLEY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Recreation Fund	Wastewater Fund	Total	
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 723,744	\$ 1,694,432	\$ 2,418,176	\$ 88,853
Cash Payments for Good and Services	(413,859)	(1,392,255)	(1,806,114)	(61,291)
Cash Payments to Employees	(475,593)	(496,586)	(972,179)	0
Net Cash Provided by (Used for) Operating Activities	<u>(165,708)</u>	<u>(194,409)</u>	<u>(360,117)</u>	<u>27,562</u>
Cash Flows from Noncapital Financing Activities:				
Transfers In (Out)	<u>168,349</u>	<u>(33,420)</u>	<u>134,929</u>	<u>0</u>
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>168,349</u>	<u>(33,420)</u>	<u>134,929</u>	<u>0</u>
Cash Flows from Capital and Related Financing Activities				
Receipts of Connection and Standby Fees	0	171,084	171,084	0
Purchase of Vehicles and Equipment	0	(352,880)	(352,880)	0
Construction of Improvements & Land Purchase	0	(10,160)	(10,160)	0
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>0</u>	<u>(191,956)</u>	<u>(191,956)</u>	<u>0</u>
Cash Flows from Investing Activities:				
Interest Received	<u>0</u>	<u>7,133</u>	<u>7,133</u>	<u>73</u>
Net Cash Provided by Investing Activities	<u>0</u>	<u>7,133</u>	<u>7,133</u>	<u>73</u>
Net Increase (Decrease) in Cash	2,641	(412,652)	(410,011)	27,635
Cash and Investments, Beginning of Year	<u>220</u>	<u>4,104,242</u>	<u>4,104,462</u>	<u>30,022</u>
Cash and Investments, End of Year	<u>\$ 2,861</u>	<u>\$ 3,691,590</u>	<u>\$ 3,694,451</u>	<u>\$ 57,657</u>

(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)	\$ (193,636)	\$ (1,158,629)	\$ (1,352,265)	\$ 25,303
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities:				
Depreciation	3,270	753,255	756,525	0
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	1,512	87,626	89,138	0
(Increase) Decrease in Prepaid Expenses	1,274	0	1,274	0
Increase (Decrease) in Accounts Payable	4,827	86,578	91,405	2,259
Increase(Decrease) in Acc Liabilities/Comp Absences	3,184	6,664	9,848	0
Increase(Decrease) in Net OPEB Obligation	28,664	30,097	58,761	0
(Decrease) in Deferred Revenues	<u>(14,803)</u>	<u>0</u>	<u>(14,803)</u>	<u>0</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ (165,708)</u>	<u>\$ (194,409)</u>	<u>\$ (360,117)</u>	<u>\$ 27,562</u>

(Concluded)

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

**CITY OF SCOTTS VALLEY
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013**

	Successor Agency Private Purpose Trust Fund	Agency Funds
ASSETS		
Cash and Investments Held for Others, restricted	\$ 838,729	\$ 1,270,053
Cash and Investments Held in Accordance with Bond Indentures, restricted	767,257	813,398
Depreciable Capital Assets, Net	14,456,714	0
Total Assets	\$ 16,062,700	\$ 2,083,451
LIABILITIES		
Accounts Payable	\$ 15,039	\$ 0
Deposits	0	91,900
Accrued Interest Payable	341,699	0
Advances From Other Funds	0	1,178,153
Unearned Revenues	51,903	0
Bond Reserve Payable	0	813,398
Long-Term Debt:		
Due in one year	325,000	0
Due in more than one year	21,012,407	0
Total Liabilities	21,746,048	\$ 2,083,451
NET POSITION		
Held in Trust for Other Governments	\$ (5,683,348)	

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

**CITY OF SCOTTS VALLEY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
JUNE 30, 2013**

		<u>Successor Agency Private Purpose Trust Fund</u>
ADDITIONS		
Redevelopment Property Tax Trust Fund	\$	1,198,441
Bond Premium		<u>2,592</u>
Total Additions		<u>1,201,033</u>
DEDUCTIONS		
Administrative Expenses	\$	207,212
Enforceable Obligations of Former Redevelopment Agency		118,737
Depreciation		194,947
Interest Expense		<u>725,074</u>
Total Deductions		<u>1,245,970</u>
Change in Net Position		(44,937)
Net Position - Beginning		<u>(5,638,411)</u>
Net Position - Ending	\$	<u><u>(5,683,348)</u></u>

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

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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 Public Financing Authority is considered a component unit of the financial reporting entity and has been included in the financial statements by blending its financial data with financial data of the City as though this organization is part of the City. The blended component unit, which is discussed below, is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

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 a Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column. Fiduciary activities of the city are not included in these statements.

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. 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.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2013

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

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 Position 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 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.).

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.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2013

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

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, 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 Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. 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 Position. 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

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.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2013

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

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.

Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2013**

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 2012/2013, 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 2012/2013 was \$13,461. 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 SCOTT VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2013**

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

Santa Cruz County assesses properties, and bills for and collects property taxes as follows:

	<u>Secured</u>	<u>Unsecured</u>
Valuation Dates	January 1	January 1
Lien/Levy Dates	July 1	July 1
Due Dates	50% November 1 50% February 1	July 1
Delinquent as of	December 10 (for November) April 10 (for February)	August 31

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

Transactions Between Funds

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

2. CASH AND INVESTMENTS

The City follows the practice of pooling cash and investments of all funds except for restricted funds required to be held by outside custodians, fiscal agents or trustees under the provisions of bond indentures. Cash and investments are summarized below as of June 30, 2013.

Pooled Deposits	\$ 488,004
Pooled Investments:	
California Local Agency Investment Fund (LAIF)	10,011,939
Money Market	2,811,449
Petty Cash	1,920
Subtotal	<u>13,313,312</u>
Investments with Fiscal Agents and Trustees	1,624,567
Total Cash and Investments	<u>\$14,937,879</u>

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

	<u>Government-Wide Statement of Net Position</u>		Fiduciary Funds	<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	Statement of Net Position	
Cash & Investments	\$ 7,114,767	\$ 3,694,451	\$ -	\$ 10,809,218
Restricted Cash & Investments	<u>439,224</u>	<u>-</u>	<u>3,689,437</u>	<u>4,128,661</u>
Total	<u>\$ 7,553,991</u>	<u>\$ 3,694,451</u>	<u>\$ 3,689,437</u>	<u>\$14,937,879</u>

Pooled Deposits

At June 30, 2013, the difference between the carrying amount of the City's book balance of \$488,004 and the corresponding bank balance of \$463,549 was due to outstanding checks and deposits in transit. Of the bank balance, \$250,000 was insured by federal depository insurance and \$213,549 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 SCOTT VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2013

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, 2013, LAIF had approximately \$59 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, 2013, 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, 2013, the City had \$10,011,939 invested in LAIF, which had invested 3.920% 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 (\$58,828,474,533) by total aggregate amortized cost (\$58,812,406,570) resulting in a factor of 1.000273207.

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, 2013, 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	\$10,011,939	\$ -	\$ -	\$ -
Money Market (not rated)	<u>2,811,449</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$12,823,388</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2013

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 (\$3,347,396) and the former Redevelopment Agency Affordable Housing Fund, now the Successor Housing Agency, (\$1,765,011). 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).

\$5,112,407

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 originally loaned by the former Scotts Valley Redevelopment Agency Affordable Housing Fund to facilitate the construction of 46 affordable housing units. This receivable is now recorded in the Successor Housing Agency Fund. 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 originally loaned by the former Scotts Valley Redevelopment Agency Affordable Housing Fund to facilitate the purchase of affordable housing through the Agency's "silent second" loan program. This receivable is now recorded in the Successor Housing Agency Fund. 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 originally loaned by the former 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. This receivable is now recorded in the Successor Housing Agency Fund. 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, 2013

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Prior Period Adjustment	Additions	Deletions	Balance June 30, 2013
Governmental Activities:					
<u>Capital assets not being depreciated:</u>					
Land	\$7,011,920	\$ 0	\$ 0	\$ 0	\$7,011,920
Construction in progress	<u>236,400</u>	<u>(100,000)</u>	<u>74,006</u>	<u>0</u>	<u>210,406</u>
Total capital assets not being depreciated	<u>7,248,320</u>	<u>(100,000)</u>	<u>74,006</u>	<u>0</u>	<u>7,222,326</u>
<u>Capital assets being depreciated:</u>					
Buildings and Improvements	5,448,580	0	0	0	5,448,580
Machinery and equipment	2,911,106	0	302,473	0	3,213,579
Infrastructure	<u>37,389,542</u>	<u>0</u>	<u>60,989</u>	<u>0</u>	<u>37,450,531</u>
Total capital assets being depreciated	<u>45,749,228</u>	<u>0</u>	<u>363,462</u>	<u>0</u>	<u>46,112,690</u>
<u>Less accumulated depreciation for:</u>					
Buildings and Improvements	2,355,363	0	149,380	0	2,504,743
Machinery and equipment	2,177,590	0	181,043	0	2,358,633
Infrastructure	<u>15,451,251</u>	<u>0</u>	<u>940,756</u>	<u>0</u>	<u>16,392,007</u>
Total accumulated depreciation	<u>19,984,204</u>	<u>0</u>	<u>1,271,179</u>	<u>0</u>	<u>21,255,383</u>
Total capital assets being depreciated, net	<u>25,765,024</u>	<u>0</u>	<u>(907,717)</u>	<u>0</u>	<u>24,857,307</u>
Governmental capital assets, net	<u>\$33,013,344</u>	<u>\$(100,000)</u>	<u>\$(833,711)</u>	<u>\$ 0</u>	<u>\$32,079,633</u>
Business-Type Activities:					
<u>Capital assets not being depreciated:</u>					
Land	\$ 429,416	\$ 0	\$ 0	\$ 0	\$ 429,416
Construction in progress	<u>51,440</u>	<u>0</u>	<u>180,376</u>	<u>231,816</u>	<u>0</u>
Total capital assets not being depreciated	<u>480,856</u>	<u>0</u>	<u>180,376</u>	<u>231,816</u>	<u>429,416</u>
<u>Capital assets being depreciated:</u>					
Buildings and Improvements	5,287,273	0	0	0	5,287,273
Machinery and equipment	5,595,591	0	404,320	7,633	5,992,278
Infrastructure	22,850,763	0	10,160	0	22,860,923
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>33,911,627</u>	<u>0</u>	<u>414,480</u>	<u>7,633</u>	<u>34,318,474</u>
<u>Less accumulated depreciation for:</u>					
Buildings and Improvements	3,119,877	0	134,907	0	3,254,784
Machinery and equipment	5,118,687	0	93,737	(7,633)	5,204,791
Infrastructure	11,338,780	0	524,914	0	11,863,694
Outfall agreement	<u>97,908</u>	<u>0</u>	<u>2,967</u>	<u>0</u>	<u>100,875</u>
Total accumulated depreciation	<u>19,675,252</u>	<u>0</u>	<u>756,525</u>	<u>(7,633)</u>	<u>20,424,144</u>
Total capital assets being depreciated, net	<u>14,236,375</u>	<u>0</u>	<u>(342,045)</u>	<u>0</u>	<u>13,894,330</u>
Business-type capital assets, net	<u>\$14,717,231</u>	<u>\$ 0</u>	<u>\$(161,669)</u>	<u>\$ 231,816</u>	<u>\$14,323,746</u>
Total Capital Assets	<u>\$47,730,575</u>	<u>\$(100,000)</u>	<u>\$(995,380)</u>	<u>\$ 231,816</u>	<u>\$46,403,379</u>

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2013

4. CAPITAL ASSETS (concluded)

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

<u>Governmental Activities:</u>	
General government	\$ 42,926
Public safety	148,713
Planning & building	6,456
Public works	<u>1,073,084</u>
Total depreciation expense – government activities	<u>\$ 1,271,179</u>
 <u>Business-Type Activities:</u>	
Wastewater	\$ 753,255
Recreation	<u>3,270</u>
Total depreciation expense – business-type activities	<u>\$ 756,525</u>

5. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the fiscal year ended June 30, 2013:

<u>GOVERNMENTAL ACTIVITIES</u>					
	<u>Balance at July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2013</u>	<u>Due Within One Year</u>
Certificates of Participation	\$ 6,045,941	\$ 0	\$ 110,353	\$ 5,935,588	\$ 335,000
Pension Obligation Bonds	4,460,000	0	180,000	4,280,000	310,000
Accrued Compensated					
Absences	832,088	431,882	370,397	893,573	389,051
Net OPEB Obligation	<u>1,290,296</u>	<u>449,494</u>	<u>221,983</u>	<u>1,517,807</u>	<u>0</u>
Totals	<u>\$12,628,325</u>	<u>\$ 881,376</u>	<u>\$ 882,733</u>	<u>\$12,626,968</u>	<u>\$1,034,051</u>
 <u>BUSINESS-TYPE ACTIVITIES</u>					
	<u>Balance at July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2013</u>	<u>Due Within One Year</u>
Accrued Compensated					
Absences	\$ 175,086	\$ 86,516	\$ 72,678	\$ 188,924	\$ 76,680
Net OPEB Obligation	<u>355,143</u>	<u>81,921</u>	<u>23,160</u>	<u>413,904</u>	<u>0</u>
Totals	<u>\$ 530,229</u>	<u>\$168,437</u>	<u>\$ 95,838</u>	<u>\$ 602,828</u>	<u>\$ 76,680</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, 2013**

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 Position under Governmental Activities.

The following Certificates of Participation were outstanding at June 30, 2013:

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>2,230,000</u>
Total Certificates of Participation	<u>\$5,935,588</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 remained outstanding for this issue. The interest rate for the capital appreciation bonds ranged 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. In October 2012 the final bond payment was paid. The 1992 Public Improvements Project Bond principal and interest has been paid in full.

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, 2013

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	<u>2003 Refunding Certificates of Participation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 0	\$113,181	\$113,181
2015	0	113,181	113,181
2016	0	113,181	113,181
2017	0	113,180	113,180
2018	81,715	111,342	193,057
2019-2023	358,836	496,276	855,112
2024-2028	582,662	427,049	1,009,711
2029-2032	<u>1,431,787</u>	<u>137,038</u>	<u>1,568,825</u>
Totals	<u>\$2,455,000</u>	<u>\$1,624,428</u>	<u>\$4,079,428</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	<u>2006 Refunding Certificates of Participation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	395,000	30,281	425,281
2019	<u>415,000</u>	<u>8,819</u>	<u>423,819</u>
Totals	<u>\$2,230,000</u>	<u>\$ 312,506</u>	<u>\$2,542,506</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, 2013

5. LONG-TERM DEBT (continued)

Fiscal Year <u>Ending</u>	2012 Pension Obligation Bond		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 310,000	\$ 133,267	\$443,267
2015	315,000	129,203	444,203
2016	320,000	124,358	444,358
2017	325,000	118,305	443,305
2018	335,000	110,286	445,286
2019-2023	1,835,000	369,320	2,204,320
2024-2025	<u>840,000</u>	<u>37,195</u>	<u>877,195</u>
Totals	<u>\$4,280,000</u>	<u>\$1,021,934</u>	<u>\$5,301,934</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. 4,745,000

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 (\$3,347,396), former Redevelopment Agency Affordable Housing Fund (\$1,765,011), 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). 6,712,407

Total Successor Agency Private Purpose Trust Fund Debt \$21,206,178

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2013**

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, 2013:

Original issue - \$6,966,000, 2002 Consolidated Reassessment District	\$1,380,000
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>1,080,000</u>
Total Special Assessment District Bonds (No City Liability)	<u>\$5,905,000</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 \$1,000,000 and \$30,000,000 and for workers' compensation claims in excess of \$250,000 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 \$1,100 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, 2013:

	<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Major Funds:	General Fund	\$ 5,079		
Non Major Funds:		_____	Homeland Security	\$ 5,079
Totals		<u>\$ 5,079</u>		<u>\$ 5,079</u>

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

CITY OF SCOTT'S VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2013

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>	
<u>Transfers Out:</u>				
General Fund	\$ 0	\$ 188,266	\$ 299,220	\$ 487,486
Enterprise Fund	0	0	53,337	53,337
Non Major Fund	<u>547,000</u>	<u>0</u>	<u>824</u>	<u>547,824</u>
Total	<u>\$547,000</u>	<u>\$188,266</u>	<u>\$ 353,381</u>	<u>\$ 1,088,647</u>

The General Fund transferred out a total of \$487,486 as follows: \$188,266 to the Recreation Fund for operations, \$240,032 to the Pension Obligation Fund for its share of the pension obligation debt service, and \$59,188 to the General Capital Improvements for general plan maintenance fees collected during the fiscal year to be used in the future for the General Plan update.

Enterprise Funds transferred out a total of \$53,337 to the Pension Obligation Fund for its share of the pension obligation debt service.

Non-Major Funds transferred out a total of \$547,824 as follows: \$300,000 from the Gas Tax Fund to the General Fund for street maintenance expenditures; \$200,000 from the COP Debt Service fund to the General Fund for debt service payments; \$47,000 from General Capital Improvements to the General Fund for costs related to the General Plan Update; and \$412 from both the Senior Center and the Community Center to the Pension Obligation Fund for their share of the pension obligation debt service.

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, 2013 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 SCOTT'S VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2013

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, 2013, 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	\$ 433,352	\$ 0	\$ 0	\$ 5,872	\$ 439,224
Low/Moderate Hsg	0	119,805	0	0	119,805
Impact Fees	0	0	0	1,649,131	1,649,131
Public Works	0	0	0	864,458	864,458
Public Safety	0	0	0	490,856	490,856
Parks & Recreation	0	0	0	971,392	971,392
Community Development	0	0	0	556,739	556,739
Planning	0	0	0	76,724	76,724
Assigned:					
Debt Service	0	0	0	1,241,345	1,241,345
Public Works	0	0	0	16,256	16,256
Parks & Recreation	0	0	0	40,243	40,243
Unassigned	<u>1,434,328</u>	<u>0</u>	<u>(60,531)</u>	<u>(5,079)</u>	<u>1,368,718</u>
Total	<u>\$1,867,680</u>	<u>\$119,805</u>	<u>\$(60,531)</u>	<u>\$5,907,937</u>	<u>\$7,834,891</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, 2013

10. DEFICIT FUND BALANCES

At June 30, 2013, the following City funds had deficit fund balances:

Major Fund:	
General Facility	<u>(\$60,531)</u>
Non Major Funds:	
Homeland Security	<u>(\$5,079)</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 passage of Public Employees' Pension Reform Act of 2013 by the State of California created two tiers of pension benefits and costs for the City. Tier 2, for both safety and miscellaneous members, includes all employees new to the CalPERS pension system hired on or after January 1, 2013. Tier 1, for both safety and miscellaneous members, includes all other employees.

For Tier 1 employees 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 2012/2013 was 21.258% for Miscellaneous Plan employees and 34.393% for Safety Plan employees.

For Tier 2 employees, both the City and the employee contribute in the Safety Plan and Miscellaneous Plan 11.50% and 6.25%, respectively, of the employees' annual covered salaries.

The contribution requirements of the plan are established by State statute and the employer contribution rates are established and may be amended by CalPERS.

CITY OF SCOTT VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2013

11. PENSION PLAN (concluded)

Annual Pension Cost

For fiscal year 2012/2013, the City's annual pension cost for the Safety Plan and Miscellaneous Plan was \$426,817 and \$371,124, respectively, which was equal to the City's required and actual contribution.

Three-Year Trend Information

Fiscal Year	Miscellaneous Plan			Safety Plan		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2011	\$438,155	100%	\$0	\$516,429	100%	\$0
6/30/2012	\$546,876	100%	\$0	\$627,232	100%	\$0
6/30/2013	\$371,124	100%	\$0	\$426,817	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 \$245,143 in post employment benefits for the 25 retired employees who were eligible for benefits during the fiscal year ended June 30, 2013.

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	\$ 503,992
Interest on the net OPEB obligation	82,272
Adjustment to Annual Required Contribution	<u>(54,848)</u>
Annual OPEB cost	531,416
Payments made	<u>(245,143)</u>
Increase in net OPEB obligation	286,273
Net OPEB obligation – beginning of year	<u>1,645,438</u>
Net OPEB obligation – end of year	<u>\$1,931,711</u>

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2013**

12. POSTEMPLOYMENT BENEFITS (concluded)

The City annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal years ended June 30, 2011, 2012, and 2013, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>OPEB Obligation</u>
2011	\$666,870	29.6%	\$469,313
2012	\$674,691	32.6%	\$454,975
2013	\$531,416	46.1%	\$286,273

As of July 1, 2013, 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 \$5,488,829. The covered payroll (annual payroll of active employees covered by the Plan) was \$4,491,412 and the ratio of UAAL to the covered payroll was 122%.

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.

The Entry Age Normal (EAN) cost method the actuarial cost method used in the July 1, 2013, actuarial valuation report. 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 July 1, 2013, 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.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2013

13. JOINT POWERS AUTHORITY (concluded)

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 years 2012 and 2013 are not available at the time of the printing of the City's financial statements):

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 \$281,715 for workers compensation and \$61,728 for liability premiums during the year ended June 30, 2013. 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.

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. 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.

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15. SUBSEQUENT EVENT

In fiscal year 2010-11, prior to AB X1 26 becoming law, \$19,116,560 of real property assets were transferred from the Scotts Valley Redevelopment Agency to the City in an attempt to protect those assets from being diverted for the benefit of the State. AB X1 26 specifically disallowed such transfers retroactively. On January 22, 2014, the State Controller's Office determined that those real property assets must be transferred back to either the Successor Agency or the Successor Housing Agency, depending on the original source of funds used to purchase the properties.

16. PRIOR PERIOD ADJUSTMENTS

The City had two prior period adjustments, one for a change in accounting principle and one for a correction of an error.

The change in accounting principle is due to implementation of GASB 65 which required the restatement of the beginning net position of the City's governmental activities to write off unamortized bond issuance costs. (\$409,069)

The correction of an error is due to the double accounting of a capital asset. In fiscal year 2011 the purchase of land by the former redevelopment agency was completed and recorded in land in the Statement of Net Assets at the full value. The amount in construction in progress was not deleted. (100,000)

Total Prior Period Adjustments (\$509,069)