

City of Scotts Valley California



COMPREHENSIVE ANNUAL FINANCIAL REPORT For Fiscal Year Ended June 30, 2013

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Of

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

For the Fiscal Year Ended June 30, 2013

**Stephen H. Ando
City Manager**

**CITY OF SCOTTS VALLEY
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013
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INTRODUCTORY SECTION

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CITY OF SCOTTS VALLEY

OFFICE OF THE CITY MANAGER

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August 1, 2014

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

SUBJECT: COMPREHENSIVE ANNUAL FINANCIAL REPORT - JUNE 30, 2013

Honorable Mayor and Council Members:

The Comprehensive Annual Financial Report for the City of Scotts Valley for the fiscal year ended June 30, 2013 is hereby submitted. The responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with City management. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activity have been included. These statements have been audited by the City's independent auditor, C. G. Uhlenberg, LLP, who has issued an unqualified opinion thereon. The Auditors' report is also included.

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

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

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

REPORTING ENTITY AND SERVICES PROVIDED

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

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

- Scotts Valley Public Financing Authority

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

MAJOR INITIATIVES

During 2012 / 2013, the City accomplished the following:

- Entered into an exclusive negotiating agreement with Property Development Centers for development of the City's Town Center Project.
- Entered into a memorandum of understanding with the Scotts Valley Community Theater Guild to exclusively negotiate a lease agreement with the City to lease approximately 9,000 sq ft of building adjacent to the Scotts Valley Branch Library to be operated as a performing arts theater.
- Entered into an agreement with the City of Santa Cruz to dispose of biosolids from the Scotts Valley Wastewater Treatment Plant. Scotts Valley will save approximately \$70,000 annually in disposal costs, and City of Santa Cruz will use the biosolids to generate energy.
- City received a Notice of Completion from the State Department of Finance regarding the City's former redevelopment agency.

The following are current and future projects:

- Long-Range Property Management Plan for the properties of the City's former redevelopment agency.
- Two residential projects in process: one with 49 units and one with 40 units.
- The Police Department is currently updating and improving their General Orders Manual.
- A 119-room hotel building.
- Comprehensive General Plan update.

FINANCIAL POLICIES

The elimination of redevelopment agencies by the State of California has had a large impact on the City of Scotts Valley. The Scotts Valley Redevelopment Agency (Agency) did not have separate employees. Staff from the City also worked for the Agency and their salaries were allocated accordingly. Now, all salaries are borne by the City's General Fund.

The City filed a lawsuit against the County of Santa Cruz regarding the amount of property taxes distributed to the City. In May 2009 the court ruled in the City's favor. The County has appealed this decision. In late October 2011 the Appellate Court affirmed in part and reversed in part the decision of the trial court. The County of Santa Cruz petitioned the State Supreme Court to consider the issues, but it declined to hear the case. The decision became final and the City is receiving the back taxes, approximately \$2,175,000, over three years. The first payment was received in September, 2012.

FINANCIAL INFORMATION

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

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

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

ECONOMIC FACTORS

The City of Scotts Valley is located in Santa Cruz County, approximately 75 miles south of San Francisco. The unemployment rates for the City of Scotts Valley, the County of Santa Cruz, and the State of California as of June for the last five fiscal years are shown below. As reflective of the national economy, all three rates increased dramatically in 2009. However, Scotts Valley's 2013 rate is 52% lower than the County rate and 55% lower than the State rate.

<u>June 30,</u>	<u>Unemployment Rate</u>		
	<u>Scotts Valley</u>	<u>Santa Cruz County</u>	<u>California</u>
2009	4.7%	10.6%	11.6%
2010	5.4%	11.2%	12.2%
2011	5.5%	11.4%	12.1%
2012	4.8%	10.0%	10.6%
2013	4.1%	8.6%	9.2%

The average and median prices of single-family homes decreased substantially for the second straight year, another reflection of the national economy. Average prices have dropped 17% from 2008 to 2009; however, with the recent pick up in the housing market the 2013 prices have come back to the 2008 levels. Property values do not have as much an impact on the City's property tax revenue as other cities in Santa Cruz County because the City is a low property tax city, which means that the City receives approximately 7% of the assessed property taxes. Below is a table of the average and median sales prices of houses sold in Santa Cruz County as of June for each of the last five years.

<u>June 30,</u>	<u>Single-Family Homes</u>			
	<u>Average Price</u>	<u>Increase (Decrease) Over (Under) Prior Year</u>	<u>Median Price</u>	<u>Increase (Decrease) Over (Under) Prior Year</u>
2009	569,814	(16.8%)	519,000	(14.9%)
2010	544,321	(4.5%)	503,750	(2.9%)
2011	627,248	15.2%	545,000	8.2%
2012	531,649	(15.2%)	495,000	(9.2%)
2013	667,368	25.5%	585,000	18.2%

OTHER INFORMATION

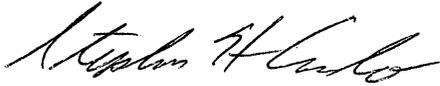
Independent Audit: The Government Code requires an annual audit by independent certified public accountants selected by the City Council. This requirement has been complied with. The auditors' unqualified opinion has been included in the financial section of this report. The City is also required to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

ACKNOWLEDGMENTS

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

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Stephen H. Ando". The signature is fluid and cursive, with a large initial "S" and "A".

Stephen H. Ando
City Manager

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LIST OF PRINCIPAL OFFICIALS

JUNE 30, 2013

CITY COUNCIL MEMBERS

Randy Johnson	Mayor
Jim Reed	Vice Mayor
Stephany E. Aguilar	Councilmember
Dene Bustichi	Councilmember
Donna Lind	Councilmember

CHIEF ADMINISTRATIVE PERSONNEL

Stephen Ando	City Manager/ Finance Director
Kirsten Powell	City Attorney
Tracy Ferrara	City Clerk
John Weiss	Chief of Police
Ken Anderson	Director of Public Works / City Engineer
Corrie Kates	Community Development Dir / Deputy City Manager

CITY OF SCOTTS VALLEY
ORGANIZATION CHART

