

FINANCIAL SECTION

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MARCELLO & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

2701 Cottage Way, Suite 30 / Sacramento, California 95825

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor
Members of the 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 the City of Scotts Valley, California, as of and for the year ended June 30, 2014, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based upon our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditor's 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 purposes 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 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 opinion.

Honorable Mayor
Members of the City Council
City of Scotts Valley, California

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scotts Valley, as of June 30, 2014, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on the Supplemental 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 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 historic 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 Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Scotts Valley's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Marcello & Company

Certified Public Accountants
Sacramento, California
October 16, 2014

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, 2014. 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, 2014, by \$49,638,249. The current year change in net position was a decrease of \$1,915,789. Of the total net position, \$39,279,411 was invested in capital assets (net of related debt) and \$7,455,342 had restrictions on their use leaving \$2,903,496 as unrestricted. The current decrease in City net position is a combination of the governmental activities decreasing \$834,771 and the business-type activities decreasing \$1,081,018.

As of June 30, 2014, the City's governmental funds (General Fund, special revenue funds, debt service funds, and capital project funds) had a combined fund balance of \$7,566,139, a decrease of \$268,752 from the previous year. Approximately half of the decrease is from the General Fund, and approximately another half is from the non-major funds. Of the total City governmental fund balance, \$5,094,261 was restricted, \$1,025,646 was assigned, and \$1,446,232 was unassigned.

The voters in Scotts Valley approved a half-cent sales tax measure on the November 2013 ballot. The sales tax went into effect on April 1, 2014, and will continue for eight years. The City received/accrued \$205,224 as of June 30, 2014, for this additional sales tax.

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 \$49,638,249 as of June 30, 2014. This is a decrease of \$1,915,789, or 3.7%, from the previous year. It is a combination of a decrease in total assets of \$1,829,577 and an increase in total liabilities of \$86,212. 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
	2014	2013	2014	2013	2014	2013	
Current and other assets	\$15,640	\$15,885	\$ 5,187	\$ 5,822	\$20,827	\$21,707	(4.1%)
Capital assets, net	31,434	32,080	14,021	14,324	45,455	46,404	(2.0%)
Total assets	47,074	47,965	19,208	20,146	66,282	68,111	(2.7%)
Long-term debt outstanding	12,481	12,627	635	603	13,116	13,230	(0.9%)
Other liabilities	3,110	3,021	417	306	3,527	3,327	6.0%
Total liabilities	15,591	15,648	1,052	909	16,643	16,557	0.5%
Net position:							
Invested in capital assets, net or related debt	25,258	26,144	14,021	14,324	39,279	40,468	(2.9%)
Restricted	5,157	5,041	2,299	2,443	7,456	7,484	(0.4%)
Unrestricted	1,068	1,132	1,836	2,470	2,904	3,602	(19.4%)
Total net position	\$31,483	\$32,317	\$18,156	\$19,237	\$49,639	\$51,554	(3.7%)

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

Cash and Investments	(\$1,017,801)
Capital Assets, net of depreciation	(948,380)

The total decrease in cash is split between governmental activities (\$472,834) and business-type activities (\$544,967). The majority of the decrease in the governmental activities is from the COP Debt Service fund (\$299,068) and the General Fund (\$211,280). The cash in the COP Debt Service fund was used for current year debt payments. The reduction in the General Fund was mainly from expenditures exceeding revenues. The decrease in capital assets, net of depreciation, is the current year depreciation expense of \$2,021,726 adjusted for \$1,073,346 of current year additions.

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 \$4,728,908 in fiscal year 2013 to a decrease of \$1,900,758 in fiscal year 2014. This is a result of total revenues increasing \$662,691, or 5.5%, and total expenses decreasing \$2,165,459, or 12.9%. A further analysis is shown below.

	<u>2014</u>	<u>2013</u>	<u>Percent Change</u>
Program Revenues	\$ 4,833	\$ 4,354	11.0%
General Revenues	7,895	7,726	2.2%
Governmental Expenses	(10,843)	(13,113)	(17.3%)
Business-type Expenses	<u>(3,801)</u>	<u>(3,696)</u>	2.8%
Net Increase (Decrease)	<u>\$ (1,916)</u>	<u>\$ (4,729)</u>	59.5%

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 increased \$312,034, or 17.0%. This is made up of increases in operating grants and contributions of \$113,345 and capital grants and contributions of \$206,328 offset by decrease in charges for services of \$7,639. Operating grants increased mainly in Public Works (\$103,649) due to increased gas tax revenues. The main increase in capital grants and contributions also came in Public Works (\$208,432) due to a grant of \$225,000 for slurry sealing a main street in Scotts Valley. The net decrease for charges for services was small but made up of decreases Public Works (\$42,967) and General Government (\$17,281) offset by an increase in Planning (\$55,628). The decrease in Public Works came from on-site civil improvement permits which can vary from year to year. The decrease in General Government came from lower revenue from successor agency administrative fees. Increases in Planning came from higher development activity in general.

Program revenues for business-type activities increased \$166,929, or 6.6%. This is made up of an increase in charges for services of \$278,049 offset by a decrease in capital grants and contributions of \$111,120. Charges for services increased in both Wastewater (\$182,335) and Recreation Programs (\$95,714). Wastewater charges for services increased due to a scheduled rate increase. Charges for services in recreation programs increased due to a stronger marketing outreach and a rebound in the economy. Capital grants decreased entirely in Wastewater for impact fees.

Expenses:

Governmental activities decreased \$2,270,762. Because of the winding down process of redevelopment agencies, in fiscal year 2013 the City's successor housing agency was ordered to pay \$2,405,395 of its low/moderate income housing funds. There was no such payment in 2014 which accounts for most of the decrease.

Business-type activities increased only \$105,303. Most of the increase in Recreation came in the people providing the services (salaries, benefits, and contract services). This amounted to \$42,898 of the total increase of \$58,111. The \$47,192 increase in Wastewater can primarily be related to equipment repairs and maintenance as this account increased \$47,779 over the previous year.

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
	2014	2013	2014	2013	2014	2013	
Program revenues:							
Charges for services	\$893	\$900	\$2,622	\$2,344	\$3,515	\$3,244	8.4%
Operating grants	612	499	-	-	612	499	22.6%
Capital grants	646	440	60	171	706	611	15.5%
General revenues:							
Sales tax	2,235	1,976	-	-	2,235	1,976	13.1%
Property tax	1,738	1,855	-	-	1,738	1,855	(6.3%)
Other taxes	3,599	3,383	-	-	3,599	3,383	6.4%
Investment earnings	21	60	8	7	29	67	(56.7%)
Miscellaneous	295	445	-	-	295	445	(33.7%)
Total revenues	<u>10,039</u>	<u>9,558</u>	<u>2,690</u>	<u>2,522</u>	<u>12,729</u>	<u>12,080</u>	5.4%
Expenses:							
General government	1,943	1,814	-	-	1,943	1,814	7.1%
Public safety	4,432	4,591	-	-	4,432	4,591	(3.5%)
Planning & building	805	3,157	-	-	805	3,157	(74.5%)
Public works	2,951	2,924	-	-	2,951	2,924	0.9%
Interest on debt	712	967	-	-	712	627	13.6%
Wastewater	-	-	2,813	2,765	2,813	2,765	1.7%
Recreation	-	-	989	931	989	931	6.2%
Total expenses	<u>10,843</u>	<u>13,113</u>	<u>3,802</u>	<u>3,696</u>	<u>14,645</u>	<u>16,809</u>	(12.9%)
Excess or (Deficiency)	<u>(804)</u>	<u>(3,555)</u>	<u>(1,112)</u>	<u>(2,104)</u>	<u>(1,916)</u>	<u>(4,729)</u>	59.5%
Transfers	<u>(31)</u>	<u>(135)</u>	<u>31</u>	<u>135</u>	<u>-</u>	<u>-</u>	
Change in Net Position	<u>(\$835)</u>	<u>(\$3,690)</u>	<u>(\$1,081)</u>	<u>(\$1,039)</u>	<u>(\$1,916)</u>	<u>(\$4,729)</u>	59.5%

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.

Program revenues had more of an impact on the change in the net cost of services than last year with program revenues increasing 17.0% for governmental activities and 6.6% for business-type activities compared to last year which had a decrease of only 2.9% for governmental activities and 2.7% for business-type activities.

For governmental activities, the total costs of \$10,842,570 were offset by charges for services (\$892,925), operating grants/contributions (\$612,003), and capital grants/contributions (\$646,290), bringing the net cost of services down to \$8,691,352. This is a decrease of \$2,582,796 from the prior fiscal year. The decrease is primarily the same as discussed on the previous: the one-time payment of low/moderate income housing funds in 2013 of \$2,405,395.

For business-type activities, the decreases were also the same as described on the previous page: salaries, benefits, and contract services for Recreation and equipment repairs and maintenance for Wastewater.

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
	2014	2013			2014	2013		
General Government	\$1,942	\$1,814	7.1%	\$1,745	\$1,596	9.3%		
Public Safety	4,432	4,591	(3.5%)	4,200	4,365	(3.8%)		
Planning & Building	805	3,157	(74.5%)	321	2,733	(88.3%)		
Public Works	2,951	2,924	0.9%	1,713	1,952	(12.2%)		
Interest on L-T Debt	712	627	13.6%	712	627	13.6%		
Total	<u>\$10,842</u>	<u>\$13,113</u>	(17.3%)	<u>\$8,691</u>	<u>\$11,273</u>	(22.9%)		
Wastewater	\$2,813	\$2,765	1.7%	\$ 964	\$987	(2.3%)		
Recreation	989	931	6.2%	156	194	(19.6%)		
Total	<u>\$3,802</u>	<u>\$3,936</u>	(3.4%)	<u>\$1,120</u>	<u>\$1,181</u>	(5.2%)		

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 2013 to 2014. The total revenues and expenditures do not include any "other financing sources (uses)."

	Increase (Decrease) from Prior Year			
	Assets	Liabilities	Revenues	Expenditures
General Fund	(\$256,245)	(\$108,182)	\$288,523	\$3,746,129
Special Rev Funds	94,594	48,504	(63,325)	(2,486,463)
Debt Service Funds	(304,940)	-	(1,075)	139,868
Capital Project Funds	169,392	31,231	224,591	230,813

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

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

The decrease in the Debt Service Funds assets was a decrease in cash used for current year COP debt payments.

The increase in revenue and expenditures in the Capital Projects Funds was from a grant funded slurry seal project on a main street in Scotts Valley.

The decrease in expenditures in the Special Revenue Funds is due to a one-time payment of \$2,405,395 of low/moderate income housing funds in 2013 as part of the winding down process of redevelopment agencies.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total revenues were \$469,646 (5.7%) over budget. The main reason for this is due to taxes (\$587,692) being over budget while other revenue (\$124,721) was under budget. The main accounts over budget in taxes are a temporary sales tax measure (\$205,224), transient occupancy tax (\$166,199), and regular sales tax (\$69,573). The temporary sales tax measure was approved to be put on the ballot in August 2013, after the budget was adopted. Therefore, no amounts were budgeted for this revenue. The voters approved the tax on the November 2013 ballot. The temporary sales tax (one-half of one percent for eight years) started April 1, 2014. Transient occupancy tax continues to show increases due to increased marketing of Santa Cruz County by the Conference and Visitors Council and a rebound in the economy. The City cautiously budgets sales tax each year, and it came in stronger than anticipated by 3.5%. Other revenue was under budget due to lower reimbursements to the General Fund from the Successor Redevelopment Agency for administrative costs. This is due to two reasons. There is less administration as time goes by and more costs were paid directly by the Successor Redevelopment Agency rather than reimbursing costs paid by the General Fund.

Comparing expenditures to the original budget, the City was \$4,780,812 over budget. This is primarily due to the refunding of \$4,520,000 of certificates of participation and \$304,891 of debt issuance costs. There is no large budget variance in revenues because the offsetting proceeds of the refunding debt are presented in other financing sources and uses.

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 \$948,380, or 2.0%. The governmental activities had capital assets additions of \$636,468. Current year depreciation of \$1,282,587 brought capital assets to a net decrease of \$646,119. The main capital asset additions were the Scotts Valley Drive Slurry Seal (\$235,892) and Lockhart Gulch Road Stabilization (\$191,400, of which \$136,400 was in beginning construction in progress). The business-type activities had capital assets additions of \$436,878 while depreciation of \$739,139 created a net decrease of \$302,261. The main capital asset additions were a sludge thickening system (\$186,787) and a new tank truck (\$172,548) to haul the thicker sludge. The City has much lower disposal costs with the thicker sludge.

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

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2014	2013	2014	2013	2014	2013	
Land	\$7,012	\$7,012	\$429	\$429	\$7,441	\$7,441	(0.0%)
Buildings & Improvements	2,818	2,944	1,903	2,033	4,721	4,977	(5.1%)
Equipment	838	855	952	787	1,790	1,642	9.0%
Infrastructure	20,626	21,059	10,663	10,997	31,289	32,056	(2.4%)
Outfall Agreement	-	-	74	77	74	77	(3.9%)
Construction in Progress	140	210	-	-	140	210	(33.3%)
Total	\$31,434	\$32,080	\$14,021	\$14,717	\$45,455	\$46,403	(2.0%)

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 decreased \$113,494, or 0.9%. 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
	2014	2013	2014	2013	2014	2013	
Certificates of Participation	\$5,856	\$5,936	\$ -	\$ -	\$5,856	\$5,936	(1.3%)
Pension Obligation Bonds	3,970	4,280	-	-	3,970	4,280	(7.2%)
Installment Note	115	-	-	-	115	-	-
Accrued Comp Absences	778	893	158	189	936	1,082	(13.5%)
Net OPEB Obligation	<u>1,762</u>	<u>1,518</u>	<u>477</u>	<u>414</u>	<u>2,239</u>	<u>1,932</u>	15.9%
Total	<u>\$12,481</u>	<u>\$12,627</u>	<u>\$635</u>	<u>\$603</u>	<u>\$13,116</u>	<u>\$13,230</u>	(0.9%)

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 2014-15 General Fund expenditure budget was approved with a \$67,310 (0.8%) increase. The General Fund revenue budget was approved with a \$1,535,150 (18.7%) increase. The large increase in revenue is primarily due to the first full year of an additional half-cent sales tax approved on the November 2013 ballot.

CalPERS has provided the City with next year's rate and a projected 2015-16 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	
2011-12	20.258%	33.960%	Actual
2012-13	13.914%	23.681%	Actual
2013-14	14.660%	25.168%	Actual
2014-15	15.701%	26.881%	Actual
2015-16	16.700%	28.900%	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

CITY OF SCOTTS VALLEY
STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments (Note 2)	\$ 6,641,933	\$ 3,149,484	\$ 9,791,417
Receivables:			
Due from other Governments	1,227,071	108,475	1,335,546
Sewer Fees	-	265,545	265,545
Other	6,060	56,968	63,028
Inventory	-	2,688	2,688
Prepaid Expenses	-	3,569	3,569
Advances to Redevelopment Successor Agency (Note 3)	5,097,376	1,600,000	6,697,376
Long-Term Loans Receivable (Note 3)	2,371,816	-	2,371,816
Restricted Assets (Note 2):			
Cash and Investments with Fiscal Agents and Trustees	211,940	-	211,940
Unamortized Bond Discount	84,017	-	84,017
Capital Assets (Note 4):			
Land and construction in progress	7,152,193	429,416	7,581,609
Other capital assets, net of depreciation	24,281,321	13,592,069	37,873,390
Total Assets	47,073,727	19,208,214	66,281,941
LIABILITIES			
Accounts Payable	259,218	264,711	523,929
Accrued Liabilities	198,700	29,642	228,342
Unearned Revenues	6,350	123,238	129,588
Long-Term Debt (Note 5):			
Current Portion of Long-Term Debt (Note 5)	824,801	67,982	892,783
Accrued Interest	2,645,531	-	2,645,531
Certificates of Participation	5,730,588	-	5,730,588
Installment Notes	110,000	-	110,000
Pension Obligation Bonds	3,655,000	-	3,655,000
Accrued Compensated Absences	398,658	89,769	488,427
Net OPEB Obligation	1,762,421	477,083	2,239,504
Total Liabilities	15,591,267	1,052,425	16,643,692
NET POSITION			
Invested in Capital Assets, net of related debt	25,257,926	14,021,485	39,279,411
Restricted for:			
Capital Projects	4,811,175	2,298,653	7,109,828
Debt Service	211,940	-	211,940
Low/Moderate Income Housing	133,574	-	133,574
Unrestricted	1,067,845	1,835,651	2,903,496
Total Net Position	\$ 31,482,460	\$ 18,155,789	\$ 49,638,249

The accompanying notes to the financial statements are an integral part of this financial statement.

**CITY OF SCOTTS VALLEY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Functions/Programs	Expenses	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total	Governmental Activities	Business-Type Activities	Total
Primary Government:								
Governmental Activities:								
General Government	\$ 1,942,629	\$ 185,953	\$ -	\$ 11,837	\$ 197,790	\$ (1,744,839)		\$ (1,744,839)
Public Safety	4,432,039	24,781	177,290	30,297	232,368	(4,199,671)		(4,199,671)
Planning & Building	804,651	461,104	1,389	20,937	483,430	(321,221)		(321,221)
Public Works	2,951,185	221,087	433,324	583,219	1,237,630	(1,713,555)		(1,713,555)
Interest on Long-Term Debt and Fiscal Agent Charges	712,066	-	-	-	-	(712,066)		(712,066)
Total Governmental Activities	10,842,570	892,925	612,003	646,290	2,151,218	(8,691,352)		(8,691,352)
Business-Type Activities:								
Wastewater	2,812,627	1,789,141	-	59,964	1,849,105		\$ (963,522)	(963,522)
Recreation Programs	988,782	832,749	-	-	832,749		(156,033)	(156,033)
Total Business-Type Activities	3,801,409	2,621,890	-	59,964	2,681,854		(1,119,555)	(1,119,555)
Total Primary Government	14,643,979	3,514,815	612,003	706,254	4,833,072	(8,691,352)	(1,119,555)	(9,810,907)
General Revenues:								
Taxes:								
Sales Tax						2,234,797	-	2,234,797
Property Tax						1,738,055	-	1,738,055
Vehicle In-Lieu Fee (Intergovernmental / Unrestricted)						839,118	-	839,118
Franchise Taxes						798,928	-	798,928
Transient Occupancy Tax						926,199	-	926,199
Utility Users Tax						637,547	-	637,547
Other Taxes						397,325	-	397,325
Total Taxes						7,571,969	-	7,571,969
Investment Earnings						20,406	7,744	28,150
Miscellaneous						294,999	-	294,999
Transfers						(30,793)	30,793	-
Total General Revenues and Transfers						7,856,581	38,537	7,895,118
Change in Net Position						(834,771)	(1,081,018)	(1,915,789)
Net Position - Beginning of Year						32,317,231	19,236,807	51,554,038
Net Position - End of Year						\$ 31,482,460	\$ 18,155,789	\$ 49,638,249

The accompanying notes to the financial statements are an integral part of this financial statement.

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FUND FINANCIAL STATEMENTS

**CITY OF SCOTTS VALLEY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	Successor Housing Agency	General Facility	Other Governmental Funds	Total
ASSETS					
Cash and Investments	\$ 775,031	\$ 131,610	\$ 90,733	\$ 5,596,908	\$ 6,594,282
Receivables:					
Due from other Governments	956,255	-	-	270,816	1,227,071
Other	3,560	2,500	-	-	6,060
Due from other Funds	12,646	-	-	-	12,646
Advances Due from other Funds	139,532	-	-	-	139,532
Restricted Assets:					
Cash and Investments with Fiscal Agents and Trustees	211,940	-	-	-	211,940
Total Assets	\$ 2,098,964	\$ 134,110	\$ 90,733	\$ 5,867,724	\$ 8,191,531
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 163,055	\$ 536	\$ -	\$ 92,308	\$ 255,899
Accrued Liabilities	197,677	-	-	1,023	198,700
Accrued Compensated Absences	12,265	-	-	-	12,265
Due to other Funds	-	-	-	12,646	12,646
Advances Due to other Funds	-	-	139,532	-	139,532
Unearned Revenues	6,350	-	-	-	6,350
Total Liabilities	379,347	536	139,532	105,977	625,392
Fund Balances (Deficit): (Note 9)					
Restricted	211,940	133,574	-	4,748,747	5,094,261
Assigned	-	-	-	1,025,646	1,025,646
Unassigned	1,507,677	-	(48,799)	(12,646)	1,446,232
Total Fund Balances (Deficit)	1,719,617	133,574	(48,799)	5,761,747	7,566,139
Total Liabilities and Fund Balances (Deficit)	\$ 2,098,964	\$ 134,110	\$ 90,733	\$ 5,867,724	\$ 8,191,531

The accompanying notes to the financial statements are an integral part of this financial statement.

**CITY OF SCOTTS VALLEY
RECONCILIATION OF THE STATEMENT OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2014**

Total Fund Balances - Total Governmental Funds (Page 21) \$ 7,566,139

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. 31,433,514

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. (2,645,531)

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. 44,332

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)
2013 Certificates of Participation	(4,605,000)
Installment Notes	(115,000)
Pension Obligaion Bonds	(3,970,000)
Compensated Absences	(766,194)
Net OPEB Obligation	(1,762,421)

The discounts received on the issuance of long-term debt are deferred and amortized over the life of the debt on the Government-Wide Statement of Net Position. 84,017

Long-term loans receivable are not current financial resources and, therefore, are offset in the Governmental Funds Balance Sheet by a corresponding amount of deferred revenue under liabilities. 7,469,192

Net Position of Governmental Activities (Page 15) \$ 31,482,460

**CITY OF SCOTTS VALLEY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR FISCAL YEAR ENDING JUNE 30, 2014**

	General Fund	Successor Housing Agency	General Facility	Other Governmental Funds	Total
Revenues:					
Taxes and Assessments	\$ 7,626,544	\$ -	\$ -	\$ 425,795	\$ 8,052,339
Intergovernmental Revenues	6,076	-	-	345,928	352,004
Fees and Services	565,908	-	11,625	606,319	1,183,852
Fines and Forfeitures	41,731	-	-	-	41,731
Investment Earnings	10,813	-	212	13,840	24,865
Contributions, Non-Government	-	-	-	2,167	2,167
Facility/Building Rental	-	30,000	-	-	30,000
Miscellaneous Revenues	443,279	29,718	-	811	473,808
Total Revenues	8,694,351	59,718	11,837	1,394,860	10,160,766
Expenditures:					
Current:					
General Government	1,850,689	-	105	-	1,850,794
Public Safety	4,223,579	-	-	357	4,223,936
Planning and Building	680,196	45,949	-	30,592	756,737
Public Works	1,510,479	-	-	242,970	1,753,449
Capital Outlay	21,458	-	-	742,652	764,110
Debt Service:					
Principal	4,685,000	-	-	310,000	4,995,000
Interest and Finance Charges	220,737	-	-	134,071	354,808
Debt Issuance Costs	304,891	-	-	-	304,891
Total Expenditures	13,497,029	45,949	105	1,460,642	15,003,725
Excess of Revenues over (under) Expenditures	(4,802,678)	13,769	11,732	(65,782)	(4,842,959)
Other Financing Sources (Uses):					
Transfers In	600,000	-	-	716,588	1,316,588
Transfers Out	(550,385)	-	-	(796,996)	(1,347,381)
Proceeds from Issuance of Debt	4,605,000	-	-	-	4,605,000
Net Other Financing Sources (Uses)	4,654,615	-	-	(80,408)	4,574,207
Net Change in Fund Balances	(148,063)	13,769	11,732	(146,190)	(268,752)
Fund Balance - Beginning	1,867,680	119,805	(60,531)	5,907,937	7,834,891
Fund Balance - End of Year	\$ 1,719,617	\$ 133,574	\$ (48,799)	\$ 5,761,747	\$ 7,566,139

The accompanying notes to the financial statements are an integral part of this financial statement.

**CITY OF SCOTTS VALLEY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014**

	Enterprise Funds			Governmental Activities - Internal Fund
	Recreation Fund	Wastewater Fund	Total	
ASSETS				
Current:				
Cash and Investments	\$ 91	\$ 3,149,393	\$ 3,149,484	\$ 47,651
Receivables:				
Due from other Governments	-	108,475	108,475	-
Sewer Fees	-	265,545	265,545	-
Other	56,968	-	56,968	-
Advances to Redevelopment				
Successor Agency	-	1,600,000	1,600,000	-
Inventory	-	2,688	2,688	-
Prepaid Expenses	3,569	-	3,569	-
Total Current Assets	<u>60,628</u>	<u>5,126,101</u>	<u>5,186,729</u>	<u>47,651</u>
Capital Assets (Note 4):				
Land and construction in progress	-	429,416	429,416	-
Other capital assets, net of depreciation	-	13,592,069	13,592,069	-
Total capital assets	<u>-</u>	<u>14,021,485</u>	<u>14,021,485</u>	<u>-</u>
Total Assets	<u>60,628</u>	<u>19,147,586</u>	<u>19,208,214</u>	<u>47,651</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	23,207	241,504	264,711	3,319
Accrued Liabilities	16,703	12,939	29,642	-
Compensated Absences	42,696	115,055	157,751	-
Unearned Revenues	123,238	-	123,238	-
Total Current Liabilities	<u>205,844</u>	<u>369,498</u>	<u>575,342</u>	<u>3,319</u>
Noncurrent Liabilities:				
Compensated Absences	-	-	-	-
Net OPEB Obligation	232,622	244,461	477,083	-
Total Noncurrent Liabilities	<u>232,622</u>	<u>244,461</u>	<u>477,083</u>	<u>-</u>
Total Liabilities	<u>438,466</u>	<u>613,959</u>	<u>1,052,425</u>	<u>3,319</u>
NET POSITION				
Invested in Capital Assets	-	14,021,485	14,021,485	-
Restricted	-	2,298,653	2,298,653	-
Unrestricted	<u>(377,838)</u>	<u>2,213,489</u>	<u>1,835,651</u>	<u>44,332</u>
Total Net Position	\$ <u>(377,838)</u>	\$ <u>18,533,627</u>	\$ <u>18,155,789</u>	\$ <u>44,332</u>

The accompanying notes to the financial statements are an integral part of this financial statement.

**CITY OF SCOTTS VALLEY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDING JUNE 30, 2014**

	Enterprise Funds			Governmental Activities - Internal Fund
	Recreation Fund	Wastewater Fund	Total	
Operating Revenues:				
Fees and Services	\$ 832,749	\$ 1,789,141	\$ 2,621,890	\$ 64,045
Total Operating Revenues	<u>832,749</u>	<u>1,789,141</u>	<u>2,621,890</u>	<u>64,045</u>
Operating Expenses:				
Salaries	524,697	533,849	1,058,546	-
Taxes and Benefits	203,098	379,984	583,082	-
Maintenance and Operations	132,652	734,315	866,967	70
Advertising	7,287	-	7,287	-
Professional and Contractual Services	98,978	98,592	197,570	-
Utilities and Communications	12,758	284,799	297,557	-
Insurance and Bonds	9,312	41,949	51,261	73,024
Depreciation	-	739,139	739,139	-
Total Operating Expenses	<u>988,782</u>	<u>2,812,627</u>	<u>3,801,409</u>	<u>73,094</u>
Income (Loss) from Operations	<u>(156,033)</u>	<u>(1,023,486)</u>	<u>(1,179,519)</u>	<u>(9,049)</u>
Nonoperating Revenues (Expenses):				
Interest Income	-	7,744	7,744	140
Connection Fees	-	59,964	59,964	-
Total Nonoperating Revenues	<u>-</u>	<u>67,708</u>	<u>67,708</u>	<u>140</u>
Net Income (Loss) before Transfers	<u>(156,033)</u>	<u>(955,778)</u>	<u>(1,111,811)</u>	<u>(8,909)</u>
Transfers In	110,094	-	110,094	-
Transfers Out	<u>(29,612)</u>	<u>(49,689)</u>	<u>(79,301)</u>	<u>-</u>
Change in Net Position	(75,551)	(1,005,467)	(1,081,018)	(8,909)
Net Position - Beginning	<u>(302,287)</u>	<u>19,539,094</u>	<u>19,236,807</u>	<u>53,241</u>
Net Position - End of Year	<u>\$ (377,838)</u>	<u>\$ 18,533,627</u>	<u>\$ 18,155,789</u>	<u>\$ 44,332</u>

The accompanying notes to the financial statements are an integral part of this financial statement.

**CITY OF SCOTTS VALLEY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDING JUNE 30, 2014**

	Enterprise Funds			Governmental Activities - Internal Fund
	Recreation Fund	Wastewater Fund	Total	
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 857,967	\$ 1,885,648	\$ 2,743,615	\$ 64,045
Cash Payments for Good and Services	(456,563)	(1,468,580)	(1,925,143)	(74,191)
Cash Payments to Employees	(484,656)	(540,406)	(1,025,062)	-
Net Cash Provided by (Used for) Operating Activities	(83,252)	(123,338)	(206,590)	(10,146)
Cash Flows from Noncapital Financing Activities:				
Transfers In (Out)	80,482	(49,689)	30,793	-
Net Cash Provided by (Used for) Noncapital Financing Activities	80,482	(49,689)	30,793	-
Cash Flows from Capital and Related Financing Activities				
Receipts of Connection and Standby Fees	-	59,964	59,964	-
Purchase of Vehicles and Equipment	-	(250,091)	(250,091)	-
Construction of Improvements & Land Purchase	-	(186,787)	(186,787)	-
Net Cash Provided by (Used for) Capital and Related Financing Activities	-	(376,914)	(376,914)	-
Cash Flows from Investing Activities:				
Interest Received	-	7,744	7,744	140
Net Cash Provided by Investing Activities	-	7,744	7,744	140
Net Increase (Decrease) in Cash	(2,770)	(542,197)	(544,967)	(10,006)
Cash and Investments, Beginning	2,861	3,691,590	3,694,451	57,657
Cash and Investments, End of Year	\$ 91	\$ 3,149,393	\$ 3,149,484	\$ 47,651

(Continued)

The accompanying notes to the financial statements are an integral part of this financial statement.

**CITY OF SCOTTS VALLEY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDING JUNE 30, 2014**

	<u>Recreation Fund</u>	<u>Wastewater Fund</u>	<u>Total</u>	<u>Governmental Activities - Internal Fund</u>
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities				
Operating (Loss)	\$ (156,033)	\$ (1,023,486)	\$ (1,179,519)	\$ (9,049)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities:				
Depreciation	-	739,139	739,139	-
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(11,298)	96,507	85,209	-
(Increase) Decrease in Prepaid Expenses	5,235	-	5,235	-
Increase (Decrease) in Accounts Payable	2,287	71,059	73,346	(1,097)
Increase(Decrease) in Acc Liabilities/Comp Absences	9,222	(38,917)	(29,695)	-
Increase(Decrease) in Net OPEB Obligation	30,819	32,360	63,179	-
(Decrease) in Deferred Revenues	36,516	-	36,516	-
Net Cash Provided by (Used for) Operating Activities	<u>\$ (83,252)</u>	<u>\$ (123,338)</u>	<u>\$ (206,590)</u>	<u>\$ (10,146)</u>
				(Concluded)

The accompanying notes to the financial statements are an integral part of this financial statement.

**CITY OF SCOTTS VALLEY
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014**

	<u>Successor Agency Private Purpose Trust Fund</u>	<u>Agency Funds</u>
ASSETS		
Cash and Investments Held for Others, restricted	\$ 920,830	\$ 1,650,965
Cash and Investments Held in Accordance with Bond Indentures, restricted	767,258	813,735
Depreciable Capital Assets, Net	<u>14,263,198</u>	<u>-</u>
Total Assets	<u>\$ 15,951,286</u>	<u>\$ 2,464,700</u>
LIABILITIES		
Accounts Payable	\$ 3,724	\$ -
Deposits	-	679,467
Accrued Interest Payable	272,000	-
Advances From Other Funds	-	971,498
Unearned Revenues	49,311	-
Bond Reserve Payable	-	813,735
Long-Term Debt:		
Due in one year	355,000	-
Due in more than one year	<u>20,522,376</u>	<u>-</u>
Total Liabilities	<u>21,202,411</u>	<u>\$ 2,464,700</u>
NET POSITION		
Held in Trust for Other Governments	<u>\$ (5,251,125)</u>	

The accompanying notes to the financial statements are an integral part of this financial statement.

CITY OF SCOTTS VALLEY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
JUNE 30, 2014

	<u>Successor Agency Private Purpose Trust Fund</u>
ADDITIONS	
Redevelopment Property Tax Trust Fund	\$ 1,591,998
Debt Transferred to General Fund	115,000
Bond Premium	<u>2,592</u>
Total Additions	<u>1,709,590</u>
DEDUCTIONS	
Administrative Expenses	\$ 234,422
Enforceable Obligations of Former Redevelopment Agency	84,536
Depreciation	193,516
Interest Expense	<u>838,643</u>
Total Deductions	<u>1,351,117</u>
Change in Current Net Position	<u>358,473</u>
Net Position - Beginning	(5,683,348)
Prior Period Adjustment	<u>73,750</u>
Net Position - Beginning, as adjusted	(5,609,598)
Net Position - End of Year	<u>\$ (5,251,125)</u>

The accompanying notes to the financial statements are an integral part of this financial statement.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014

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, 2014

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

Proprietary Funds Financial Statements

Proprietary Funds Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in 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 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 Funds Financial Statements

Fiduciary Funds 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

Four 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 Funds 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, 2014

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, 2014

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 the fiscal year, 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 the fiscal year was \$446. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the fiscal year.

Unbilled Receivables

The City bills wastewater service fees every two months. Whenever the fiscal year end does not coincide with a billing month, the City accrues unbilled wastewater service fees.

Inventory

Inventories for gasoline and oil are accounted for in the Wastewater Enterprise Fund. The inventories are priced at cost, determined on a first-in, first-out basis.

Compensated Absences

A long-term liability of accumulated vacation and sick leave has been recorded in the Government-wide Financial Statements. In the Fund Financial Statements, this liability is only recorded in the Enterprise Funds.

Encumbrances

Encumbrance accounting is employed by the City in all of its governmental funds. In doing so, purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation,

Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Proprietary Funds' "deposits" in the City-wide cash management pool are, in substance, demand deposits and are considered cash equivalents for purposes of the statement of cash flows.

Property Tax Levy, Collection, and Maximum Rates

The State of California Constitution Article XIII A (Proposition 13) provides that the combined maximum property tax rate on any given property may not exceed one percent of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100 percent of fair value as defined by Article XIII A and may be increased by no more than two percent per year, cumulatively, unless the property is sold, improved, or transferred. The State Legislature has determined the method of distribution of receipts from a one-percent tax levy among the counties, cities, school districts, and other districts.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2014

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

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

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

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

Transactions Between Funds

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

2. CASH AND INVESTMENTS

The City follows the practice of pooling cash and investments of all funds except for restricted funds required to be held by outside custodians, fiscal agents or trustees under the provisions of bond indentures. Cash and investments are summarized below as of June 30, 2014.

Pooled Deposits		\$ 2,277,224
Pooled Investments:	California Local Agency Investment Fund (LAIF)	7,661,698
	Money Market	<u>2,819,896</u>
Subtotal		12,758,818
Investments with Fiscal Agents and Trustees		<u>1,397,327</u>
Total Cash and Investments		<u>\$14,156,145</u>

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

	<u>Government-wide</u>		<u>Fiduciary</u>	<u>Total</u>
	<u>Statement of Net Position</u>			
	<u>Governmental</u>	<u>Business-Type</u>	<u>Statement of</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Net Position</u>	
Cash & Investments	\$ 6,641,933	\$ 3,149,484	\$ 2,571,795	\$ 12,363,212
Restricted Cash & Investments	<u>211,940</u>	<u>-</u>	<u>1,580,993</u>	<u>1,792,933</u>
Total	<u>\$ 6,853,873</u>	<u>\$ 3,149,484</u>	<u>\$ 4,152,788</u>	<u>\$14,156,145</u>

Pooled Deposits

At June 30, 2014, the difference between the carrying amount of the City's book balance of \$2,169,851 and the corresponding bank balance of \$2,583,303 was due to outstanding checks and deposits in transit. Of the bank balance, \$250,000 was insured by federal depository insurance and \$2,333,303 was collateralized 110% in accordance with the California Government Code with securities held by the pledging financial institution in the City's name.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2014**

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, 2014, 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, 2014, 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, 2014, the City had \$7,661,698 invested in LAIF, which had invested 1.86% 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 (\$64,870,214,443) by total aggregate amortized cost (\$64,850,840,279) resulting in a factor of 1.00029875.

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, 2014, 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	\$ 7,661,698	\$ -	\$ -	\$ -
Money Market (not rated)	<u>2,819,896</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$10,481,594</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2014

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 (\$3,332,365) 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.

\$5,097,376

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, 2014

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land	\$7,011,920	\$ -	\$ -	\$7,011,920
Construction in progress	210,406	121,267	191,400	140,273
Total capital assets not being depreciated	<u>7,222,326</u>	<u>121,267</u>	<u>191,400</u>	<u>7,152,193</u>
<u>Capital assets being depreciated:</u>				
Buildings and Improvements	5,448,580	21,200	-	5,469,780
Machinery and equipment	3,213,579	164,536	106,895	3,271,220
Infrastructure	37,450,531	520,865	-	37,971,396
Total capital assets being depreciated	<u>46,112,690</u>	<u>706,601</u>	<u>106,895</u>	<u>46,712,396</u>
<u>Less accumulated depreciation for:</u>				
Buildings and Improvements	2,504,743	147,096	-	2,651,839
Machinery and equipment	2,358,633	181,647	106,895	2,433,385
Infrastructure	16,392,007	953,844	-	17,345,851
Total accumulated depreciation	<u>21,255,383</u>	<u>1,282,587</u>	<u>106,895</u>	<u>22,431,075</u>
Total capital assets being depreciated, net	<u>24,857,307</u>	<u>(575,986)</u>	<u>-</u>	<u>24,281,321</u>
Governmental capital assets, net	<u>\$32,079,633</u>	<u>\$ (454,719)</u>	<u>\$ 191,400</u>	<u>\$31,433,514</u>
Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land	\$ 429,416	\$ -	\$ -	\$ 429,416
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>429,416</u>	<u>-</u>	<u>-</u>	<u>429,416</u>
<u>Capital assets being depreciated:</u>				
Buildings and Improvements	5,287,273	-	-	5,287,273
Machinery and equipment	5,992,278	250,091	-	6,242,369
Infrastructure	22,860,923	186,787	-	23,047,710
Outfall agreement	178,000	0	-	178,000
Total capital assets being depreciated	<u>34,318,474</u>	<u>436,878</u>	<u>-</u>	<u>34,755,352</u>
<u>Less accumulated depreciation for:</u>				
Buildings and Improvements	3,254,784	129,496	-	3,384,280
Machinery and equipment	5,204,791	86,123	-	5,290,914
Infrastructure	11,863,694	520,553	-	12,384,247
Outfall agreement	100,875	2,967	-	103,842
Total accumulated depreciation	<u>20,424,144</u>	<u>739,139</u>	<u>-</u>	<u>21,163,283</u>
Total capital assets being depreciated, net	<u>13,894,330</u>	<u>(302,261)</u>	<u>-</u>	<u>13,592,069</u>
Business-type capital assets, net	<u>\$14,323,746</u>	<u>\$ (302,261)</u>	<u>\$ -</u>	<u>\$14,021,485</u>
 Total Capital Assets	 <u>\$46,403,379</u>	 <u>\$ (756,980)</u>	 <u>\$ 191,400</u>	 <u>\$45,454,999</u>

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2014**

4. CAPITAL ASSETS (concluded)

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

<u>Governmental Activities:</u>	
General government	\$ 44,363
Public safety	165,811
Planning & building	6,456
Public works	<u>1,065,957</u>
Total depreciation expense – government activities	<u>\$ 1,282,587</u>
 <u>Business-Type Activities:</u>	
Wastewater	\$ 739,139
Recreation	-
Total depreciation expense – business-type activities	<u>\$ 739,139</u>

5. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the fiscal year ended June 30, 2014:

<u>GOVERNMENTAL ACTIVITIES</u>					
	<u>Balance at July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2014</u>	<u>Due Within One Year</u>
Certificates of Participation	\$ 5,935,588	\$4,440,000	\$4,520,000	\$ 5,855,588	\$125,000
Pension Obligation Bonds	4,280,000	-	310,000	3,970,000	315,000
Installment Note	-	115,000	-	115,000	5,000
Accrued Compensated Absences	893,573	398,347	513,461	778,459	379,801
Net OPEB Obligation	<u>1,517,807</u>	<u>452,333</u>	<u>207,719</u>	<u>1,762,421</u>	-
Totals	<u>\$12,626,968</u>	<u>\$5,405,680</u>	<u>\$5,551,180</u>	<u>\$12,481,468</u>	<u>\$ 824,801</u>
 <u>BUSINESS-TYPE ACTIVITIES</u>					
	<u>Balance at July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2014</u>	<u>Due Within One Year</u>
Accrued Compensated Absences	\$ 188,924	\$ 88,175	\$119,348	\$ 157,751	\$ 67,982
Net OPEB Obligation	<u>413,904</u>	<u>83,854</u>	<u>20,675</u>	<u>477,083</u>	-
Totals	<u>\$ 602,828</u>	<u>\$ 172,029</u>	<u>\$140,023</u>	<u>\$ 634,834</u>	<u>\$ 67,982</u>

Debt service payments are generally provided from the following sources:

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

Pension Obligation Bonds - General revenues recorded in the General Fund.

Note Payable - 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, 2014

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, 2014:

Original issue - \$4,940,588, 1997-1 Refunding Certificates of Participation	\$ 1,250,588
Original issue - \$4,605,000, 2013 Refunding Certificates of Participation	<u>4,605,000</u>
Total Certificates of Participation	<u>\$5,935,588</u>

In 1997, the Scotts Valley Public Financing Authority issued \$4,940,587.95 of refunding COP's. The proceeds were used to refund a portion of the current interest bonds from the 1992 COP. The 1997 COP consisted of \$3,690,000 of current interest certificates ranging from 3.70% to 5.25% per annum, and \$1,250,587.95 of capital appreciation certificates ranging from 5.60% to 5.70% per annum. The current interest certificates were refunded by the 2006 Refunding COP's. Only the capital appreciation certificates remain outstanding.

Fiscal Year <u>Ending</u>	1997-1 Refunding Certificates of Participation		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018-2022	\$ 462,639	\$1,202,361	\$1,665,000
2023-2027	<u>787,949</u>	<u>2,832,051</u>	<u>3,620,000</u>
Totals	<u>\$1,250,588</u>	<u>\$4,034,412</u>	<u>\$5,285,000</u>

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2014

5. LONG-TERM DEBT (continued)

In 2013, the Scotts Valley Public Financing Authority issued \$4,605,000 of 2013 Refunding Certificates of Participation. The proceeds were used to refund the remaining 2003 Public Improvements Project and the 2006 Refunding Certificates of Participation current interest certificates. The interest rates for this COP range from 2.0% to 5.4%.

Fiscal Year Ending	2013 Refunding Certificates of Participation		
	Principal	Interest	Total
2015	\$ 125,000	\$ 218,545	\$ 343,545
2016	140,000	215,895	355,895
2017	140,000	213,095	353,095
2018	145,000	209,883	354,883
2019	145,000	206,257	351,257
2020-2024	-	1,022,225	1,022,225
2025-2029	310,000	1,007,962	1,317,962
2030-2034	910,000	838,793	1,748,793
2035-2039	1,170,000	570,518	1,740,518
2040-2043	<u>1,520,000</u>	<u>213,432</u>	<u>1,733,432</u>
Totals	<u>\$4,605,000</u>	<u>\$4,716,605</u>	<u>\$9,321,605</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.

Fiscal Year Ending	2012 Pension Obligation Bond		
	Principal	Interest	Total
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	340,000	100,325	440,325
2020-2024	1,905,000	296,730	2,201,730
2025	<u>430,000</u>	<u>9,460</u>	<u>439,460</u>
Totals	<u>\$3,970,000</u>	<u>\$888,667</u>	<u>\$4,858,667</u>

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2014**

5. LONG-TERM DEBT (continued)

Installment Note:

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 proceeds were used for recycled water pipes to City parks. Annual principal amounts vary from \$ 0 to \$15,000 plus interest at 6% per annum, through 2028.

Fiscal Year <u>Ending</u>	Installment Note		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	5,000	6,750	11,750
2016	5,000	6,450	11,450
2017	5,000	6,150	11,150
2018	5,000	5,850	10,850
2019	10,000	5,400	15,400
2020-2024	40,000	19,800	59,800
2025-2028	<u>45,000</u>	<u>5,850</u>	<u>50,850</u>
Totals	<u>\$115,000</u>	<u>\$56,250</u>	<u>\$171,250</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

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. 4,420,000

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 (\$3,332,365), 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). 6,697,376

Total Successor Agency Private Purpose Trust Fund Debt \$20,877,376

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2014**

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, 2014:

Original issue - \$6,966,000, 2002 Consolidated Reassessment District	\$ 880,000
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>870,000</u>
Total Special Assessment District Bonds (No City Liability)	<u>\$5,195,000</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, 2014:

	<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Major Funds:	General Fund	\$12,646		
Non Major Funds:		_____	Homeland Security	\$12,646
Totals		<u>\$12,646</u>		<u>\$12,646</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, 2014

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 \$1,230,910, 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	\$ -	\$ 110,094	\$ 440,291	\$ 550,385
Enterprise Fund	-	-	79,301	79,301
Non Major Fund	<u>600,000</u>	-	<u>196,996</u>	<u>796,996</u>
Total	<u>\$600,000</u>	<u>\$110,094</u>	<u>\$ 716,588</u>	<u>\$ 1,426,682</u>

The General Fund transferred out a total of \$550,385 as follows: \$110,094 to the Recreation Fund for operations, \$356,871 to the Pension Obligation Fund for its share of the pension obligation debt service, \$1,714 to the Non-Major Fund for SMIP Fees, and \$81,706 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 \$79,301 to the Pension Obligation Fund for its share of the pension obligation debt service.

Non-Major Funds transferred out a total of \$796,996 as follows: \$300,000 from the Gas Tax Fund to the General Fund for street maintenance expenditures; \$300,000 from the COP Debt Service fund to the General Fund for debt service payments; and \$612 from the Senior Center and \$612 from the Community Center to the Pension Obligation Fund for their share of the pension obligation debt service. Transfers within Non-Major Funds included \$195,772 into General Capital Improvements from the following funds: Gas Tax Fund - \$50,000; Drainage Fund - \$50,000; Traffic Mitigation Fund - \$45,772; and Park and Recreation Facilities - \$50,000 for partial funding of various capital projects.

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 has construction contract commitments in the amount of \$980,279 at June 30, 2014 for the following projects:

<u>Project:</u>	<u>Commitments</u>
Vinehill School Road Pedestrian/Bike Path	\$ 519,615
Shughart Pathway & Footbridge	<u>460,664</u>
Total Contract Commitments	<u>\$ 980,279</u>

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2014**

8. COMMITMENTS AND CONTINGENCIES (concluded)

In December of 2003 the City entered into a Memorandum of Understanding (MOU) with the Land Trust of Santa Cruz County. The Land Trust is to manage approximately 162 acres of open space in accordance with the Glenwood Open Space Management Plan approved by the City Council on June 4, 2004. The City has placed \$1,070,000 in an endowment trust fund managed by the Land Trust. All costs associated with the management of the open space are to be paid by investment earnings and principal of this endowment. If the Land Trust is unable to provide management services or if the agreement is terminated, any remaining amount in the endowment trust fund will be returned to the City.

9. FUND BALANCES – GOVERNMENTAL FUNDS

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

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

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

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

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, 2014, 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	\$ 211,940	\$ -	\$ -	\$ -	\$ 211,940
Low/Mod Housing	-	133,574	-	-	133,574
Impact Fees	-	-	-	1,653,055	1,653,055
Public Works	-	-	-	888,492	888,492
Public Safety	-	-	-	462,395	462,395
Parks & Recreation	-	-	-	1,084,363	1,084,363
Community Development	-	-	-	549,520	549,520
Planning	-	-	-	110,922	110,922
Assigned:					
Debt Service	-	-	-	942,277	942,277
Public Works	-	-	-	39,798	39,798
Parks & Recreation	-	-	-	43,571	43,571
Unassigned	<u>1,507,677</u>	<u>-</u>	<u>(48,799)</u>	<u>(12,646)</u>	<u>1,446,232</u>
Total	<u>\$1,719,617</u>	<u>\$133,574</u>	<u>\$(48,799)</u>	<u>\$5,761,747</u>	<u>\$7,566,139</u>

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2014

9. FUND BALANCES – GOVERNMENTAL FUNDS (concluded)

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

10. DEFICIT FUND BALANCES

At June 30, 2014, the following City funds had deficit fund balances:

Major Fund:	
General Facility	<u>(\$48,799)</u>
Non Major Funds:	
Homeland Security	<u>(\$12,646)</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

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2014**

11. PENSION PLAN (concluded)

Board of Administration. The required employer contribution rate for the fiscal 2013/2014 was 14.66% for Miscellaneous Plan employees and 25.168% 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.

Annual Pension Cost

For fiscal year 2013/2014, the City's annual pension cost for the Safety Plan and Miscellaneous Plan was \$404,516 and \$371,142, respectively, which was equal to the City's required and actual contribution.

Three-Year Trend Information

Fiscal Year Ending	Miscellaneous Plan			Safety Plan		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	\$546,876	100%	\$ -	\$627,232	100%	\$ -
6/30/2013	\$371,124	100%	\$ -	\$426,817	100%	\$ -
6/30/2014	\$371,142	100%	\$ -	\$404,516	100%	\$ -

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 \$228,394 in post employment benefits for the 26 retired employees who were eligible for benefits during the fiscal year ended June 30, 2014.

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.

CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2014

12. POSTEMPLOYMENT BENEFITS (continued)

Annual Required Contribution	\$ 503,992
Interest on the net OPEB obligation	96,586
Adjustment to Annual Required Contribution	<u>(64,391)</u>
Annual OPEB cost	536,187
Payments made	<u>(228,394)</u>
Increase in net OPEB obligation	307,793
Net OPEB obligation – beginning of year	<u>1,931,711</u>
Net OPEB obligation – end of year	<u>\$2,239,504</u>

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, 2012, 2013, and 2014, were as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Annual OPEB</u> <u>Cost Contributed</u>	<u>OPEB</u> <u>Obligation</u>
2012	\$674,691	32.6%	\$454,975
2013	\$531,416	46.1%	\$286,273
2014	\$536,187	42.6%	\$307,793

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.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS (continued)
JUNE 30, 2014**

12. POSTEMPLOYMENT BENEFITS (concluded)

GASB 45 requires the interest rate to represent the underlying expected return for the source of funds used to pay benefits. The actuarial methods and assumptions included 5% interest rate, based on long-term historical returns for surplus funds invested pursuant to California Government Code Sections 53601 et seq. Annual inflation and Aggregate Payroll are assumed to increase 3% per annum. Both post-retirement benefit increases and the healthcare cost trend rate are assumed to increase 4% per annum.

13. JOINT POWERS AUTHORITY

The City participates in a public entity risk pool under a joint power agreement (JPA): the Monterey Bay Area Self Insurance Authority. The relationship between the City and the JPA is such that the JPA is not a component of the City for financial reporting purposes.

The Monterey Bay Area Self Insurance Authority (MBASIA) provides for workers' compensation and liability insurance for its members: various small cities in the Monterey Bay Area. The MBASIA is governed by a board of directors composed of representatives from each of the member cities. This board controls the operations of the MBASIA, including selection of management and approval of operating budgets independent of any influence by the member cities beyond their representation on the Board. Each member city pays a premium based on factors determined by the board. Below is the condensed financial information of the MBASIA for the fiscal year ended June 30, 2013 (fiscal year 2014 is not available at the time of the printing of the City's financial statements):

Total Assets	\$13,971,309	Total Revenues	\$5,538,519
Total Liabilities	<u>18,400,306</u>	Total Expenditures	<u>6,681,998</u>
Net Assets (Deficit)	<u>(\$4,428,997)</u>	Change in Net Assets	<u>(\$1,143,479)</u>

The City paid \$158,698 for workers compensation and \$49,535 for liability premiums during the year ended June 30, 2014. The City's share of the fiscal year-end assets, liabilities, or fund equity has not been calculated by the MBASIA.

14. SUBSEQUENT EVENT

On September 2, 2014, the City of Scotts Valley paid off special assessment bonds of the 2002 Consolidated Reassessment District in their entirety. Payments were scheduled through September 2, 2020; however, the remaining principal balance of \$880,000 was paid off early with available cash on hand from prior assessments and a reserve fund that was established when the bonds were issued.

15. PRIOR PERIOD ADJUSTMENT

The City had one prior period adjustment for a correction of an error in the calculation of accrued interest payable in the Successor Agency Private Purpose Trust Fund.

\$73,750

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