

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, 2015, 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, 2015, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in the net pension liability and related ratios, and schedule of contributions to the pension plan, the schedule of funding progress for the City's other postemployment benefits plan, and the respective budgetary comparison information of the general and major funds, 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 Information

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.

Implementation of New Accounting Standards

As mentioned in Note 1 to the financial statements, the City of Scotts Valley implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during the fiscal year 2014-15.

Marcello & Company

Certified Public Accountants
Sacramento, California
October 14, 2015

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, 2015. 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, 2015, by \$38,965,565. The current year change in net position was an increase of \$789,632 with a prior period adjustment decrease of \$11,462,316 for the pension liability accrual per GASB 68. Of the total net position, \$39,313,692 was invested in capital assets (net of related debt) and \$6,862,674 had restrictions on their use leaving a negative \$7,210,801 as unrestricted. The current increase in City net position is a combination of the governmental activities increasing \$1,587,435 and the business-type activities decreasing \$797,803.

As of June 30, 2015, the City's governmental funds (General Fund, special revenue funds, debt service funds, and capital project funds) had a combined fund balance of \$8,363,281, an increase of \$797,142 from the previous year. This is mainly a combination of an increase in the General Fund of \$1,209,583, and a decrease in the non-major funds of \$253,343. Of the total City governmental fund balance, \$4,570,442 was restricted, \$1,031,061 was assigned, and \$2,761,778 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. Fiscal year ended June 30, 2015, was the first full year for this additional sales tax. The City recorded \$1,151,801 for the fiscal year, an increase of \$946,577 over the previous partial fiscal year.

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 nonmajor 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 another entities resources
Required financial statements	Statement of net position Statement of activities	Balance sheet, Statement of revenue, 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	Revenue 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 it has 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 included 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 types 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 \$38,965,565 as of June 30, 2015. This is a decrease of \$10,672,684, or 21.5%, from the previous year. It is a combination of an increase in total assets of \$1,159,996 and an increase in total liabilities of \$11,832,680. The entire Statement of Net Position can be seen on Page 14.

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

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2015	2014	2015	2014	2015	2014	
Current and other assets	\$16,371	\$15,640	\$ 4,760	\$ 5,187	\$21,131	\$20,827	1.5%
Capital assets, net	31,752	31,434	13,536	14,021	45,288	45,455	(0.4%)
Total assets	48,123	47,074	18,296	19,208	66,419	66,282	0.2%
Deferred Outflows-Resources	849	-	173	-	1,022	-	N/A
Long-term debt outstanding	19,703	12,481	2,194	635	21,897	13,116	66.9%
Other liabilities	3,299	3,110	360	417	3,659	3,527	3.7%
Total liabilities	23,002	15,591	2,554	1,052	25,556	16,643	53.6%
Deferred Inflows-Resources	2,427	-	493	-	2,920	-	N/A
Net position:							
Invested in capital assets, net or related debt	25,778	25,258	13,536	14,021	39,314	39,279	(0.1%)
Restricted	4,706	5,157	2,156	2,299	6,862	7,456	(8.0%)
Unrestricted	(6,941)	1,068	(270)	1,836	(7,211)	2,904	(348.3%)
Total net position	\$23,543	\$31,483	\$15,422	\$18,156	\$38,965	\$49,639	(21.5%)

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

Cash and Investments	(\$404,605)
Due from Other Governments	713,436
Deferred Outflows of Resources-Pensions	1,022,001
Net Pension Liability	9,088,772
Deferred Inflows of Resources-Pensions	2,919,953

The total decrease in cash is a combination of an increase in governmental activities (\$140,232) and a decrease in business-type activities (\$544,837). The increase in the governmental activities is from the first full year collection of the City's additional half-cent sales tax measure. The decrease in the business-type activities is split approximately equal between the Wastewater Treatment Plant operations and capital improvements. Operations decreased partly due to an increase in receivables from a delay in billings being sent out. There were two capital improvements totaling \$253,107. The increase in the receivable from other governments is due to two large grant-funded projects totaling \$850,000.

The last three accounts (deferred outflows of resources-pensions, net pension liability, and deferred inflows of resources-pensions) are all new this fiscal year with the implementation of GASB 68 regarding the recording of net pension 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 \$1,915,789 in fiscal year 2014 to an increase of \$789,632 in fiscal year 2015. This is a result of total revenues increasing \$2,710,541, or 21.3%, and total expenses increasing \$5,120, or 0.03%. A further analysis is shown below.

	(in thousands of dollars)		Percent
	<u>2015</u>	<u>2014</u>	<u>Change</u>
Program Revenues	\$ 5,765	\$ 4,833	19.3%
General Revenues	9,674	7,895	22.5%
Governmental Expenses	(10,925)	(10,843)	0.8%
Business-type Expenses	<u>(3,724)</u>	<u>(3,801)</u>	(2.0%)
Net Increase (Decrease)	<u>\$ 790</u>	<u>\$ (1,916)</u>	141.2%

On the next page is a current and prior fiscal year recap of the changes in net position. The entire Statement of Activities can be seen on Page 15.

Revenues:

Program revenues for governmental activities increased \$704,183, or 32.7%. This is made up of increases in charges for services of \$212,988 and capital grants and contributions of \$507,340 offset by decrease in operating grants and contributions of \$16,145. Charges for services increased mainly in Planning/Building (\$223,436) and Public Works (\$54,789) with a decrease in General government (\$76,212). Planning/Building increased due to the significant increase in construction activity. Public Works increased mainly due to revenues from the Community Center and Senior Center which are managed by the Public Works department. The decrease in General Government comes from a decrease in staff time associated with the winding down of the former redevelopment agency. The main increase in capital grants and contributions also came in Public Works (\$521,125) due to two grant-funded projects: one a park pathway and footbridge project for \$450,000 and the other a road and sidewalk improvement project for \$400,000.

Program revenues for business-type activities increased \$227,724, or 8.5%. This is made up of an increase in charges for services of \$209,317 and in capital grants and contributions of \$18,407. Charges for services increased in both Wastewater (\$79,247) and Recreation Programs (\$130,070). 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 increased entirely in Wastewater for connection fees.

Expenses:

Governmental activities increased \$82,370. The largest increase was in public safety (\$181,957). This all came from increases in salaries and benefits. The largest decrease was in interest and fiscal charges. No debt was refunded in the current fiscal year.

Business-type activities decreased only \$77,250. This mostly relates to wastewater and relates to decreases in salaries/benefits (\$124,550) and equipment maintenance (\$75,543) offset by an increase in utilities and communications \$80,350. Due to reorganization, the treatment plant has one less employee. Equipment repairs can vary from year to year. Utilities increased in the Wastewater fund due to the installation of new equipment.

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
	2015	2014	2015	2014	2015	2014	
Program revenues:							
Charges for services	\$1,106	\$893	\$2,831	\$2,622	\$3,937	\$3,515	12.0%
Operating grants	596	612	-	-	596	612	(2.6%)
Capital grants	1,154	646	78	60	1,232	706	74.5%
General revenues:							
Sales tax	3,156	2,235	-	-	3,156	2,235	41.2%
Property tax	1,821	1,738	-	-	1,821	1,738	4.8%
Other taxes	4,020	3,599	-	-	4,020	3,599	11.7%
Investment earnings	81	21	6	8	87	29	29.9%
Miscellaneous	589	295	-	-	589	295	99.7%
Total revenues	12,523	10,039	2,915	2,690	15,438	12,729	21.3%
Expenses:							
General government	1,841	1,943	-	-	1,841	1,943	(5.2%)
Public safety	4,615	4,432	-	-	4,615	4,432	4.1%
Planning & building	928	805	-	-	928	805	15.3%
Public works	3,025	2,951	-	-	3,025	2,951	2.5%
Interest on debt	516	712	-	-	516	712	(27.5%)
Wastewater	-	-	2,721	2,813	2,721	2,813	(3.3%)
Recreation	-	-	1,003	989	1,003	989	1.4%
Total expenses	10,925	10,843	3,724	3,802	14,649	14,645	0.0%
Excess or (Deficiency)	1,598	(804)	(809)	(1,112)	789	(1,916)	141.2%
Transfers	(11)	(31)	11	31	-	-	
Change in Net Position	1,587	(\$835)	(\$798)	(\$1,081)	\$789	(\$1,916)	141.2%

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

For the second consecutive year, program revenues had more of an impact on the change in the net cost of services than the previous year with program revenues increasing 32.7% for governmental activities and 8.5% for business-type activities compared to last year which had an increase of only 17.0% for governmental activities and 6.6% for business-type activities.

For governmental activities, the total costs of \$10,924,940 were offset by charges for services (\$1,105,913), operating grants/contributions (\$595,858), and capital grants/contributions (\$1,153,630), bringing the net cost of services down to \$8,069,539. This is a decrease of \$621,813 from the prior fiscal year. The decrease is primarily due to a rebound in the construction industry, increased activity at the Community Center and Senior Center, and two large grant-funded projects.

For business-type activities, the net cost of services decreased \$304,974. Program revenues had a large impact here as well. Program revenues for Wastewater and Recreation increased this fiscal year by 5.3% and 15.6%, respectively, compared to 4.0% and 13.0% for the prior fiscal year.

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
	2015	2014			2015	2014		
General Government	\$1,841	\$1,942	(5.2%)	\$1,724	\$1,745	(1.2%)		
Public Safety	4,615	4,432	4.1%	4,380	4,200	4.3%		
Planning & Building	928	805	15.3%	211	321	(34.3%)		
Public Works	3,025	2,951	2.5%	1,239	1,713	(27.7%)		
Interest on L-T Debt	516	712	(27.5%)	516	712	(27.5%)		
Total	<u>\$10,925</u>	<u>\$10,842</u>	0.8%	<u>\$8,070</u>	<u>\$8,691</u>	(7.1%)		
Wastewater	\$2,721	\$2,813	(3.3%)	\$774	\$964	(19.7%)		
Recreation	1,003	989	1.4%	40	156	(74.4%)		
Total	<u>\$3,724</u>	<u>\$3,802</u>	(2.1%)	<u>\$814</u>	<u>\$1,120</u>	(27.3%)		

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 2014 to 2015. The total revenues and expenditures do not include any "other financing sources (uses)."

	Increase (Decrease) from Prior Year			
	Assets	Liabilities	Revenues	Expenditures
General Fund	\$1,229,826	\$20,243	\$1,695,447	(\$4,581,862)
Special Rev Funds	(343,072)	8,680	33,702	252,326
Debt Service Funds	995	-	550	3,022
Capital Project Funds	(82,952)	(21,268)	632,846	1,038,022

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

The largest decrease in the assets of the City funds other than the General Fund was cash of \$413,099. The decrease in cash is primarily in the Gas Tax, Traffic Impact Mitigation, Parks and Recreation Facilities, and General Capital Improvements Funds with a total reduction of \$415,491. In all of these funds, capital project expenditures exceeded revenues for the fiscal year.

The revenues and expenditures in the General Capital Improvements Fund increased dramatically due to two large grant-funded projects described above under the program revenue discussion. The cash did not decrease in relation to the amount expenditures exceeded revenues because of \$482,809 of transfers in from other funds to help fund these projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total revenues were \$630,693 (6.5%) over the original budget. The main reason for this is due to taxes (\$335,828) and charges for services (\$254,041) being over budget. The main accounts over budget in taxes are the transient occupancy tax (TOT) (\$138,996), real estate transfer tax (\$74,180), property tax distribution from the Successor Redevelopment Agency (\$56,853), and temporary sales tax measure (\$51,801). The economic rebound and a strong marketing campaign by the Conference and Visitors Council continue to fuel higher TOT revenues. The rebound in the economic and housing markets has also contributed to the higher than expected real estate transfer tax. Distributions of property tax from the Successor Redevelopment Agency still tend to be unpredictable and are budgeted at a conservative amount. Once again, the economy and the City's practice to be conservative on its revenue projections led to the temporary sales tax revenue being over budget. Charges for services were over budget primarily due to planning and building fees with the significant increase in building activity in the City.

Comparing expenditures to the original budget, the City was \$133,971 (1.5%) over budget. This is primarily due to the Building (\$89,220), Engineering (\$85,101) and Police (\$69,685) departments being over budget and the General Government department (\$97,135) being under budget. Due to the increase in construction, Building needed to hire contract inspectors which caused the department to go over budget. This was covered by additional revenues. With the retirement of the city engineer, the city elected to outsource engineering which increased expenditures slightly, but was mitigated by postponing the hiring of a full time position. Police were over budget due to medical insurance premiums were higher than anticipated. General Government was under budget due to the refinancing of debt. The debt payments had already been budgeted when the refinancing occurred, lowering the debt payments.

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 \$166,864, or 0.4%. The governmental activities had capital assets additions of \$1,654,143. Current year depreciation of \$1,343,722 and a net transfer of \$8,319 from business-type activities brought capital assets to a net increase of \$318,740. The main capital asset additions were the Park Pathway and Footbridge Project (\$608,608) and the Road and sidewalk improvement Project (\$597,557). The business-type activities had capital assets additions of \$286,201 while depreciation of \$763,486 and a net transfer out of \$8,319 created a net decrease of \$485,604. The main capital asset additions were a variable speed blower (\$205,730) and a sludge thickening system (\$47,377).

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

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2015	2014	2015	2014	2015	2014	
Land	\$7,012	\$7,012	\$429	\$429	\$7,441	\$7,441	(0.0%)
Buildings & Improvements	2,732	2,818	1,773	1,903	4,505	4,721	(4.6%)
Equipment	858	838	1,077	952	1,935	1,790	8.1%
Infrastructure	21,142	20,626	10,185	10,663	31,327	31,289	0.1%
Outfall Agreement	-	-	71	74	71	74	(4.1%)
Construction in Progress	8	140	-	-	8	140	(94.3%)
Total	<u>\$31,752</u>	<u>\$31,434</u>	<u>\$13,535</u>	<u>\$14,021</u>	<u>\$45,287</u>	<u>\$45,455</u>	(0.4%)

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

More detailed information about the City's capital assets is presented in Note 4 to the financial statements.

Long-term Debt: A recap of the City's long-term debt is shown below. Total long-term debt increased \$8,862,042, or 67.6%. The main change during the year was the implementation of GASB (Governmental Accounting Standards Board) Statement No. 68 to record the City's net pension liability. This is an actuarially determined amount prepared by California Public Employees Retirement System. The net OPEB obligation is also an actuarially determined amount for Other Post Employment Benefits in accordance with GASB Statement No. 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
	2015	2014	2015	2014	2015	2014	
Certificates of Participation	\$5,731	\$5,856	\$ -	\$ -	\$5,731	\$5,856	(2.1%)
Pension Obligation Bonds	3,655	3,970	-	-	3,655	3,970	(7.9%)
Installment Note	110	115	-	-	110	115	(4.3%)
Accrued Comp Absences	719	778	115	158	834	936	(10.9%)
Net OPEB Obligation	2,016	1,762	543	477	2,559	2,239	14.3%
Net Pension Liability	7,554	-	1,535	-	9,089	-	N/A
Total	\$19,785	\$12,481	\$2,193	\$635	\$21,978	\$13,116	67.6%

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 fiscal year 2014-2015 General Fund expenditure budget was approved with a \$349,622 (4.0%) increase. The General Fund revenue budget was approved with a \$370,880 (3.8%) decrease. The decrease in revenue is primarily due to the City receiving its last of three annual payments from the County due to the City's successful litigation for additional property taxes. The decrease in revenue from this in fiscal year 2015-16 was \$725,000.

CalPERS has provided the City with next year's rate and a projected fiscal year 2016-17 rate. A recap of the retirement rates by fiscal year is shown below. Beginning with fiscal year 2015-16, CalPERS has instituted a flat annual amount as well as a percentage rate on payroll. This is to account for the fact that classic employees will be retiring and replaced with PEPRA employees. PEPRA is the Public Employees Pension Reform Act and covers employees hired on or after January 1, 2013, that are new to the CalPERS retirement system. These employees are provided lower, and less costly, retirement benefits and are accounted separately from the classic employees. With an ever decreasing payroll from classic employees in the future, an annual fixed amount was needed to ensure that the proper amount of contributions is made to the retirement system. The rates for the classic and PEPRA employees are shown on the next page.

NEXT YEAR'S BUDGETS AND RATES (continued)

<u>Fiscal Year</u>	<u>Classic Employees</u>				
	<u>Miscellaneous Group</u>	<u>Safety Group</u>	<u>Miscellaneous Group</u>	<u>Safety Group</u>	
2012-13	13.914%	23.681%			Actual
2013-14	14.660%	25.168%			Actual
2014-15	15.701%	26.881%			Actual
2015-16	9.671%	17.557%	\$314,464	\$215,705	Actual
2016-17	10.100%	18.600%	\$362,737	\$258,400	Projected

<u>Fiscal Year</u>	<u>PEPRA Employees</u>			
	<u>Miscellaneous Group</u>	<u>Safety Group</u>		
2015-16	6.25%	11.153%		Actual
2016-17	6.25%	11.500%		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.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CITY OF SCOTTS VALLEY
STATEMENT OF NET POSITION
JUNE 30, 2015**

Primary Government

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments (Note 2)	\$ 6,782,165	\$ 2,604,647	\$ 9,386,812
Receivables:			
Due from other Governments	2,002,059	46,923	2,048,982
Sewer Fees	-	379,085	379,085
Other	18,866	124,443	143,309
Inventory	-	2,688	2,688
Prepaid Expenses	-	2,813	2,813
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	98,920	-	98,920
Capital Assets (Note 4):			
Land and construction in progress	7,019,368	429,416	7,448,784
Other capital assets, net of depreciation	24,732,886	13,106,465	37,839,351
Total Assets	48,123,456	18,296,480	66,419,936
DEFERRED OUTFLOWS OF RESOURCES (NOTE 11)			
Deferred Pensions	849,384	172,617	1,022,001
LIABILITIES			
Accounts Payable	236,623	165,181	401,804
Accrued Liabilities	120,667	39,125	159,792
Unearned Revenues	140,864	155,810	296,674
Long-term Debt (Note 5):			
Current Portion of Long-Term Debt (Note 5)	827,664	83,764	911,428
Accrued Interest	2,800,950	-	2,800,950
Certificates of Participation	5,509,443	-	5,509,443
Installment Notes	105,000	-	105,000
Pension Obligation Bonds	3,335,000	-	3,335,000
Accrued Compensated Absences	356,556	31,562	388,118
Net OPEB Obligation	2,016,058	543,380	2,559,438
Net Pension Liability	7,553,678	1,535,094	9,088,772
Total Liabilities	23,002,503	2,553,916	25,556,419
DEFERRED INFLOWS OF RESOURCES (NOTE 11)			
Deferred Pensions	2,426,773	493,180	2,919,953
NET POSITION			
Invested in Capital Assets, net of related debt	25,777,811	13,535,881	39,313,692
Restricted for:			
Capital Projects	4,394,444	2,155,781	6,550,225
Debt Service	98,920	-	98,920
Low/Moderate Income Housing	213,529	-	213,529
Unrestricted	(6,941,140)	(269,661)	(7,210,801)
Total Net Position	\$ 23,543,564	\$ 15,422,001	\$ 38,965,565

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

**CITY OF SCOTTS VALLEY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total	Governmental Activities	Business-Type Activities	Total
Primary Government:								
Governmental Activities:								
General Government	\$ 1,841,382	\$ 109,741	\$ -	\$ 7,831	\$ 117,572	\$ (1,723,810)		\$ (1,723,810)
Public Safety	4,614,596	35,756	188,157	11,095	235,008	(4,379,588)		(4,379,588)
Planning & Building	927,748	684,540	1,331	30,360	716,231	(211,517)		(211,517)
Public Works	3,025,535	275,876	406,370	1,104,344	1,786,590	(1,238,945)		(1,238,945)
Interest on Long-Term Debt and Fiscal Agent Charges	515,679	-	-	-	-	(515,679)		(515,679)
Total Governmental Activities	10,924,940	1,105,913	595,858	1,153,630	2,855,401	(8,069,539)		(8,069,539)
Business-Type Activities:								
Wastewater	2,721,258	1,868,388	-	78,371	1,946,759		\$ (774,499)	(774,499)
Recreation Programs	1,002,901	962,819	-	-	962,819		(40,082)	(40,082)
Total Business-Type Activities	3,724,159	2,831,207	-	78,371	2,909,578		(814,581)	(814,581)
Total Primary Government	\$ 14,649,099	\$ 3,937,120	\$ 595,858	\$ 1,232,001	\$ 5,764,979	(8,069,539)	(814,581)	(8,884,120)
General Revenues:								
Taxes:								
Sales Tax						3,156,258	-	3,156,258
Property Tax						1,821,109	-	1,821,109
Vehicle In-Lieu Fee (Intergovernmental / Unrestricted)						897,721	-	897,721
Franchise Taxes						948,949	-	948,949
Transient Occupancy Tax						1,058,996	-	1,058,996
Utility Users Tax						654,411	-	654,411
Other Taxes						460,091	-	460,091
Investment Earnings						81,574	5,842	87,416
Miscellaneous						588,801	-	588,801
Transfers						(10,936)	10,936	-
Total General Revenues and Transfers						9,656,974	16,778	9,673,752
Change in Net Position						1,587,435	(797,803)	789,632
Net Position - Beginning						31,482,460	18,155,789	49,638,249
Prior Period Adjustment (Note 14)						(9,526,331)	(1,935,985)	(11,462,316)
Net Position - Beginning, as restated						21,956,129	16,219,804	38,175,933
Net Position, End of Year						\$ 23,543,564	\$ 15,422,001	\$ 38,965,565

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, 2015**

	General Fund	Successor Housing Agency	General Facility	Traffic Impact Mitigation	General Capital Improvements	Other Governmental Funds	Total
ASSETS							
Cash and Investments	\$ 1,329,628	\$ 213,529	\$ 70,503	\$ 1,233,763	\$ -	\$ 3,888,357	\$ 6,735,780
Receivables:							
Due from other Governments	1,117,370	-	-	-	850,000	34,689	2,002,059
Other	18,023	-	-	-	-	843	18,866
Due from other Funds	625,317	-	-	-	-	-	625,317
Advances Due from other Funds	139,532	-	-	-	-	-	139,532
Restricted Assets:							
Cash and Investments with Fiscal Agents and Trustees	98,920	-	-	-	-	-	98,920
Total Assets	\$ 3,328,790	\$ 213,529	\$ 70,503	\$ 1,233,763	\$ 850,000	\$ 3,923,889	\$ 9,620,474
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts Payable	\$ 139,407	\$ -	\$ -	\$ 17,648	\$ 11,563	\$ 62,195	\$ 230,813
Accrued Liabilities	119,319	-	-	-	-	1,348	120,667
Accrued Compensated Absenses	-	-	-	-	-	-	-
Due to other Funds	-	-	-	-	624,146	1,171	625,317
Advances Due to other Funds	-	-	139,532	-	-	-	139,532
Unearned Revenues	140,864	-	-	-	-	-	140,864
Total Liabilities	399,590	-	139,532	17,648	635,709	64,714	1,257,193
Fund Balances:							
Restricted	98,920	213,529	-	1,216,115	214,291	2,827,587	4,570,442
Assigned	-	-	-	-	-	1,031,061	1,031,061
Unassigned	2,830,280	-	(69,029)	-	-	527	2,761,778
Total Fund Balances	2,929,200	213,529	(69,029)	1,216,115	214,291	3,859,175	8,363,281
Total Liabilities and Fund Balances	\$ 3,328,790	\$ 213,529	\$ 70,503	\$ 1,233,763	\$ 850,000	\$ 3,923,889	\$ 9,620,474

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, 2015**

Total Fund Balances - Total Governmental Funds (Page 18) \$ 8,363,281

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet. 31,752,254

Deferred outflows of resources reported on the Government-Wide Statement of Net Position. 849,384

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. (2,800,950)

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. 40,575

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	(4,480,000)
Installment Notes	(110,000)
Pension Obligaion Bonds	(3,655,000)
Compensated Absences	(719,220)
Net OPEB Obligation	(2,016,058)
Net Pension Liability	(7,553,678)

Deferred inflows of resources reported on the Government-Wide Statement of Net Position. (2,426,773)

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. 81,145

Net Position of Governmental Activities (Page 14) \$23,543,564

**CITY OF SCOTTS VALLEY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015**

	General Fund	Successor Housing Agency	General Facility	Traffic Impact Mitigation	General Capital Improvements	Other Governmental Funds	Total
Revenues:							
Taxes and Assessments	\$ 9,056,276	\$ -	\$ -	\$ -	\$ -	\$ 387,850	\$ 9,444,126
Intergovernmental Revenues	72,952	-	-	-	851,000	138,073	1,062,025
Fees and Services	799,194	-	7,659	42,763	-	436,336	1,285,952
Fines and Forfeitures	70,470	-	-	3,281	-	-	73,751
Investment Earnings	10,772	68,517	172	-	-	10,225	89,686
Contributions, Non-Government Facility/Building Rental	-	-	-	-	-	19,911	19,911
Miscellaneous Revenues	-	22,500	-	-	-	-	22,500
	380,134	114,077	-	-	6,940	24,209	525,360
Total Revenues	10,389,798	205,094	7,831	46,044	857,940	1,016,604	12,523,311
Expenditures:							
Current:							
General Government	1,814,688	-	91	-	-	-	1,814,779
Public Safety	4,511,589	-	-	-	-	300	4,511,889
Planning and Building	776,874	125,139	-	-	-	27,251	929,264
Public Works	1,431,305	-	-	77,841	-	244,806	1,753,952
Capital Outlay	25,416	-	27,970	54,744	1,402,433	392,398	1,902,961
Debt Service:							
Principal	130,000	-	-	-	-	315,000	445,000
Interest and Finance Charges	225,295	-	-	-	-	132,093	357,388
Total Expenditures	8,915,167	125,139	28,061	132,585	1,402,433	1,111,848	11,715,233
Excess of Revenues over(under) Expenditures	1,474,631	79,955	(20,230)	(86,541)	(544,493)	(95,244)	808,078
Other Financing Sources (Uses):							
Transfers In	300,000	-	-	-	482,809	445,803	1,228,612
Transfers (Out)	(565,048)	-	-	(70,598)	-	(603,902)	(1,239,548)
Net Other Financing Sources (Uses)	(265,048)	-	-	(70,598)	482,809	(158,099)	(10,936)
Change in Fund Balances	1,209,583	79,955	(20,230)	(157,139)	(61,684)	(253,343)	797,142
Fund Balance - Beginning	1,719,617	133,574	(48,799)	1,373,254	275,975	4,112,518	7,566,139
Fund Balance - End of Year	\$ 2,929,200	\$ 213,529	\$ (69,029)	\$ 1,216,115	\$ 214,291	\$ 3,859,175	\$ 8,363,281

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

**CITY OF SCOTTS VALLEY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

Net change in fund balances - total governmental funds (Page 20) **\$ 797,142**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Current year capital outlays	1,654,143
Current year depreciation	(1,343,722)
Disposal of Capital Assets	8,319

An internal service fund is used by management to charge the costs of dental insurance to individual funds. The net expense of this internal service fund is reported with governmental activities.	(3,757)
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Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Repayment of long-term debt principal	445,000
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Change in accrued net pension liability, deferred outflows of resources - pensions, and deferred inflows of resources - pensions.	395,264
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Governmental funds report bond premiums as income and bond discounts as expense. However, in the statement of activities these amounts are amortized over the remaining life of the refunded debt. Amortization of bond discount	(2,872)
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Some expenses recorded in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds: Accrual of compensated absences Accrual of OPEB obligation Accrual of interest expense on long-term debt	46,974 (253,637) <u>(155,419)</u>
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Change in net position of governmental activities (Page 15) **\$ 1,587,435**

CITY OF SCOTTS VALLEY
STATEMENT OF NET POSITION - BUSINESS-TYPE ACTIVITIES
PROPRIETARY FUNDS
JUNE 30, 2015

	Business-Type Activities Enterprise Funds			Governmental Activities -
	Recreation Fund	Wastewater Fund	Total	Internal Fund
ASSETS				
Current:				
Cash and Investments	\$ 474	\$ 2,604,173	\$ 2,604,647	\$ 46,384
Receivables:				
Due from other Governments	-	46,923	46,923	-
Sewer Fees	-	379,085	379,085	-
Other	124,443	-	124,443	-
Advances to Redevelopment:				
Successor Agency	-	1,600,000	1,600,000	-
Inventory	-	2,688	2,688	-
Prepaid Expenses	2,813	-	2,813	-
Total Current Assets	<u>127,730</u>	<u>4,632,869</u>	<u>4,760,599</u>	<u>46,384</u>
Capital Assets (Note 4):				
Land and construction in progress	-	429,416	429,416	-
Other capital assets, net of depreciation	4,500	13,101,965	13,106,465	-
Total capital assets	<u>4,500</u>	<u>13,531,381</u>	<u>13,535,881</u>	<u>-</u>
Total Assets	<u>132,230</u>	<u>18,164,250</u>	<u>18,296,480</u>	<u>46,384</u>
Deferred Outflows of Resources:				
Deferred Pensions	57,743	114,874	172,617	-
Total Deferred Outflows of Resources	<u>57,743</u>	<u>114,874</u>	<u>172,617</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>189,973</u>	<u>18,279,124</u>	<u>18,469,097</u>	<u>46,384</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	28,772	136,409	165,181	5,809
Accrued Liabilities	24,255	14,870	39,125	-
Compensated Absences	41,642	73,684	115,326	-
Unearned Revenues	155,810	-	155,810	-
Total Current Liabilities	<u>250,479</u>	<u>224,963</u>	<u>475,442</u>	<u>5,809</u>
Noncurrent Liabilities:				
Compensated Absences	-	-	-	-
Net OPEB Obligation	264,962	278,418	543,380	-
Net Pension Liability	513,516	1,021,578	1,535,094	-
Total Noncurrent Liabilities	<u>778,478</u>	<u>1,299,996</u>	<u>2,078,474</u>	<u>-</u>
Total Liabilities	<u>1,028,957</u>	<u>1,524,959</u>	<u>2,553,916</u>	<u>5,809</u>
Deferred Inflows of Resources:				
Deferred Pensions	164,977	328,203	493,180	-
Total Liabilities and Deferred Inflows of Resources	<u>1,193,934</u>	<u>1,853,162</u>	<u>3,047,096</u>	<u>5,809</u>
NET POSITION				
Invested in Capital Assets, net of	4,500	13,531,381	13,535,881	-
Restricted - Capital Improvements	-	2,155,781	2,155,781	-
Unrestricted	(1,008,461)	738,800	(269,661)	40,575
Total Net Position	<u>\$ (1,003,961)</u>	<u>\$ 16,425,962</u>	<u>\$ 15,422,001</u>	<u>\$ 40,575</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
YEAR ENDED JUNE 30, 2015**

	Business-Type Activities Enterprise Funds			Governmental Activities -
	Recreation Fund	Wastewater Fund	Total	Internal Fund
Operating Revenues:				
Fees and Services	\$ 962,819	\$ 1,868,388	\$ 2,831,207	\$ 65,724
Total Operating Revenues	<u>962,819</u>	<u>1,868,388</u>	<u>2,831,207</u>	<u>65,724</u>
Operating Expenses:				
Salaries	541,159	476,306	1,017,465	-
Taxes and Benefits	189,405	312,957	502,362	-
Maintenance and Operations	120,625	649,615	770,240	66
Advertising	8,731	-	8,731	-
Professional and Contractual Services	119,060	102,376	221,436	-
Utilities and Communications	10,823	365,149	375,972	-
Insurance and Bonds	12,598	51,869	64,467	69,540
Depreciation	500	762,986	763,486	-
Total Operating Expenses	<u>1,002,901</u>	<u>2,721,258</u>	<u>3,724,159</u>	<u>69,606</u>
Income (Loss) from Operations	<u>(40,082)</u>	<u>(852,870)</u>	<u>(892,952)</u>	<u>(3,882)</u>
Nonoperating Revenues (Expenses):				
Interest Income	-	5,842	5,842	125
Connection Fees	-	78,371	78,371	-
Total Nonoperating Revenues	<u>-</u>	<u>84,213</u>	<u>84,213</u>	<u>125</u>
Net Income (Loss) before Transfers	<u>(40,082)</u>	<u>(768,657)</u>	<u>(808,739)</u>	<u>(3,757)</u>
Transfers In	91,761	346,453	438,214	-
Transfers (Out)	(30,181)	(397,097)	(427,278)	-
Change in Net Position	<u>21,498</u>	<u>(819,301)</u>	<u>(797,803)</u>	<u>(3,757)</u>
Net Position - Beginning	(377,838)	18,533,627	18,155,789	44,332
Prior Period Adjustment (Note 14)	(647,621)	(1,288,364)	(1,935,985)	-
Net Position - Beginning, as restated	<u>(1,025,459)</u>	<u>17,245,263</u>	<u>16,219,804</u>	<u>44,332</u>
Net Position - End of Year	<u>\$ (1,003,961)</u>	<u>\$ 16,425,962</u>	<u>\$ 15,422,001</u>	<u>\$ 40,575</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
YEAR ENDED JUNE 30, 2015**

	Business-Type Activities Enterprise Funds			Governmental Activities -
	Recreation Fund	Wastewater Fund	Total	Internal Fund
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 927,916	\$ 1,816,400	\$ 2,744,316	\$ 65,724
Cash Payments for Good and Services	(454,921)	(1,587,061)	(2,041,982)	(67,116)
Cash Payments to Employees	(529,192)	(535,246)	(1,064,438)	-
Net Cash Provided by (Used for) Operating Activities	<u>(56,197)</u>	<u>(305,907)</u>	<u>(362,104)</u>	<u>(1,392)</u>
Cash Flows from Noncapital Financing Activities:				
Transfers In (Out)	61,580	(50,644)	10,936	-
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>61,580</u>	<u>(50,644)</u>	<u>10,936</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities				
Receipts of Connection and Standby Fees	-	78,371	78,371	-
Purchase of Vehicles and Equipment	(5,000)	(234,358)	(239,358)	-
Construction of Improvements	-	(46,843)	(46,843)	-
Disposal of Capital Asset	-	8,319	8,319	-
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(5,000)</u>	<u>(194,511)</u>	<u>(199,511)</u>	<u>-</u>
Cash Flows from Investing Activities:				
Interest Received	-	5,842	5,842	125
Net Cash Provided by Investing Activities	<u>-</u>	<u>5,842</u>	<u>5,842</u>	<u>125</u>
Net Increase (Decrease) in Cash	383	(545,220)	(544,837)	(1,267)
Cash and Investments, Beginning	91	3,149,393	3,149,484	47,651
Cash and Investments, End of Year	<u>\$ 474</u>	<u>\$ 2,604,173</u>	<u>\$ 2,604,647</u>	<u>\$ 46,384</u>

(Continued)

**CITY OF SCOTTS VALLEY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2015**

	Business-Type Activities Enterprise Funds			Governmental Activities -
	Recreation Fund	Wastewater Fund	Total	Internal Fund
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities				
Operating (Loss)	\$ (40,082)	\$ (852,870)	\$ (892,952)	\$ (3,882)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities:				
Depreciation	500	762,986	763,486	-
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(67,475)	(51,988)	(119,463)	-
(Increase) Decrease in Prepaid Expenses	756	-	756	-
(Increase) Decrease in Deferred Outflows of Resources	3,666	7,292	10,958	-
Increase (Decrease) in Accounts Payable	5,565	(105,095)	(99,530)	2,490
Increase (Decrease) in Acc Liabilities/Comp Absences	6,498	(39,440)	(32,942)	-
Increase (Decrease) in Net OPEB Obligation	32,340	33,957	66,297	-
Increase (Decrease) in Unearned Revenues	32,572	-	32,572	-
Increase (Decrease) in Net Pension Liability	10,778	21,441	32,219	-
Increase (Decrease) in Deferred Inflows of Resources	(41,315)	(82,190)	(123,505)	-
Net Cash Provided by (Used for) Operating Activities	\$ (56,197)	\$ (305,907)	\$ (362,104)	\$ (1,392)

(Concluded)

**CITY OF SCOTTS VALLEY
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015**

	Successor Agency Private Purpose Trust Fund	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and Investments Held for Others, restricted	\$ 754,356	\$ 1,865,186
Cash and Investments Held in accordance with Bond Indentures, restricted	767,291	478,364
Depreciable Capital Assets, Net	<u>14,070,796</u>	<u>-</u>
Total Assets	<u><u>\$ 15,592,443</u></u>	<u><u>\$ 2,343,550</u></u>
LIABILITIES		
Accounts Payable	\$ 14,251	\$ -
Deposits	-	1,506,151
Accrued Interest Payable	276,035	-
Advances From Other Funds	-	359,035
Unearned Revenues	46,719	-
Bond Reserve Payable	-	478,364
Long-term Debt:		
Due in one year	340,000	-
Due in more than one year	<u>20,197,376</u>	<u>-</u>
Total Liabilities	<u>20,874,381</u>	<u><u>\$ 2,343,550</u></u>
NET POSITION		
Held in Trust for Other Governments	<u><u>\$ (5,281,938)</u></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
YEAR ENDED JUNE 30, 2015**

Successor Agency
Private Purpose
Trust Fund

ADDITIONS

Redevelopment Property Tax Trust Fund	\$ 1,322,983
Bond Premium	2,592
Investment Earnings	33
	<hr/>
Total Additions	1,325,608
	<hr/>

DEDUCTIONS

Administrative Expenses	\$ 180,628
Enforceable Obligations of Former Redevelopment Agency	168,724
Depreciation	192,410
Interest Expense	814,659
	<hr/>
Total Deductions	1,356,421
	<hr/>

Change in Current Net Position	(30,813)
Net Position - Beginning	<hr/> (5,251,125)
Net Position - End of Year	<hr/>(5,281,938)

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, 2015**

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
JUNE 30, 2015**

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.).

The Traffic Mitigation fund is used to account for the impact fees imposed on new development to mitigate impacts on the City's streets.

The General Capital Improvements fund is used to account for the City's major capital projects.

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
JUNE 30, 2015**

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 childcare 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 present 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
JUNE 30, 2015**

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. GASB 34 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
JUNE 30, 2015**

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

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.

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 City 100% of the property tax 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.

New Accounting Pronouncements

The following Governmental Accounting Standards Board (GASB) Statements have been implemented in the current financial statements.

Statement No. 68 *“Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27.”* The provisions of this statement revise existing standards of financial reporting for most governments that provide their employees with pension benefits. The Statement establishes reporting requirements of the net pension plan liability in the government-wide financial statements, how to measure pension liabilities, and presentation of the financial information and disclosures related to the employer. This Statement is effective for periods beginning on or after June 15, 2014.

Statement No. 71 *“Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.”* The objective of this statement is to address an issue regarding application of the transition provisions of Statement 68 relating to amounts associated with contributions made by a local government employer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The provisions of this statement are required to be applied simultaneously with the provision of Statement 68.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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, 2015.

Pooled Deposits		\$ 1,956,383
Pooled Investments:	California Local Agency Investment Fund (LAIF)	7,096,237
	Money Market	<u>2,953,734</u>
Subtotal		12,006,354
Investments with Fiscal Agents and Trustees		<u>1,344,575</u>
Total Cash and Investments		<u>\$13,350,929</u>

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

	Government-wide Statement of Net Position		Fiduciary Funds	Total
	Governmental Activities	Business-Type Activities	Statement of Net Position	
	Cash & Investments	\$ 6,782,165	\$ 2,604,647	
Restricted Cash & Investments	<u>98,920</u>	<u>-</u>	<u>1,245,655</u>	<u>1,344,575</u>
Total	<u>\$ 6,881,085</u>	<u>\$ 2,604,647</u>	<u>\$ 3,865,197</u>	<u>\$13,350,929</u>

Pooled Deposits

At June 30, 2015, the difference between the carrying amount of the City's book balance of \$1,928,414 and the corresponding bank balance of \$2,048,925 was due to outstanding checks and deposits in transit. Of the bank balance, \$250,000 was insured by federal depository insurance and \$1,798,925 was collateralized 110% in accordance with the California Government Code with securities held by the pledging financial institution in the City's name.

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, 2015, LAIF had approximately \$69.9 billion in investments.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

2. CASH AND INVESTMENTS (continued)

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, 2015, 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, 2015, the City had \$7,096,237 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 (\$69,672,945,247) by total aggregate amortized cost (\$69,641,162,418) resulting in a factor of 1.000375979.

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, 2015, investment maturities (other than investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements) were as follows:

	<u>Less Than 1 Year</u>	<u>1 Year</u>	<u>1 – 2 Years</u>	<u>2 – 3 Years</u>
LAIF	\$ 7,096,237	\$ -	\$ -	\$ -
Money Market Funds (not rated)	<u>2,953,734</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$10,049,971</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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.

\$1,600,000

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Additions	Deletions	Transfers	Balance June 30, 2015
Governmental Activities:					
<u>Capital assets not being depreciated:</u>					
Land	\$7,011,920	\$ -	\$ -	\$ -	\$7,011,920
Construction in progress	<u>140,273</u>	<u>1,271,074</u>	<u>1,403,899</u>	<u>-</u>	<u>7,448</u>
Total capital assets not being depreciated	<u>7,152,193</u>	<u>1,271,074</u>	<u>1,403,899</u>	<u>-</u>	<u>7,019,368</u>
<u>Capital assets being depreciated:</u>					
Buildings and Improvements	5,469,780	60,415	-	-	5,530,195
Machinery and equipment	3,271,220	220,207	40,505	106,222	3,557,144
Infrastructure	<u>37,971,396</u>	<u>1,506,346</u>	<u>-</u>	<u>-</u>	<u>39,477,742</u>
Total capital assets being depreciated	<u>46,712,396</u>	<u>1,786,968</u>	<u>40,505</u>	<u>106,222</u>	<u>48,565,081</u>
<u>Less accumulated depreciation for:</u>					
Buildings and Improvements	2,651,839	145,926	-	-	2,797,765
Machinery and equipment	2,433,385	207,874	40,505	97,903	2,698,657
Infrastructure	<u>17,345,851</u>	<u>989,922</u>	<u>-</u>	<u>-</u>	<u>18,335,773</u>
Total accumulated depreciation	<u>22,431,075</u>	<u>1,343,722</u>	<u>40,505</u>	<u>97,903</u>	<u>23,832,195</u>
Total capital assets being depreciated, net	<u>24,281,321</u>	<u>443,246</u>	<u>-</u>	<u>8,319</u>	<u>24,732,886</u>
Governmental capital assets, net	<u>\$31,433,514</u>	<u>\$1,714,320</u>	<u>\$1,403,899</u>	<u>\$ 8,319</u>	<u>\$31,752,254</u>
Business-Type Activities:					
<u>Capital assets not being depreciated:</u>					
Land	\$ 429,416	\$ -	\$ -	\$ -	\$ 429,416
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets not being depreciated	<u>429,416</u>	<u>-</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	6,242,369	239,358	6,517	(106,222)	6,368,988
Infrastructure	23,047,710	46,843	-	-	23,094,553
Outfall agreement	<u>178,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>178,000</u>
Total capital assets being depreciated	<u>34,755,352</u>	<u>286,201</u>	<u>6,517</u>	<u>(106,222)</u>	<u>34,928,814</u>
<u>Less accumulated depreciation for:</u>					
Buildings and Improvements	3,384,280	129,630	-	-	3,513,910
Machinery and equipment	5,290,914	105,607	6,517	(97,903)	5,292,101
Infrastructure	12,384,247	525,282	-	-	12,909,529
Outfall agreement	<u>103,842</u>	<u>2,967</u>	<u>-</u>	<u>-</u>	<u>106,809</u>
Total accumulated depreciation	<u>21,163,283</u>	<u>763,486</u>	<u>6,517</u>	<u>(97,903)</u>	<u>21,822,349</u>
Total capital assets being depreciated, net	<u>13,592,069</u>	<u>(477,285)</u>	<u>-</u>	<u>(8,319)</u>	<u>13,106,465</u>
Business-type capital assets, net	<u>\$14,021,485</u>	<u>\$ (477,285)</u>	<u>\$ -</u>	<u>\$ (8,319)</u>	<u>\$13,535,881</u>
Total Capital Assets	<u>\$45,454,999</u>	<u>\$ 1,237,035</u>	<u>\$1,403,899</u>	<u>\$ -</u>	<u>\$45,288,135</u>

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

4. CAPITAL ASSETS (concluded)

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

<u>Governmental Activities:</u>	
General government	\$ 47,442
Public safety	181,862
Planning & building	6,456
Public works	<u>1,107,962</u>
Total depreciation expense – government activities	<u>\$ 1,343,722</u>
 <u>Business-Type Activities:</u>	
Wastewater	\$ 762,986
Recreation	<u>500</u>
Total depreciation expense – business-type activities	<u>\$ 763,486</u>

5. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the fiscal year ended June 30, 2015:

GOVERNMENTAL ACTIVITIES					
	Balance at July 1, 2014	Additions	Reductions	Balance at June 30, 2015	Due Within One Year
Certificates of Participation	\$ 5,855,588	\$ -	\$ 125,000	\$ 5,730,588	\$140,000
Unamortized Discount	<u>(84,017)</u>	<u>2,872</u>	<u>-</u>	<u>(81,145)</u>	
Total Certificates	<u>5,771,571</u>	<u>2,872</u>	<u>125,000</u>	<u>5,649,443</u>	
 Pension Obligation Bonds	 3,970,000	 -	 315,000	 3,655,000	 320,000
Installment Note	115,000	-	5,000	110,000	5,000
Accrued Compensated Absences	778,459	404,258	463,497	719,220	362,664
Net OPEB Obligation	1,762,421	454,882	201,245	2,016,058	-
Net Pension Liability	<u>-</u>	<u>8,252,080</u>	<u>698,402</u>	<u>7,553,678</u>	<u>-</u>
Totals	<u>\$12,397,451</u>	<u>\$9,114,092</u>	<u>\$1,808,144</u>	<u>\$19,703,399</u>	<u>\$ 827,664</u>
BUSINESS-TYPE ACTIVITIES					
	Balance at July 1, 2014	Additions	Reductions	Balance at June 30, 2015	Due Within One Year
Accrued Compensated Absences	\$ 157,751	\$ 78,551	\$ 120,976	\$ 115,326	\$ 83,764
Net OPEB Obligation	477,083	86,438	20,141	543,380	-
Net Pension Liability	<u>-</u>	<u>1,677,027</u>	<u>141,933</u>	<u>1,535,094</u>	<u>-</u>
Totals	<u>\$ 634,834</u>	<u>\$1,842,016</u>	<u>\$ 283,050</u>	<u>\$2,193,800</u>	<u>\$ 83,764</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
JUNE 30, 2015**

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, 2015:

Original issue - \$4,940,588, 1997-1 Refunding Certificates of Participation	\$ 1,250,588
Original issue - \$4,605,000, 2013 Refunding Certificates of Participation	4,480,000
Less Unamortized Discount	<u>(81,145)</u>
Total Certificates of Participation	<u>\$5,649,443</u>

In 1997, the Scotts Valley Public Financing Authority issued \$4,940,588 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 \$1,250,588 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
JUNE 30, 2015**

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	<u>2013 Refunding Certificates of Participation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	-	204,445	204,445
2021-2025	-	1,022,225	1,022,225
2026-2030	475,000	989,386	1,464,386
2031-2035	955,000	791,016	1,746,016
2036-2040	1,235,000	506,943	1,741,943
2041-2043	1,245,000	138,915	1,383,915
Unamortized Discount	<u>(81,145)</u>		<u>(81,145)</u>
Totals	<u>\$4,398,855</u>	<u>\$4,498,060</u>	<u>\$8,896,915</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	<u>2012 Pension Obligation Bond</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	355,000	88,758	443,758
2021-2025	<u>1,980,000</u>	<u>217,432</u>	<u>2,197,432</u>
Totals	<u>\$3,655,000</u>	<u>\$ 759,464</u>	<u>\$4,414,464</u>

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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 Ending	Installment Note		
	Principal	Interest	Total
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	10,000	4,800	14,800
2021-2025	40,000	17,400	57,400
2026-2028	<u>35,000</u>	<u>3,450</u>	<u>38,450</u>
Totals	<u>\$110,000</u>	<u>\$ 49,500</u>	<u>\$159,500</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. 4,080,000

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 \$20,537,376

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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, 2015:

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>650,000</u>
Total Special Assessment District Bonds (No City Liability)	<u>\$ 4,095,000</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, 2015:

	<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Major Funds:	General Fund	\$625,317	Gen Capital Improvements	\$624,146
Non Major Funds:		-	Homeland Security	<u>1,171</u>
Totals		<u>\$625,317</u>		<u>\$625,317</u>

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

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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>General Capital Improvements</u>	<u>Enterprise Funds</u>	<u>Non-Major Fund</u>	
Transfers Out:					
General Fund	\$ -	\$ -	\$91,761	\$473,287	\$ 565,048
Enterprise Fund	-	-	-	80,824	80,824
Non Major Fund	<u>300,000</u>	<u>376,306</u>	<u>-</u>	<u>1,248</u>	<u>677,554</u>
Total	<u>\$ 300,000</u>	<u>\$376,306</u>	<u>\$ 91,761</u>	<u>\$555,359</u>	<u>\$ 1,323,426</u>

The General Fund transferred out a total of \$565,048 as follows: \$91,761 to the Recreation Fund for operations, \$363,731 to the Pension Obligation Fund for its share of the pension obligation debt service, \$32,096 to the General Capital Improvements for Insurance Proceeds, and \$77,460 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 \$80,824 to the Pension Obligation Fund for its share of the pension obligation debt service.

Non-Major Funds transferred out a total of \$677,554 as follows: \$300,000 from the Gas Tax Fund to the General Fund for street maintenance expenditures. Transfers into the General Capital Improvements Fund came from the following funds: Gas Tax Fund - \$30,891; Drainage Fund - \$67,507; Traffic Mitigation Fund - \$70,598; and Park and Recreation Facilities - \$204,256 for partial funding of various capital projects, and a transfer from the Equipment Replacement Reserve Fund of \$3,054 to the Vehicle Replacement Fund to cover expenditures. Transfers within Non-Major Funds totaled \$1,248 which consisted of \$624 from the Senior Center and \$624 from the Community Center to the Pension Obligation Fund for their share of the pension obligation debt service.

8. COMMITMENTS AND CONTINGENCIES

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

The City had no construction contract commitments as of June 30, 2015 for any construction projects.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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, a nonprofit organization. The Land Trust manages 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 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 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

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 by majority vote at a duly noticed Council meeting.

Unassigned – all amounts not included in other spendable classifications. The General Fund is the only fund that reports a positive unassigned fund balance amount. If expenditures exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

As of June 30, 2015, fund balances are composed of the following:

	General Fund	Successor Housing Agency	General Facilities	Traffic Impact Mitigation	General Capital Imprmnts	Non-Major Govemnt'l Funds	TOTAL
Restricted:							
Debt Service	\$ 98,920	\$ -	\$ -	\$ -	\$ -	\$ -	98,920
Low Mod Housing	-	213,529	-	-	-	-	213,529
Impact Fees	-	-	-	1,216,115	-	15,401	1,231,516
Public Works	-	-	-	-	214,291	535,830	750,121
Public Safety	-	-	-	-	-	424,497	424,497
Parks & Recreation	-	-	-	-	-	1,166,717	1,166,717
Community Dev	-	-	-	-	-	550,144	550,144
Planning	-	-	-	-	-	134,998	134,998
Assigned:							
Debt Service	-	-	-	-	-	943,272	943,272
Public Works	-	-	-	-	-	51,221	51,221
Parks & Recreation	-	-	-	-	-	36,568	36,568
Unassigned	2,830,280	-	(69,029)	-	-	527	2,761,778
TOTAL	\$ 2,929,200	\$ 213,529	\$ (69,029)	\$ 1,216,115	\$ 214,291	\$ 3,859,175	\$ 8,363,281

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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, 2015, the following City funds had deficit fund balances:

Major Fund:	
General Facility	<u>(\$69,029)</u>
Non Major Funds:	
Homeland Security	<u>(\$ 1,170)</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 the following fiscal year.

11. PENSION PLAN

General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the City’s separate Safety (police) and Miscellaneous (all other) Employee Pension Plans, cost-sharing multiple-employer defined benefit pension plans administered by the California Public Employees’ Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

The Plans’ provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>Miscellaneous</u>	
	Prior to <u>January 1, 2013</u>	On or after <u>January 1, 2013</u>
Hire date		
Benefit formula	2.5% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8%	6.25%
Required employer contribution rates	15.701%	6.25%

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

11. PENSION PLAN (continued)

	<u>Safety</u>	
	<u>Prior to</u> <u>January 1, 2013</u>	<u>On or after</u> <u>January 1, 2013</u>
Hire date	3% @ 50	2.7% @ 57
Benefit formula	5 years service	5 years service
Benefit vesting schedule	monthly for life	monthly for life
Benefit payments	50	50 - 57
Retirement age	3.0%	2.0% to 2.7%
Monthly benefits, as a % of eligible compensation	9.0%	11.50%
Required employee contribution rates	26.881%	11.50%
Required employer contribution rates		

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>Miscellaneous</u>	<u>Safety</u>
Contributions - employer	\$402,746	\$447,735
Contributions - employee (paid by employer)	195,410	134,529

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, the Local Government reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	<u>Proportionate Share</u> <u>of Net Pension Liability</u>
Miscellaneous	\$4,809,586
Safety	<u>4,279,186</u>
Total Net Pension Liability	<u>\$9,088,772</u>

The City's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

11. PENSION PLAN (continued)

	<u>Miscellaneous</u>	<u>Safety</u>
Proportion - June 30, 2013	N/A	N/A
Proportion - June 30, 2014	0.07729%	0.06877%
Change - Increase (Decrease)	N/A	N/A

For the year ended June 30, 2015, the City recognized pension expense of \$702,816. At June 30, 2015, the Local Government reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 840,335	
Adjustment due to differences in Proportions	181,666	\$ (11,682)
Net differences between projected and actual earnings on plan investments	-	(2,908,953)
Total	<u>\$1,022,001</u>	<u>\$(2,919,953)</u>

\$840,335 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended <u>June 30</u>	
2016	\$470,000
2017	470,000
2018	310,000
2019	(100,000)

Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>	<u>Safety</u>
Valuation Date	June 30, 2013	June 30, 2013
Measurement Date	June 30, 2014	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.50%	7.50%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	3.3% - 14.2% (1)	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)	7.5% (2)
Mortality	(3)	(3)

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) Derived using CalPERS' membership data for all funds

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

11. PENSION PLAN (continued)

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

11. PENSION PLAN (concluded)

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 – 10 (a)</u>	<u>Real Return Years 11+ (b)</u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	<u>2.0%</u>	-0.55%	-1.05%
Total	<u>100%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Local Government’s proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the Local Government’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease Net Pension Liability	6.50% \$8,569,195	6.50% \$7,363,925
Current Discount Rate Net Pension Liability	7.50% \$4,809,586	7.50% \$4,279,186
1% Increase Net Pension Liability	8.50% \$1,689,467	8.50% \$1,737,494

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan – At June 30, 2015, the City reported a payable of \$23,426 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

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.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

12. POSTEMPLOYMENT BENEFITS (continued)

The City's contributions are financed on a pay-as-you-go basis. The City paid \$221,386 in post employment benefits for the 27 retired employees who were eligible for benefits during the fiscal year ended June 30, 2015.

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 No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB costs for the year, the amount actually contributed to the plan, and the changes in the City's net OPEB obligation.

Annual Required Contribution	\$ 503,992
Interest on the net OPEB obligation	111,975
Adjustment to Annual Required Contribution	<u>(74,650)</u>
Annual OPEB cost	541,317
Payments made	<u>(221,386)</u>
Increase in net OPEB obligation	319,931
Net OPEB obligation – beginning of year	<u>2,239,504</u>
Net OPEB obligation – end of year	<u>\$2,559,435</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, 2013, 2014, and 2015, 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>Net OPEB</u> <u>Obligation</u>
2013	\$531,416	46.1%	\$1,931,711
2014	\$536,187	42.6%	\$2,239,504
2015	\$541,317	40.9%	\$2,559,435

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.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

12. POSTEMPLOYMENT BENEFITS (concluded)

The Entry Age Normal (EAN) cost method the actuarial cost method used in the July 1, 2013, actuarial valuation report. Under the EAN cost method, the Plan's Normal Cost is developed as a level percent of payroll throughout the participants' working lifetime. Entry age is based on current age minus years of service. The Actuarial Accrued Liability (AAL) is the cumulative value on the valuation date of prior Normal Cost. For retirees, the AAL is the present value of all projected benefits. The Unfunded AAL is being amortized as a level dollar closed 30 year basis, as a level percent of payroll with a remaining amortization period at July 1, 2013, of 30 years.

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

13. JOINT POWERS AUTHORITY

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

The Monterey Bay Area Self Insurance Authority (MBASIA) provides 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, 2015.

Total Assets	\$15,764,035	Total Revenues	\$7,518,840
Total Liabilities	<u>18,877,754</u>	Total Expenditures	<u>8,392,177</u>
Net Position (Deficit)	<u>(\$3,113,719)</u>	Change in Net Position	<u>(\$873,337)</u>

The City paid \$158,698 for workers compensation and \$49,535 for liability premiums during the year ended June 30, 2015. The City's share of the fiscal year-end assets, liabilities, or fund equity has not been calculated by the MBASIA.

14. PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to decrease the beginning net position of the governmental activities by \$9,526,331 and business-type activities by \$1,935,985 to reflect the prior period costs related to the implementation of the net pension liability per GASB 68, as summarized below:

	<u>Governmental</u>	<u>Business-Type</u>
Net position at June 30, 2014, as previously stated	\$31,482,460	\$18,155,789
Net pension liability adjustment	<u>(9,526,331)</u>	<u>(1,935,985)</u>
Net position at June 30, 2014, as restated	<u>\$21,956,129</u>	<u>\$16,219,804</u>

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