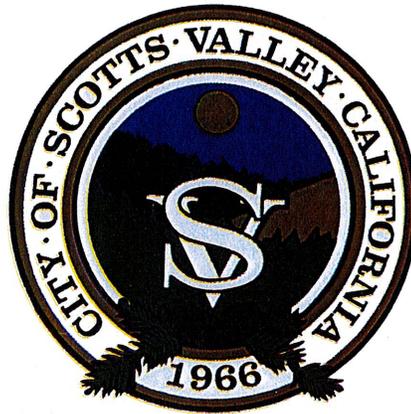


**City of Scotts Valley
California**



**COMPREHENSIVE ANNUAL
FINANCIAL REPORT
For Fiscal Year Ended
June 30, 2015**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Of

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

For the Fiscal Year Ended June 30, 2015

**Stephen H. Ando
City Manager**

**CITY OF SCOTTS VALLEY
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015
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INTRODUCTORY SECTION

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CITY OF SCOTTS VALLEY

OFFICE OF THE CITY MANAGER

One Civic Center Drive □ Scotts Valley □ California □ 95066
Phone (831) 440-5600 □ Facsimile (831) 438-2793 □ www.scottsvalley.org

October 14, 2015

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

SUBJECT: COMPREHENSIVE ANNUAL FINANCIAL REPORT - JUNE 30, 2015

Honorable Mayor and Council Members:

The Comprehensive Annual Financial Report for the City of Scotts Valley for the fiscal year ended June 30, 2015 is hereby submitted. The responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with City management. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activity have been included. These statements have been audited by the City's independent auditor, Marcello and Company, who has issued an unqualified opinion thereon. The Auditors' report is also included.

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

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

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

REPORTING ENTITY AND SERVICES PROVIDED

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

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

- Scotts Valley Public Financing Authority

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

MAJOR INITIATIVES

During 2014 / 2015, the City accomplished the following:

- Sidewalk and drainage improvements at Skypark Park.
- Shugart Park Pathway and Bridge Project connecting residential area with High School.
- Vine Hill Elementary School sidewalk improvements with Safe Routes to Schools grant.
- New high efficiency blower installed at Wastewater Treatment Plant.
- Replacement / upgrade of 9-1-1 equipment.
- Updated Emergency Operations Plan in anticipation of El Nino storms.
- Upgrade computer network system at Wastewater Treatment Plant.
- Sufficient hiring in Police Department to staff School Resource Officer.
- Completed a temporary bicycle pump track.
- Called \$515,000 of special assessment bonds six years early which retired the entire bond issue.
- Grand opening for Community Garden next to City Community Center.

The following are current and future projects:

- Development agreement for development of City's Town Center Project, a mixed use retail/residential project.
- Renovation of a former private university site into a private educational facility.
- Residential projects: one with 50 units, one with 40 units, and two four-lot subdivisions.
- One 128-room hotel started construction and two other hotels are in planning stages.
- Comprehensive General Plan update including Housing Element.
- Improvement project to major intersection by increasing length of left turn lane.
- Shugart Park beautification project.
- Providing secondary water to golf course for further treatment and watering of greens.

FINANCIAL INFORMATION

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

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

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

ECONOMIC FACTORS

The City of Scotts Valley is located in Santa Cruz County, approximately 75 miles south of San Francisco. The unemployment rates for the City of Scotts Valley, the County of Santa Cruz, and the State of California as of June for the last five fiscal years are shown below.

<u>June 30,</u>	<u>Unemployment Rate</u>		
	<u>Scotts Valley</u>	<u>Santa Cruz County</u>	<u>California</u>
2011	5.5%	11.4%	12.1%
2012	4.8%	10.0%	10.6%
2013	4.1%	8.6%	9.2%
2014	3.2%	6.8%	7.3%
2015	5.2%	6.2%	6.3%

The average and median prices of single-family homes increased for the third straight year, another reflection of the national economy. Average prices had dropped 23% from 2007 to 2008; however, with the pick up in the housing market the last three years, the 2015 prices are getting closer to the 2007 levels. The 2015 average price is approximately 10% below the 2007 level and 5% below for the median price. Property values do not have as much an impact on the City's property tax revenue as other cities in Santa Cruz County because the City is a low property tax city, which means that the City receives approximately 7% of the assessed property taxes. Below is a table of the average and median sales prices of houses sold in Santa Cruz County as of June for each of the last five years.

<u>June 30,</u>	<u>Single-Family Homes</u>			
	<u>Average Price</u>	<u>Increase (Decrease) Over (Under) Prior Year</u>	<u>Median Price</u>	<u>Increase (Decrease) Over (Under) Prior Year</u>
2011	\$627,248	15.2%	\$545,000	8.2%
2012	531,649	(15.2%)	495,000	(9.2%)
2013	667,368	25.5%	585,000	18.2%
2014	763,717	14.4%	699,500	19.6%
2015	800,980	4.9%	725,000	3.6%

OTHER INFORMATION

Independent Audit: The Government Code requires an annual audit by independent certified public accountants selected by the City Council. This requirement has been complied with. The auditors' unqualified opinion has been included in the financial section of this report. The City is also required to undergo an annual single audit in conformity with the provisions of the Single Audit Act and the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, unless exempt. The City did not meet the minimum threshold of federal funding to require a single audit for 2014.

Awards: The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Scotts Valley for its comprehensive annual financial report for the fiscal year ended June 30, 2014. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standard for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report (CAFR), whose contents conform to program standards. Such CAFR must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

ACKNOWLEDGMENTS

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

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

Respectfully submitted,



Stephen H. Ando
City Manager

LIST OF PRINCIPAL OFFICIALS

JUNE 30, 2015

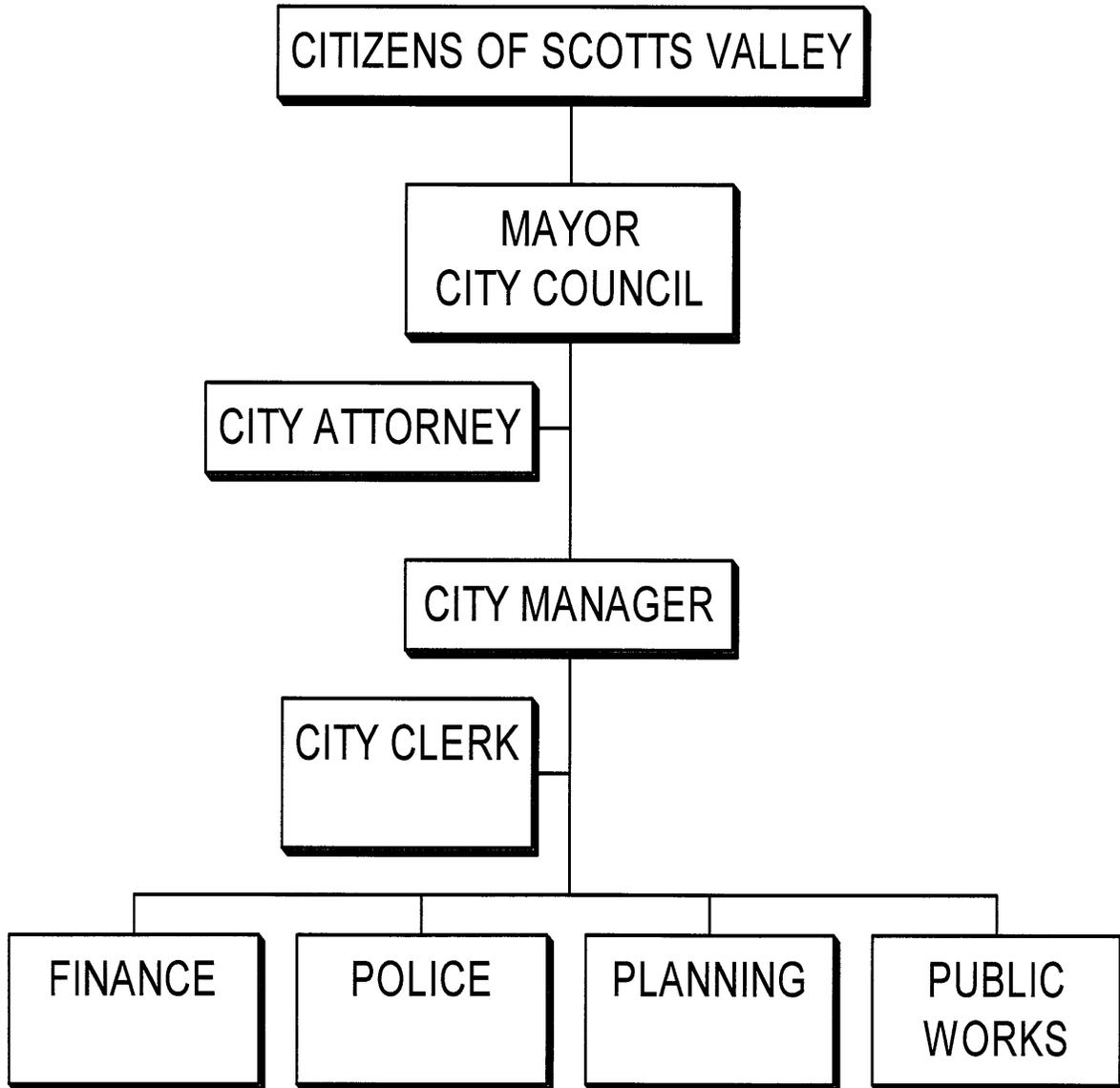
CITY COUNCIL MEMBERS

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

CHIEF ADMINISTRATIVE PERSONNEL

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

CITY OF SCOTTS VALLEY
ORGANIZATION CHART





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Scotts Valley
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO