

FINANCIAL SECTION

This page intentionally left blank.

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Opinion

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, 2016, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension schedules and schedules of funding progress, other postemployment benefits plan schedule and funding progress, and the respective budgetary comparison information of the general and major funds as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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.

Marcello & Company

Certified Public Accountants
Sacramento, California
October 19, 2016

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, 2016. 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, 2016, by \$36,966,182. The current year change in net position was a decrease of \$1,999,383. Of the total net position, \$37,721,854 was invested in capital assets (net of related debt) and \$6,782,018 had restrictions on their use leaving a negative \$7,537,690 as unrestricted. The current decrease in City net position is a combination of the governmental activities decreasing \$961,150 and the business-type activities decreasing \$1,038,233.

As of June 30, 2016, the City's governmental funds (General Fund, special revenue funds, debt service funds, and capital project funds) had a combined fund balance of \$8,431,956, an increase of \$68,675 from the previous year. This is mainly a combination of an increase in the General Fund of \$66,652, an increase of \$20,706 in major funds, and a decrease in the non-major funds of \$18,683. Of the total City governmental fund balance, \$4,563,161 was restricted, \$1,056,113 was assigned, and \$2,812,682 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, 2016, was the second full year for this additional sales tax. The City recorded \$1,274,604 for the fiscal year, an increase of \$122,803 over the previous 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 a combining statement for non-major governmental funds. The basic financial statements include two kinds of statements that present different views of the City.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services such as public safety were financed in the short term as well as what remains for future spending.
 - Proprietary fund statements offer both short-term and long-term financial information about the activities the government operates like businesses, such as the sewer system.
 - Fiduciary fund statements provide information about the financial relationships (such as special assessment bond funds) in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed information. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, the City included a section with combining statements that provide details about the City’s non-major governmental funds, each of which are added together and presented in single columns in the basic financial statements.

Figure 1 below summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

**Figure 1
Major Features of the City’s Government-wide and Fund Financial Statements**

	<u>Government-wide Statements</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire City government (except fiduciary funds) and the City’s component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses	Instances in which the City is the trustee or agent for 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, both 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 two 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.

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 short-term and long-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 government-wide net position shown below totals \$36,966,282 as of June 30, 2016. This is a decrease of \$1,999,283, or 5.13%, from the previous year. It is a combination of a decrease in Total Assets and Deferred Outflows of Resources of \$1,373,920 and an increase in Total Liabilities and Deferred Inflows of Resources of \$625,363. 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
	2016	2015	2016	2015	2016	2015	
Current and other assets	\$16,323	\$16,371	\$ 4,562	\$ 4,760	\$20,885	\$21,131	(1.6%)
Capital assets, net	<u>30,686</u>	<u>31,752</u>	<u>12,877</u>	<u>13,536</u>	<u>43,563</u>	<u>45,288</u>	(3.8%)
Total assets	<u>47,009</u>	<u>48,123</u>	<u>17,439</u>	<u>18,296</u>	<u>64,448</u>	<u>66,419</u>	(2.9%)
Deferred Outflows of Resources	<u>1,208</u>	<u>849</u>	<u>412</u>	<u>173</u>	<u>1,620</u>	<u>1,022</u>	58.5%
Total Assets and Deferred Outflows of Resources	<u>48,217</u>	<u>48,972</u>	<u>17,851</u>	<u>18,469</u>	<u>66,068</u>	<u>67,442</u>	(2.0%)
Long-term debt outstanding	20,869	19,703	3,297	2,194	24,166	21,897	10.4%
Other liabilities	<u>3,351</u>	<u>3,299</u>	<u>351</u>	<u>360</u>	<u>3,702</u>	<u>3,659</u>	1.2%
Total liabilities	<u>24,220</u>	<u>23,002</u>	<u>3,648</u>	<u>2,554</u>	<u>27,868</u>	<u>25,556</u>	9.1%
Deferred Inflows of Resources	<u>1,415</u>	<u>2,427</u>	<u>(181)</u>	<u>493</u>	<u>1,234</u>	<u>2,920</u>	(57.7%)
Total Liabilities and Deferred Inflows of Resources	<u>25,635</u>	<u>25,429</u>	<u>3,467</u>	<u>3,047</u>	<u>29,102</u>	<u>28,476</u>	2.1%
Net position:							
Net Investment in							
Capital Assets	30,687	25,778	12,878	13,536	43,565	39,314	10.8%
Restricted	5,624	4,706	2,150	2,156	7,774	6,862	13.3%
Unrestricted	<u>(13,729)</u>	<u>(6,941)</u>	<u>(644)</u>	<u>(270)</u>	<u>(14,373)</u>	<u>(7,211)</u>	(99.3%)
Total net position	<u>\$22,582</u>	<u>\$23,543</u>	<u>\$14,384</u>	<u>\$15,422</u>	<u>\$36,966</u>	<u>\$38,965</u>	(5.1%)

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

Cash and Investments	(\$ 70,835)
Receivables (current and long-term)	(171,531)
Capital Assets, net of depreciation	(1,723,966)
Deferred Outflows of Resources-Pensions	597,830
Liabilities	(158,525)
Net Pension Liability	2,469,649
Deferred Inflows of Resources-Pensions	(1,685,761)

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (continued)

Changes in Net Position: The change in government-wide net position went from an increase of \$789,632 in fiscal year 2015 to a decrease of \$1,999,283 in fiscal year 2016. This is a result of total revenues decreasing \$1,001,700, or 6.5%, and total expenses increasing \$1,787,315, or 12.2%. A further analysis is shown below.

	(in thousands of dollars)		Percent
	<u>2016</u>	<u>2015</u>	<u>Change</u>
Program Revenues	\$ 4,906	\$ 5,765	(14.9%)
General Revenues	9,531	9,674	(1.5%)
Governmental Expenses	(12,323)	(10,925)	12.8%
Business-type Expenses	<u>(4,113)</u>	<u>(3,724)</u>	10.4%
Net Increase (Decrease)	<u>\$ (1,999)</u>	<u>\$ 790</u>	(353.0%)

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 decreased \$1,015,098, or 35.6%. This is made up of an increase in charges for services of \$42,285 and offset by decreases in operating grants and contributions of \$93,677 and in capital grants and contributions of \$963,706. Charges for services increased mainly in General Government (\$54,014) and Public Works (\$187,743) offset with a decrease in Planning/Building (\$202,962). 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 Planning/Building comes from a decrease in new construction permits. The main decrease in capital grants and contributions came in Public Works (\$963,706) due to two grant-funded projects in the prior fiscal year which totaled \$850,000.

Program revenues for business-type activities increased \$156,465, or 5.4%. This is made up of an increase in charges for services of \$119,127 and in operating grants and contributions of \$86,720 offset by a decrease in capital grants and contributions of \$49,382. Charges for services increased in both Wastewater (\$100,512) and Recreation (\$18,615). Wastewater charges for services increased due to completed new housing projects. Charges for services in recreation programs increased due to a stronger marketing outreach and a rebound in the economy. Capital grants decreased entirely in Wastewater for connection fees.

Expenses:

Governmental activities expense increased by \$1,398,539. The largest increase was in Public Safety (\$718,359) mainly in salaries, benefits, and pension expense. Increases in Public Works (\$326,862), and Planning/Building (\$296,199) were the result of using outside contracts for the vacant City Engineer and the Building Inspector positions.

Business-type activities increased \$388,776. The increase relates to increases in salaries, benefits, and retirement expense in Wastewater (\$236,421) and Recreation of (\$126,169). An increase in wastewater equipment maintenance (\$72,550) was offset by a decrease in wastewater professional contract services (\$27,747) and in utilities and communications (\$28,256). Utilities decreased in the wastewater fund due to the installation of new energy saving 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
	2016	2015	2016	2015	2016	2015	
Program revenues:							
Charges for services	\$ 1,148	\$ 1,106	\$ 2,951	\$ 2,831	\$ 4,099	\$ 3,937	4.1%
Operating grants	502	596	87	-	589	596	(1.2%)
Capital grants	190	1,154	29	78	219	1,232	(82.2%)
General revenues:							
Sales tax	3,534	3,156	-	-	3,534	3,156	11.9%
Property tax	1,314	1,821	-	-	1,314	1,821	(27.8)%
Other taxes	4,168	4,020	-	-	4,168	4,020	3.7%
Investment earnings	39	81	8	6	47	87	(45.9%)
Miscellaneous	467	589	-	-	467	589	(20.7%)
Total revenues	<u>11,362</u>	<u>12,523</u>	<u>3,075</u>	<u>2,915</u>	<u>14,437</u>	<u>15,438</u>	6.5%
Expenses:							
General Government	1,906	1,841	-	-	1,906	1,841	3.5%
Public Safety	5,333	4,615	-	-	5,333	4,615	15.6%
Planning & Building	1,224	928	-	-	1,224	928	31.9%
Public Works	3,352	3,025	-	-	3,352	3,025	10.8%
Interest on Debt	508	516	-	-	508	516	(1.6%)
Wastewater	-	-	2,988	2,721	2,988	2,721	9.8%
Recreation	-	-	1,125	1,003	1,125	1,003	12.2%
Total expenses	<u>12,323</u>	<u>10,925</u>	<u>4,113</u>	<u>3,724</u>	<u>16,436</u>	<u>14,649</u>	12.2%
Excess or (Deficiency)	<u>(961)</u>	<u>1,598</u>	<u>(1,038)</u>	<u>(809)</u>	<u>(1,999)</u>	<u>789</u>	(353.4)%
Transfers	<u>0</u>	<u>(11)</u>	<u>0</u>	<u>11</u>	<u>-</u>	<u>-</u>	
Change in Net Position	<u>\$ (961)</u>	<u>\$ 1,587</u>	<u>(\$ 1,038)</u>	<u>(\$ 798)</u>	<u>(\$ 1,999)</u>	<u>\$ 789</u>	(353.4)%

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 governmental activities, the total cost of \$12,323,479 were offset by charges for services (\$1,148,198), operating grants/contributions (\$502,181), and capital grants/contributions (\$189,924), bringing the net cost of services to \$10,483,176. This is an increase in net cost of \$2,413,637 from the prior fiscal year.

For business-type activities, the total cost of \$4,112,835 were offset by charges for services (\$2,950,334), operating grants/contributions (\$86,720) and capital grants/contributions (\$28,989), bringing the net cost of services to \$1,046,792. This is an increase in net cost of (\$232,211 from 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
	2016	2015		2016	2015	
General Government	\$ 1,906	\$ 1,841	3.5%	\$ 1,740	\$ 1,724	0.9%
Public Safety	5,333	4,615	15.6%	5,091	4,380	16.3%
Planning & Building	1,224	928	75.8%	714	211	238.4%
Public Works	3,352	3,025	17.4%	2,430	1,239	96.1%
Interest on L-T Debt	508	516	(1.6%)	508	516	(1.6%)
Total	\$ 12,323	\$ 10,925	12.8%	\$ 10,483	\$ 8,070	23.0%
Wastewater	\$ 2,988	\$ 2,721	9.8%	\$ 903	\$ 774	16.7%
Recreation	1,125	1,003	12.2%	144	40	260.0%
Total	\$ 4,113	\$ 3,724	10.4%	\$ 1,047	\$ 814	28.6%

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The following analysis pertains to the fund financial statements 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 2015 to 2016. The total revenues and expenditures do not include any "other financing sources (uses)."

	Increase (Decrease) from Prior Year			
	Assets	Liabilities	Revenues	Expenditures
General Fund	\$ 26,176	\$ (40,476)	\$ (21,628)	\$ 987,091
Special Rev Funds	(75,490)	(59,109)	(291,947)	(94,568)
Debt Service Funds	2,191	-	1,191	620
Capital Project Funds	(608,701)	(624,914)	(845,544)	(1,314,723)

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

The largest decrease in assets of the City funds other than the General Fund were the assets in the capital projects funds of \$608,701. The decrease is related to the Capital Improvements Fund with a decrease in grant receivable (\$850,000) offset by an increase in cash (\$241,299). The largest decrease in the liabilities is related to the Capital Improvements Fund with a decrease in the Due to other Funds (\$624,146).

The decreases in revenues (\$845,544) and expenditures (\$1,314,723) in the capital project funds relates to the General Capital Improvements Fund. Both revenues and expenditures decreased dramatically due to two large grant-funded projects completed in the prior fiscal year. The projects completed were the Shugart Park Pathway and bridge and sidewalk improvements to Vine Hill School Road under the Safe Routes to Schools grant.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total General Fund revenues were \$969,545 (10.3%) higher than the adopted budget due to taxes (\$681,703) and charges for services (\$208,187). Property tax (TEA) (\$226,554), regular and temporary sales tax (\$162,181), property tax distribution from the Successor Redevelopment Agency (\$13,017), and real estate transfer tax (\$11,313) were higher than projected. An adjustment was made to the calculation of prior years TEA property tax resulting in an additional \$134,713. Improvements in the economy and housing market also contributed to higher than expected real estate transfer tax. Distributions of property tax from the Successor Redevelopment Agency still continue to be unpredictable and are budgeted at a conservative amount. Charges for services were elevated due to an increase in building activity. Due to increases in PERS rates, all departments experienced an adjustment in pension costs.

Total General Fund expenditures were \$771,440 (8.4%) higher than the adopted budget. Sources for the increase were in the following departments and/or divisions: Building (\$273,681), Engineering (\$216,691), Administration (\$136,918), and Police (\$110,408). Due to enhanced building activity, additional hours for contract inspectors were required. Additional engineering services were also necessary given the City Engineer vacancy. Last, Administration expenses were higher due to retirement payouts and the need for temporary executive support. Police services were also elevated due to a temporary increase in staffing.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets: A recap of the City's capital assets, net of accumulated depreciation, is shown in the table below. The City-wide decrease (net of depreciation) is \$1,723,966, or 3.8%. The governmental activities had capital assets additions of \$329,851. Current year depreciation was \$1,387,748 and disposal of assets resulted in a loss of \$7,707. Business-type activities brought capital assets to a net decrease of \$658,362. The business-type activities had capital assets additions of \$119,440 with current year depreciation expense of \$777,802.

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

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2016	2015	2016	2015	2016	2015	
Land	\$7,012	\$ 7,012	\$429	\$ 429	\$7,441	\$ 7,441	(0.0%)
Buildings & Improvements	2,628	2,732	1,644	1,773	4,272	4,505	(5.4%)
Equipment	797	858	1,060	1,077	1,857	1,935	(4.2%)
Infrastructure	20,184	21,142	9,676	10,185	29,860	31,327	(4.9%)
Outfall Agreement Construction	-	-	68	71	68	71	(4.4%)
in Progress	66	8	-	-	66	8	87.9%
Total	<u>\$30,687</u>	<u>\$31,434</u>	<u>\$12,877</u>	<u>\$13,535</u>	<u>\$43,564</u>	<u>\$45,287</u>	(3.9%)

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

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-term Debt: A recap of the City’s long-term debt is shown below. Total long-term debt increased \$2,268,240, or 10.4%. The main increase during the year was the net pension liability from the GASB (Governmental Accounting Standards Board) Statement No. 68 for governmental activities (\$1,481,789) and for business activities (\$987,860). 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. The OPEB obligation increased for governmental activities (\$219,298) and business activities (\$110,830). 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
	2016	2015	2016	2015	2016	2015	
Certificates of Participation	\$5,512	\$5,649	\$ -	\$ -	\$5,512	\$5,649	(2.4%)
Pension Obligation Bonds	3,335	3,655	-	-	3,335	3,655	(9.6%)
Installment Note	105	110	-	-	105	110	(9.5%)
Accrued Comp Absences	645	719	120	115	765	834	(9.0%)
Net OPEB Obligation	2,235	2,016	654	543	2,889	2,559	11.4%
Net Pension Liability	<u>9,036</u>	<u>7,554</u>	<u>2,523</u>	<u>1,535</u>	<u>11,559</u>	<u>9,089</u>	21.4%
Total	<u>\$20,868</u>	<u>\$19,703</u>	<u>\$ 3,297</u>	<u>\$ 2,193</u>	<u>\$ 24,165</u>	<u>\$21,896</u>	10.4%

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 2016-2017 General Fund expenditure budget was approved with a \$312,145 (3.4%) increase. The General Fund revenue budget was approved with a \$438,755 (4.7%) increase.

CalPERS has provided the City with next year’s rate and a projected fiscal year 2017-18 rate. A recap of the retirement rates by fiscal year is shown on the next page. 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	10.069%	18.428%	\$363,043	\$257,949	Actual
2017-18	10.010%	18.400%	\$432,588	\$317,954	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	6.55%	12.094%		Actual
2017-18	6.60%	12.100%		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, 2016**

Primary Government

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments (Note 2)	\$ 6,664,319	\$ 2,651,658	\$ 9,315,977
Receivables	1,551,338	309,827	1,861,165
Advances to Redevelopment Successor Agency (Note 3)	5,086,056	1,600,000	6,686,056
Long-term Loans Receivable (Note 3)	2,921,816	-	2,921,816
Restricted Cash with Fiscal Agent	99,003	-	99,003
Capital Assets (Note 4):			
Capital Assets not being depreciated	7,077,797	429,416	7,507,213
Capital Assets, net of depreciation	23,608,853	12,448,103	36,056,956
Total Assets	<u>47,009,182</u>	<u>17,439,004</u>	<u>64,448,186</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pensions (Note 8)	<u>1,208,082</u>	<u>411,749</u>	<u>1,619,831</u>
Total Assets and Deferred Outflows of Resources	<u>48,217,264</u>	<u>17,850,753</u>	<u>66,068,017</u>
LIABILITIES			
Accounts Payable	239,739	123,260	362,999
Accrued Liabilities	155,158	54,116	209,274
Unearned Revenues	-	173,537	173,537
Noncurrent Liabilities (Note 5)			
Due within one year	889,838	36,142	925,980
Due in more than one year	19,978,505	3,260,954	23,239,459
Accrued Interest	2,956,294	-	2,956,294
Total Liabilities	<u>24,219,534</u>	<u>3,648,009</u>	<u>27,867,543</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Pensions (Note 8)	<u>1,415,316</u>	<u>(181,124)</u>	<u>1,234,192</u>
Total Liabilities and Deferred Inflows of Resources	<u>25,634,850</u>	<u>3,466,885</u>	<u>29,101,735</u>
NET POSITION			
Net Investment in Capital Assets	30,686,650	12,877,519	43,564,169
Restricted	5,624,316	2,150,421	7,774,737
Unrestricted	<u>(13,728,552)</u>	<u>(644,072)</u>	<u>(14,372,624)</u>
Total Net Position	<u>\$ 22,582,414</u>	<u>\$ 14,383,868</u>	<u>\$ 36,966,282</u>

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, 2016**

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	\$ 1,905,906	\$ 163,755	\$ -	\$ 2,433	\$ 166,188	\$ (1,739,718)		\$ (1,739,718)
Public Safety	5,332,955	39,246	193,313	8,891	241,450	(5,091,505)		(5,091,505)
Planning & Building	1,223,947	481,578	738	27,968	510,284	(713,663)		(713,663)
Public Works	3,352,397	463,619	308,130	150,632	922,381	(2,430,016)		(2,430,016)
Interest	508,274	-	-	-	-	(508,274)		(508,274)
Total Governmental Activities	12,323,479	1,148,198	502,181	189,924	1,840,303	(10,483,176)		(10,483,176)
Business-Type Activities:								
Wastewater	2,987,794	1,968,900	86,720	28,989	2,084,609		\$ (903,185)	(903,185)
Recreation Programs	1,125,041	981,434	-	-	981,434		(143,607)	(143,607)
Total Business-Type Activities	4,112,835	2,950,334	86,720	28,989	3,066,043		(1,046,792)	(1,046,792)
Total Primary Government	\$ 16,436,314	\$ 4,098,532	\$ 588,901	\$ 218,913	\$ 4,906,346	(10,483,176)	(1,046,792)	(11,529,968)
General Revenues:								
Taxes:								
Sales Tax						3,534,523	-	3,534,523
Property Tax						1,313,578	-	1,313,578
Franchise Taxes						972,951	-	972,951
Transient Occupancy Tax						1,011,432	-	1,011,432
Utility Users Tax						694,552	-	694,552
Other Taxes						529,092	-	529,092
Vehicle In-Lieu Fee						960,758	-	960,758
Investment Earnings						38,666	8,604	47,270
Miscellaneous						466,529	-	466,529
Total General Revenues						9,522,081	8,604	9,530,685
Other Financing Sources (Uses):								
Transfers						(55)	55	-
Total General Revenues and Transfers						9,522,026	8,659	9,530,685
Change in Net Position						(961,150)	(1,038,133)	(1,999,283)
Net Position - Beginning						23,543,564	15,422,001	38,965,565
Net Position, End of Year						\$ 22,582,414	\$ 14,383,868	\$ 36,966,282

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

This page intentionally left blank.

FUND FINANCIAL STATEMENTS

**CITY OF SCOTTS VALLEY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General Fund	Successor Housing Agency	General Facility	Traffic Impact Mitigation	General Capital Improvements	Other Governmental Funds	Total
ASSETS							
Cash and Investments	\$ 1,563,922	\$ 245,236	\$ 53,131	\$ 1,214,447	\$ 241,299	\$ 3,305,571	\$ 6,623,606
Receivables:							
Due from other Governments	1,549,994	-	-	-	-	-	1,549,994
Other	1,344	-	-	-	-	-	1,344
Due from other Funds	1,171	-	-	-	-	-	1,171
Advances Due from other Funds	139,532	-	-	-	-	-	139,532
Notes Receivable	-	-	-	-	-	550,000	550,000
Restricted Cash with Fiscal Agent	99,003	-	-	-	-	-	99,003
Total Assets	\$ 3,354,966	\$ 245,236	\$ 53,131	\$ 1,214,447	\$ 241,299	\$ 3,855,571	\$ 8,964,650
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts Payable	\$ 204,680	\$ 8,174	\$ -	\$ -	\$ 10,795	\$ 13,184	\$ 236,833
Accrued Liabilities	154,434	-	-	-	-	724	155,158
Accrued Compensated Absenses	-	-	-	-	-	-	-
Due to other Funds	-	-	-	-	-	1,171	1,171
Advances Due to other Funds	-	-	139,532	-	-	-	139,532
Unearned Revenues	-	-	-	-	-	-	-
Total Liabilities	359,114	8,174	139,532	-	10,795	15,079	532,694
Fund Balances:							
Restricted	99,003	237,062	-	1,214,447	230,504	2,782,145	4,563,161
Assigned	-	-	-	-	-	1,058,584	1,058,584
Unassigned	2,896,849	-	(86,401)	-	-	(237)	2,810,211
Total Fund Balances	2,995,852	237,062	(86,401)	1,214,447	230,504	3,840,492	8,431,956
Total Liabilities and Fund Balances	\$ 3,354,966	\$ 245,236	\$ 53,131	\$ 1,214,447	\$ 241,299	\$ 3,855,571	\$ 8,964,650

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, 2016**

Total Fund Balances - Total Governmental Funds (Page 18) \$ 8,431,956

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. 7,457,872

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet. 30,686,650

Deferred outflows of resources reported on the Government-Wide Statement of Net Position. 1,208,082

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. (2,956,294)

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. 37,807

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	(4,340,000)
Installment Notes	(105,000)
Pension Obligaion Bonds	(3,335,000)
Compensated Absences	(645,205)
Net OPEB Obligation	(2,235,356)
Net Pension Liability	(9,035,467)

Deferred inflows of resources reported on the Government-Wide Statement of Net Position. (1,415,316)

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. 78,273

Net Position of Governmental Activities (Page 14) \$22,582,414

**CITY OF SCOTTS VALLEY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016**

	General Fund	Successor Housing Agency	General Facility	Traffic Impact Mitigation	General Capital Improvements	Other Governmental Funds	Total
Revenues:							
Taxes and Assessments	\$ 9,080,863	\$ -	\$ -	\$ -	\$ -	\$ 281,230	\$ 9,362,093
Intergovernmental Revenues	41,791	-	-	-	-	110,962	152,753
Fees and Services	781,012	-	2,215	81,216	-	328,543	1,192,986
Fines and Forfeitures	35,411	-	-	-	-	-	35,411
Investment Earnings	14,456	20,734	218	4,434	2,020	12,998	54,860
Contributions, Non-Government	-	-	-	-	-	2,306	2,306
Facility/Building Rental	-	44,910	-	-	-	-	44,910
Miscellaneous Revenues	414,637	71,416	-	-	10,376	20,635	517,064
Total Revenues	<u>10,368,170</u>	<u>137,060</u>	<u>2,433</u>	<u>85,650</u>	<u>12,396</u>	<u>756,674</u>	<u>11,362,383</u>
Expenditures:							
Current:							
General Government	1,942,304	-	85	-	-	-	1,942,389
Public Safety	4,846,863	-	-	-	-	80,850	4,927,713
Planning and Building	1,044,567	113,527	-	-	-	24,622	1,182,716
Public Works	1,691,210	-	-	29,508	-	258,686	1,979,404
Capital Outlay	9,969	-	57,220	57,810	87,710	233,664	446,373
Debt Service:							
Principal	145,000	-	-	-	-	320,000	465,000
Interest and Finance Charges	222,345	-	-	-	-	127,713	350,058
Total Expenditures	<u>9,902,258</u>	<u>113,527</u>	<u>57,305</u>	<u>87,318</u>	<u>87,710</u>	<u>1,045,535</u>	<u>11,293,653</u>
Excess of Revenues over(under) Expenditures	<u>465,912</u>	<u>23,533</u>	<u>(54,872)</u>	<u>(1,668)</u>	<u>(75,314)</u>	<u>(288,861)</u>	<u>68,730</u>
Other Financing Sources (Uses):							
Transfers In	150,000	-	37,500	-	91,527	446,428	725,455
Transfers (Out)	(549,260)	-	-	-	-	(176,250)	(725,510)
Net Other Financing Sources (Uses)	<u>(399,260)</u>	<u>-</u>	<u>37,500</u>	<u>-</u>	<u>91,527</u>	<u>270,178</u>	<u>(55)</u>
Change in Fund Balances	66,652	23,533	(17,372)	(1,668)	16,213	(18,683)	68,675
Fund Balance - Beginning	<u>2,929,200</u>	<u>213,529</u>	<u>(69,029)</u>	<u>1,216,115</u>	<u>214,291</u>	<u>3,859,175</u>	<u>8,363,281</u>
Fund Balance - End of Year	<u>\$ 2,995,852</u>	<u>\$ 237,062</u>	<u>\$ (86,401)</u>	<u>\$ 1,214,447</u>	<u>\$ 230,504</u>	<u>\$ 3,840,492</u>	<u>\$ 8,431,956</u>

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) \$ 68,675

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

Repayment of long-term loans receivable is reported as income in governmental funds, but the repayment reduces long-term assets in the statement of net assets.
Repayment of long-term loans receivable (11,320)

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 329,851
Current year depreciation (1,387,748)
Disposal of Capital Assets (7,707)

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. (2,768)

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 465,000

Change in accrued net pension liability, deferred outflows of resources - pensions, and deferred inflows of resources - pensions. (111,634)

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)

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 74,015
Accrual of OPEB obligation (219,298)
Accrual of interest expense on long-term debt (155,344)

Change in net position of governmental activities (Page 15) \$ (961,150)

CITY OF SCOTTS VALLEY
STATEMENT OF NET POSITION - BUSINESS-TYPE ACTIVITIES
PROPRIETARY FUNDS
JUNE 30, 2016

	Business-Type Activities Enterprise Funds			Governmental Activities -
	Recreation Fund	Wastewater Fund	Total	Internal Fund
ASSETS				
Current:				
Cash and Investments	\$ 220	\$ 2,651,438	\$ 2,651,658	\$ 40,712
Receivables:				
Due from other Governments	-	26,910	26,910	-
Sewer Fees	-	155,932	155,932	-
Other	126,985	-	126,985	-
Advances to Successor Agency	-	1,600,000	1,600,000	-
Total Current Assets	<u>127,205</u>	<u>4,434,280</u>	<u>4,561,485</u>	<u>40,712</u>
Capital Assets (Note 4):				
Land and construction in progress	-	429,416	429,416	-
Other capital assets, net of depreciation	3,500	12,444,603	12,448,103	-
Total capital assets	<u>3,500</u>	<u>12,874,019</u>	<u>12,877,519</u>	<u>-</u>
Total Assets	<u>130,705</u>	<u>17,308,299</u>	<u>17,439,004</u>	<u>40,712</u>
Deferred Outflows of Resources:				
Deferred Pensions	122,140	289,609	411,749	-
Total Deferred Outflows of Resources	<u>122,140</u>	<u>289,609</u>	<u>411,749</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>252,845</u>	<u>17,597,908</u>	<u>17,850,753</u>	<u>40,712</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	14,799	108,461	123,260	2,905
Accrued Liabilities	33,623	20,493	54,116	-
Compensated Absences	41,302	78,630	119,932	-
Unearned Revenues	173,537	-	173,537	-
Total Current Liabilities	<u>263,261</u>	<u>207,584</u>	<u>470,845</u>	<u>2,905</u>
Noncurrent Liabilities:				
Net OPEB Obligation	310,950	343,260	654,210	-
Net Pension Liability	779,543	1,743,411	2,522,954	-
Total Noncurrent Liabilities	<u>1,090,493</u>	<u>2,086,671</u>	<u>3,177,164</u>	<u>-</u>
Total Liabilities	<u>1,353,754</u>	<u>2,294,255</u>	<u>3,648,009</u>	<u>2,905</u>
Deferred Inflows of Resources:				
Deferred Pensions	(16,610)	(164,514)	(181,124)	-
Total Liabilities and Deferred Inflows of Resources	<u>1,337,144</u>	<u>2,129,741</u>	<u>3,466,885</u>	<u>2,905</u>
NET POSITION				
Net Investment in Capital Assets	3,500	12,874,019	12,877,519	-
Restricted - Capital Improvements	-	2,150,421	2,150,421	-
Unrestricted	(1,087,799)	443,727	(644,072)	37,807
Total Net Position	<u>\$ (1,084,299)</u>	<u>\$ 15,468,167</u>	<u>\$ 14,383,868</u>	<u>\$ 37,807</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, 2016**

	Business-Type Activities Enterprise Funds			Governmental Activities -
	Recreation Fund	Wastewater Fund	Total	Internal Fund
Operating Revenues:				
Fees and Services	\$ 981,434	\$ 2,055,620	\$ 3,037,054	\$ 64,280
Total Operating Revenues	<u>981,434</u>	<u>2,055,620</u>	<u>3,037,054</u>	<u>64,280</u>
Operating Expenses:				
Salaries	595,529	529,974	1,125,503	-
Taxes and Benefits	261,204	495,710	756,914	-
Maintenance and Operations	91,387	722,065	813,452	63
Advertising	7,778	-	7,778	-
Professional and Contractual Services	142,355	74,629	216,984	-
Utilities and Communications	12,878	334,838	347,716	-
Insurance and Bonds	12,910	53,776	66,686	67,154
Depreciation	1,000	776,802	777,802	-
Total Operating Expenses	<u>1,125,041</u>	<u>2,987,794</u>	<u>4,112,835</u>	<u>67,217</u>
Income (Loss) from Operations	<u>(143,607)</u>	<u>(932,174)</u>	<u>(1,075,781)</u>	<u>(2,937)</u>
Nonoperating Revenues (Expenses):				
Interest Income	-	8,604	8,604	169
Connection Fees	-	28,989	28,989	-
Total Nonoperating Revenues	<u>-</u>	<u>37,593</u>	<u>37,593</u>	<u>169</u>
Net Income (Loss) before Transfers	<u>(143,607)</u>	<u>(894,581)</u>	<u>(1,038,188)</u>	<u>(2,768)</u>
Transfers In	93,492	203,600	297,092	-
Transfers (Out)	(30,223)	(266,814)	(297,037)	-
Change in Net Position	<u>(80,338)</u>	<u>(957,795)</u>	<u>(1,038,133)</u>	<u>(2,768)</u>
Net Position - Beginning	<u>(1,003,961)</u>	<u>16,425,962</u>	<u>15,422,001</u>	<u>40,575</u>
Net Position - End of Year	<u>\$ (1,084,299)</u>	<u>\$ 15,468,167</u>	<u>\$ 14,383,868</u>	<u>\$ 37,807</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, 2016**

	Business-Type Activities Enterprise Funds			Governmental Activities -
	Recreation Fund	Wastewater Fund	Total	Internal Fund
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 996,619	\$ 2,298,786	\$ 3,295,405	\$ 64,280
Cash Payments for Good and Services	(539,672)	(1,706,278)	(2,245,950)	(70,121)
Cash Payments to Employees	(520,470)	(400,182)	(920,652)	-
Net Cash Provided by (Used for) Operating Activities	<u>(63,523)</u>	<u>192,326</u>	<u>128,803</u>	<u>(5,841)</u>
Cash Flows from Noncapital Financing Activities:				
Transfers In	93,492	203,600	297,092	-
Transfers Out	(30,223)	(266,814)	(297,037)	-
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>63,269</u>	<u>(63,214)</u>	<u>55</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities				
Receipts of Connection and Standby Fees	-	28,989	28,989	-
Purchase of Vehicles and Equipment	-	(101,940)	(101,940)	-
Construction of Improvements	-	(17,500)	(17,500)	-
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>-</u>	<u>(90,451)</u>	<u>(90,451)</u>	<u>-</u>
Cash Flows from Investing Activities:				
Interest Received	-	8,604	8,604	169
Net Cash Provided by Investing Activities	<u>-</u>	<u>8,604</u>	<u>8,604</u>	<u>169</u>
Net Increase (Decrease) in Cash	(254)	47,265	47,011	(5,672)
Cash and Investments, Beginning	<u>474</u>	<u>2,604,173</u>	<u>2,604,647</u>	<u>47,651</u>
Cash and Investments, End of Year	<u>\$ 220</u>	<u>\$ 2,651,438</u>	<u>\$ 2,651,658</u>	<u>\$ 41,979</u>

(Continued)

**CITY OF SCOTTS VALLEY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016**

	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)	\$ (143,607)	\$ (932,174)	\$ (1,075,781)	\$ (2,937)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities:				
Depreciation	1,000	776,802	777,802	-
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(2,542)	243,166	240,624	-
(Increase) Decrease in Prepaid Expenses	2,813	-	2,813	-
(Increase) Decrease in Deferred Outflows of Resources	(64,397)	(174,735)	(239,132)	-
Increase (Decrease) in Accounts Payable	(13,973)	(27,948)	(41,921)	(2,904)
Increase (Decrease) in Acc Liabilities/Comp Absences	9,028	10,569	19,597	-
Increase (Decrease) in Net OPEB Obligation	45,988	64,842	110,830	-
Increase (Decrease) in Unearned Revenues	17,727	-	17,727	-
Increase (Decrease) in Net Pension Liability	266,027	721,833	987,860	-
Increase (Decrease) in Deferred Inflows of Resources	(181,587)	(492,717)	(674,304)	-
Net Cash Provided by (Used for) Operating Activities	<u>\$ (63,523)</u>	<u>\$ 192,326</u>	<u>\$ 128,803</u>	<u>\$ (5,841)</u>

(Concluded)

**CITY OF SCOTTS VALLEY
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016**

	Successor Agency Private Purpose Trust Fund	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and Investments Held for Others, restricted	\$ 1,715,889	\$ 1,556,430
Cash and Investments Held in accordance with Bond Indentures, restricted	767,756	478,745
Depreciable Capital Assets, Net	<u>13,881,113</u>	<u>-</u>
Total Assets	<u><u>\$ 16,364,758</u></u>	<u><u>\$ 2,035,175</u></u>
LIABILITIES		
Accounts Payable	\$ 2,843	\$ -
Deposits	-	1,216,807
Accrued Interest Payable	296,528	-
Advances From Other Funds	-	339,623
Unearned Revenues	44,127	-
Bond Reserve Payable	-	478,745
Long-term Debt: (Note 5)		
Due in one year	365,000	-
Due in more than one year	<u>19,806,056</u>	<u>-</u>
Total Liabilities	<u>20,514,554</u>	<u><u>\$ 2,035,175</u></u>
NET POSITION		
Held in Trust for Other Governments	<u><u>\$ (4,149,796)</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, 2016**

Successor Agency
Private Purpose
Trust Fund

ADDITIONS

Redevelopment Property Tax Trust Fund	\$ 2,493,156
Bond Premium	2,592
Investment Earnings	465
	<hr/>
Total Additions	2,496,213
	<hr/>

DEDUCTIONS

Administrative Expenses	\$ 74,030
Enforceable Obligations of Former Redevelopment Agency	282,859
Depreciation	189,683
Interest Expense	817,499
	<hr/>
Total Deductions	1,364,071
	<hr/>

Change in Current Net Position	1,132,142
Net Position - Beginning	<hr/> (5,281,938)
Net Position - End of Year	<hr/>(4,149,796)

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

The notes to the financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the City as follows:

- Note 1 – Description of Funds and Significant Accounting Policies
- Note 2 – Cash and Investments
- Note 3 – Long-Term Loans Receivable
- Note 4 – Capital Assets
- Note 5 – Long-Term Debt and Obligations
- Note 6 – Interfund Transactions
- Note 7 – Postemployment Benefits Other Than Pensions
- Note 8 – Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
- Note 9 – Fund Balances – Governmental Funds
- Note 10 – Deficit Fund Balances
- Note 11 – Special Assessment District Bond Obligations
- Note 12 – Commitments and Contingencies
- Note 13 – Risk Management
- Note 14 – Joint Powers Authority
- Note 15 – Future Accounting Pronouncements

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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, 2016

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.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include (1) a Balance Sheet, and (2) 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 fund balances as presented in these statements to the net position presented in the Government-wide financial statements.

The City of Scotts Valley reports the following major governmental funds:

The General Fund is the primary 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, Corporate 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 Revenue, Expenditures and Changes in Fund Balance present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenue is recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenue is recorded when received in cash, except that revenue subject to accrual (generally 90 days after fiscal year-end) is 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.

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.

CITY OF SCOTT'S VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

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 Revenue, Expenses and Changes in Net Position present increases (revenue) 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 revenue 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.

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, improvements, equipment, and infrastructure. City policy has set the capitalization threshold for reporting capital assets at \$10,000. Donated assets are recorded at estimated fair value at the date of donation.

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 when projects are constructed and completed.

Capital assets may be acquired using federal and state grants and contributions or grants from other governments and accounted for as revenue at the time they are contributed.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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

Budgets and Budgetary Accounting Process

- A. The City Manager submits a proposed budget to the City Council
- B. Public meetings are conducted to obtain feedback
- C. The City Council considers and 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 may be 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.

Cash and Investments

Investments are reported in the accompanying balance sheet at fair value, except for nonparticipating certificates of deposit and investment contracts that would be reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair market value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair market value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

The City pools idle cash from all funds in order to increase income earned through its investment program. Investment income from pooled investments is allocated to funds on a quarterly basis based on the cash balance in each fund.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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

Cash and Cash Equivalents

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

Unbilled Receivables

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

Encumbrances

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

Compensated Absences

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

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pension, and pension expense, information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 determines 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/Levy Dates	July 1	July 1
Due Dates	50% November 1 50% February 1	July 1
Delinquent as of	December 10 (for November) April 10 (for February)	August 31

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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

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.

Governmental Fund Balances

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.

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, 2016.

Pooled Deposits	\$1,118,897
Pooled Investments: California Local Agency Investment Fund (LAIF)	8,499,914
Money Market	<u>2,969,485</u>
Subtotal	12,588,296
Investments with Fiscal Agents and Trustees	<u>1,345,504</u>
Total Cash and Investments	<u>\$13,933,800</u>

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

2. CASH AND INVESTMENTS (continued)

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

	<u>Government-wide Statement of Net Position</u>		Fiduciary Funds	<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Statement of Net Position</u>	
Cash & Investments	\$ 6,664,319	\$ 2,651,658	\$ 3,272,319	\$ 12,588,296
Restricted Cash & Investments	<u>99,003</u>	<u>-</u>	<u>1,246,501</u>	<u>1,345,504</u>
Total	<u>\$ 6,763,322</u>	<u>\$ 2,651,658</u>	<u>\$ 4,518,820</u>	<u>\$13,933,800</u>

Pooled Deposits

At June 30, 2016, the difference between the carrying amount of the City's book balance of \$1,116,978 and the corresponding bank balance of \$1,030,098 was due to outstanding checks and deposits in transit. Of the bank balance, \$250,000 was insured by federal depository insurance and \$866,978 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
Passbook Savings Account Demand Deposits	Corporate Medium Term Notes
Local Agency Investment Fund(State Pool)Demand Deposits	Money Market Funds

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, 2016, LAIF had approximately \$22.7 billion in investments.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

2. CASH AND INVESTMENTS (concluded)

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, 2016, 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.

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, 2016, investment maturities (other than investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements) were as follows:

	Less Than <u>1 Year</u>	1 <u>Year</u>	1 – 2 <u>Years</u>	2 – 3 <u>Years</u>
LAIF	\$ 8,499,914	\$ -	\$ -	\$ -
Money Market Funds (not rated)	<u>2,969,485</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$11,469,399</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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 (\$1,753,691). 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.

\$5,086,056

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

3. LONG-TERM LOANS RECEIVABLE (concluded)

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

Due from a California Limited Liability Company with simple interest at 3.25% per annum, due and payable under a repayment agreement terms. Funds were loaned with the Community Development Block Grant funds. The loan is secured by a deed of trust on commercial property. 550,000

Total Long-term Loans Receivable \$2,921,816

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, 2016**

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land	\$7,011,920	\$ -	\$ -	\$7,011,920
Construction in progress	<u>7,448</u>	<u>58,429</u>	<u>-</u>	<u>65,877</u>
Total capital assets not being depreciated	<u>7,019,368</u>	<u>58,429</u>	<u>-</u>	<u>7,077,797</u>
<u>Capital assets being depreciated:</u>				
Buildings and Improvements	5,530,195	44,390	-	5,574,585
Machinery and equipment	3,557,144	172,207	174,824	3,554,527
Infrastructure	<u>39,477,742</u>	<u>54,825</u>	<u>-</u>	<u>39,532,567</u>
Total capital assets being depreciated	<u>48,565,081</u>	<u>271,422</u>	<u>174,824</u>	<u>48,661,679</u>
<u>Less accumulated depreciation for:</u>				
Buildings and Improvements	2,797,765	149,261	-	2,947,026
Machinery and equipment	2,698,657	225,761	167,117	2,757,301
Infrastructure	<u>18,335,773</u>	<u>1,012,726</u>	<u>-</u>	<u>19,348,499</u>
Total accumulated depreciation	<u>23,832,195</u>	<u>1,387,748</u>	<u>167,117</u>	<u>25,052,826</u>
Total capital assets being depreciated, net	<u>24,732,886</u>	<u>(1,116,326)</u>	<u>7,707</u>	<u>23,608,853</u>
Governmental capital assets, net	<u>\$31,752,254</u>	<u>\$(1,057,897)</u>	<u>\$ 7,707</u>	<u>\$30,686,650</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>
Total capital assets not being depreciated	<u>429,416</u>	<u>-</u>	<u>-</u>	<u>429,416</u>
<u>Capital assets being depreciated:</u>				
Buildings and Improvements	5,287,273	-	-	5,287,273
Machinery and equipment	6,368,988	101,940	-	6,470,928
Infrastructure	23,094,553	17,500	-	23,112,053
Outfall agreement	<u>178,000</u>	<u>--</u>	<u>-</u>	<u>178,000</u>
Total capital assets being depreciated	<u>34,928,814</u>	<u>119,440</u>	<u>-</u>	<u>35,048,254</u>
<u>Less accumulated depreciation for:</u>				
Buildings and Improvements	3,513,910	129,630	-	3,643,540
Machinery and equipment	5,292,101	118,626	-	5,410,727
Infrastructure	12,909,529	526,579	-	13,436,108
Outfall agreement	<u>106,809</u>	<u>2,967</u>	<u>-</u>	<u>109,776</u>
Total accumulated depreciation	<u>21,822,349</u>	<u>777,802</u>	<u>-</u>	<u>22,600,151</u>
Total capital assets being depreciated, net	<u>13,106,465</u>	<u>(658,362)</u>	<u>-</u>	<u>12,448,103</u>
Business-type capital assets, net	<u>\$13,535,881</u>	<u>\$(658,362)</u>	<u>\$ -</u>	<u>\$12,877,519</u>
 Total Capital Assets	 <u>\$45,288,135</u>	 <u>\$(1,716,259)</u>	 <u>\$ 7,707</u>	 <u>\$43,564,169</u>

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

4. CAPITAL ASSETS (concluded)

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

<u>Governmental Activities:</u>	
General government	\$ 49,087
Public safety	196,221
Planning & building	6,456
Public works	<u>1,135,984</u>
Total depreciation expense – government activities	<u>\$ 1,387,748</u>
<u>Business-Type Activities:</u>	
Wastewater	\$ 776,802
Recreation	<u>1,000</u>
Total depreciation expense – business-type activities	<u>\$ 777,802</u>

5. LONG-TERM DEBT AND OBLIGATIONS

The following is a summary of long-term debt and obligation transactions for the fiscal year ended June 30, 2016:

	GOVERNMENTAL ACTIVITIES				
	Balance at July 1, 2015	Additions	Reductions	Balance at June 30, 2016	Due Within One Year
Certificates of Participation	\$ 5,730,588	\$ -	\$ 140,000	\$ 5,590,588	\$140,000
Unamortized Discount	<u>(81,145)</u>	<u>2,872</u>	<u>-</u>	<u>(78,273)</u>	
Total Certificates	<u>5,649,443</u>	<u>2,872</u>	<u>140,000</u>	<u>5,512,315</u>	
Pension Obligation Bonds	3,655,000	-	320,000	3,335,000	325,000
Installment Note	110,000	-	5,000	105,000	5,000
Accrued Compensated Absences	719,220	434,930	508,945	645,205	419,838
Net OPEB Obligation	2,016,058	434,750	215,452	2,235,356	-
Net Pension Liability	<u>7,553,678</u>	<u>1,481,789</u>	<u>-</u>	<u>9,035,467</u>	<u>-</u>
Totals	<u>\$19,703,399</u>	<u>\$2,354,341</u>	<u>\$1,189,397</u>	<u>\$20,868,343</u>	<u>\$ 889,838</u>
	BUSINESS-TYPE ACTIVITIES				
	Balance at July 1, 2015	Additions	Reductions	Balance at June 30, 2016	Due Within One Year
Accrued Compensated Absences	\$ 115,326	\$ 91,465	\$ 86,859	\$ 119,932	\$ 36,142
Net OPEB Obligation	543,380	130,730	19,900	654,210	-
Net Pension Liability	<u>1,535,094</u>	<u>987,860</u>	<u>-</u>	<u>2,522,954</u>	<u>-</u>
Totals	<u>\$ 2,193,800</u>	<u>\$1,210,055</u>	<u>\$106,759</u>	<u>\$3,297,096</u>	<u>\$ 36,142</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, 2016**

5. LONG-TERM DEBT AND OBLIGATIONS (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 City's financial activities of the Scotts Valley Public Financing Authority are included in the financial statements, economic substance is emphasized over legal form and the above leasing transactions are reported as City 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, 2016:

Original issue - \$4,940,588, 1997-1 Refunding Certificates of Participation	\$ 1,250,588
Original issue - \$4,605,000, 2013 Refunding Certificates of Participation	4,340,000
Less Unamortized Discount	<u>(78,273)</u>
Total Certificates of Participation	<u>\$5,512,315</u>

In 1997, the Scotts Valley Public Financing Authority issued \$4,940,588 of refunding COPs. 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 COPs. Only the capital appreciation certificates remain outstanding.

Fiscal Year Ending	1997-1 Refunding Certificates of Participation		
	Principal	Interest	Total
2017	\$ -	\$ -	\$ -
2018	-	-	-
2019	-	-	-
2020	145,354	344,646	490,000
2021	136,140	348,861	485,001
2022-2026	749,664	2,440,335	3,189,999
2027-2031	<u>219,430</u>	<u>900,570</u>	<u>1,120,000</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, 2016**

5. LONG-TERM DEBT AND OBLIGATIONS (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>
2017	\$ 140,000	\$ 213,095	\$ 353,095
2018	145,000	209,883	354,883
2018	145,000	206,257	351,257
2020	-	204,445	204,445
2021	-	204,445	204,445
2022-2026	-	1,022,225	1,022,225
2027-2031	650,000	962,302	1,612,302
2032-2036	1,000,000	740,510	1,740,510
2037-2041	1,300,000	439,623	1,739,623
2042-2043	960,000	79,380	1,039,380
Unamortized Discount	<u>(78,272)</u>	-	<u>(78,272)</u>
Totals	<u>\$4,261,728</u>	<u>\$4,282,165</u>	<u>\$8,543,893</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>
2017	\$ 325,000	\$ 118,305	\$ 443,305
2018	335,000	110,286	445,286
2019	340,000	100,325	440,325
2020	355,000	88,757	443,757
2021	365,000	75,245	440,245
2022-2025	<u>1,615,000</u>	<u>142,188</u>	<u>1,757,188</u>
Totals	<u>\$3,335,000</u>	<u>\$ 635,106</u>	<u>\$3,970,106</u>

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

5. LONG-TERM DEBT AND OBLIGATIONS (concluded)

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 for the construction of recycled water pipe lines. The District and the City shared the proceeds of the bond issue in order to save on issuance costs. The proceeds were used for recycled water pipes to City parks. Annual principal amounts vary from \$ -0- to \$15,000 plus interest at 6% per annum, through 2028.

Fiscal Year <u>Ending</u>	Installment Note		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	5,000	4,350	9,350
2022-2026	45,000	14,850	59,850
2027-2028	<u>25,000</u>	<u>1,650</u>	<u>26,650</u>
Totals	<u>\$105,000</u>	<u>\$ 43,050</u>	<u>\$148,050</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. 3,725,000

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 (\$1,753,691), 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). 6,686,056

Total Successor Agency Private Purpose Trust Fund Debt \$20,171,056

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

6. INTERFUND TRANSACTIONS

Current Interfund Balances: The following is a summary of the current amounts due from and due to other funds at June 30, 2016:

	<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Major Funds:	General Fund	\$ 1,171		\$ -
Non Major Funds:		-	Homeland Security	<u>1,171</u>
Totals		<u>\$ 1,171</u>		<u>\$ 1,171</u>

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

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 as follows:

	<u>Transfers In:</u>				
	<u>General Fund</u>	<u>Gen Facility and Capital Improvements</u>	<u>Enterprise Funds</u>	<u>Non-Major Fund</u>	<u>Total</u>
<u>Transfers Out:</u>					
General Fund	\$ -	\$ 91,527	\$93,492	\$364,241	\$ 549,260
Enterprise Fund	-	12,500	-	80,937	93,437
Non Major Fund	<u>150,000</u>	<u>25,000</u>	-	<u>1,250</u>	<u>176,250</u>
Total	<u>\$ 150,000</u>	<u>\$129,027</u>	<u>\$ 93,492</u>	<u>\$446,428</u>	<u>\$ 818,947</u>

The General Fund transferred out a total of \$549,260 as follows: \$93,492 to the Recreation Fund for operations, \$364,241 to the Pension Obligation Fund for its share of the pension obligation debt service, and \$91,527 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 \$93,437 as follows: \$80,937 to the Pension Obligation Fund for its share of the pension obligation debt service and \$12,500 to the General Facility Fund for the purchase of capital equipment.

Non-Major Funds transferred out a total of \$176,250 as follows: \$150,000 from the Gas Tax Fund to the General Fund for street maintenance expenditures. A transfer from the Gas Tax Fund into the General Facility Fund for \$25,000 to purchase capital equipment. Transfers within Non-Major Funds totaled \$1,250 which consisted of \$625 from the Senior Center and \$625 from the Community Center to the Pension Obligation Fund for their share of the pension obligation debt service.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

7. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION

The City administers a single-employer defined benefit post employment healthcare plan (Plan) which provides postemployment benefits to eligible employees in the form of partial reimbursement for postretirement health insurance premiums. Eligibility requirements include a minimum of ten years employment with the City and minimum retirement ages of 50 years for safety employees and 55 years for non-safety employees. For eligible employees, the City will pay 33-75% of the retired employee's health insurance premiums, the exact amount determined by years of service, employee group, and age. In addition, there is a cap on what the City will contribute that is indexed to the cost of CalPERS postretirement medical insurance premiums. The Plan does not issue separate financial statements.

The obligation of the City to provide these benefits is determined by agreements with the various employee bargaining groups.

The City's contributions are financed on a pay-as-you-go basis. The City paid \$235,352 in post employment benefits for the 29 retired employees who were eligible for benefits during the fiscal year ended June 30, 2016.

The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, 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	\$ 535,623
Interest on the net OPEB obligation	115,175
Adjustment to Annual Required Contribution	<u>(85,315)</u>
Annual OPEB cost	565,483
Payments made	<u>(235,352)</u>
Increase in net OPEB obligation	330,131
Net OPEB obligation – beginning of year	<u>2,559,435</u>
Net OPEB obligation – end of year	<u>\$2,889,566</u>

The City annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation was as follows:

Fiscal Year <u>Ended</u>	Annual <u>OPEB Cost</u>	Annual OPEB <u>Cost Contributed</u>	Net OPEB <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
2016	\$565,483	41.6%	\$2,889,566

As of February 1, 2016, the most recent actuarial valuation date, the Plan was 0% funded. The actuarial accrued liability (AAL) for benefits was \$8,445,817, and the actuarial value of the Plan assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,556,251. The covered payroll (annual payroll of active employees covered by the Plan) was \$4,506,698 and the ratio of UAAL to the covered payroll was 123%.

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

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

7. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (concluded)

employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Entry Age Normal (EAN) cost method was used in the February 1, 2016, 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 February 1, 2016, 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 a 4.5% 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 2.75% per annum. Both post-retirement benefit increases and the healthcare cost trend rate are assumed to increase 4% per annum.

8. COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN

A. General Information about the Plan

Plan Description – All qualified permanent and probationary employees are eligible to participate in the cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plan 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 50-55 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.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

8. COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN (continued)

The Plan provisions and benefits in effect at June 30, 2016, 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%

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

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 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, 2016, the contributions recognized as part of pension expense for each Plan were as follows:

Contributions - employer	\$ 560,881
Contributions - employee (paid by employer)	\$ 324,953

B. Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the City reported net pension liabilities for its proportionate share of the net pension liability of the Plan in the amount of \$9,035,467.

The City's net pension liability of its Plan is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

8. COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN (continued)

For the year ended June 30, 2016, the City recognized pension expense of \$1,277,099. At June 30, 2016, the Local Government reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 33,398
Changes of assumptions	-	516,691
Net differences between projected and actual earnings on plan investments	-	260,520
Change in employer's proportion	528,790	-
Differences between the employer's contributions and the employer's proportionate share of contributions	-	423,583
Pension contributions subsequent to measurement date	1,091,041	-
 TOTAL	\$ 1,619,831	\$ 1,234,192

Recognition of Deferred Outflows and Inflows of Resources in future pension expense as follows:

<u>Fiscal Year Ending June 30</u>	
2017	\$ (332,717)
2018	(344,857)
2019	(353,839)
2020	326,012

C. Actuarial Assumptions – The total pension liability for this plan's actuarial valuation was determined using the following actuarial assumptions:

	<u>Miscellaneous</u>	<u>Safety</u>
Valuation Date	June 30, 2014	June 30, 2014
Measurement Date	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
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)

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

D. Discount Rate – The discount rate used to measure the total pension liability was 7.65% for the 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 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 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.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

8. COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN (continued)

According to Paragraph 30 of GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.65 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 net of administrative expenses would be 7.50 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 and will continue to check the materiality of the difference in calculation until such time as they change their 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 asset class. 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.

CalPERS adheres to an Asset Allocation Strategy which establishes asset class allocation policy targets and ranges, and manages those asset class allocations within their policy ranges. The following table 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. The asset allocation has an expected long-term blended rate of return of 7.5 percent.

<u>Asset Class</u>	<u>New Strategic Allocation</u>
Global Equity	51.00%
Global Fixed Income	20.00%
Inflation Sensitive Assets	6.00%
Private Equity	10.00%
Real Assets	12.00%
Other	0.00%
Liquid Assets	1.00%
	<u>100.00%</u>

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

8. COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN (concluded)

E. Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City’s proportionate share of the unfunded net pension liability calculated using the discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Discount Rate -1% 6.50%	Current Discount Rate 7.50%	Discount Rate +1% 8.50%
Net Pension Liability	\$ 8,601,144	\$ 9,035,467	\$ 2,573,503

9. FUND BALANCES – GOVERNMENTAL FUNDS

As of June 30, 2016, fund balances are designated as the follows:

	General Fund	Successor Housing Agency	General Facilities	Traffic Impact Mitigation	General Capital Imprmnts	Non-Major Govrnm't'l Funds	TOTAL
Restricted:							
Debt Service	\$ 99,003	\$ -	\$ -	\$ -	\$ -	\$ -	99,003
Low Mod Housing	-	237,062	-	-	-	-	237,062
Impact Fees	-	-	-	1,214,447	-	20,173	1,234,620
Public Works	-	-	-	-	230,504	481,598	712,102
Public Safety	-	-	-	-	-	389,632	389,632
Parks & Recreation	-	-	-	-	-	1,165,562	1,165,562
Community Dev	-	-	-	-	-	550,549	550,549
Planning	-	-	-	-	-	174,631	174,631
Assigned:							
Debt Service	-	-	-	-	-	945,463	945,463
Public Works	-	-	-	-	-	53,811	53,811
Parks & Recreation	-	-	-	-	-	59,310	59,310
Unassigned	2,896,849	-	(86,401)	-	-	(237)	2,810,211
TOTAL	\$ 2,995,852	\$ 237,062	\$ (86,401)	\$ 1,214,447	\$ 230,504	\$ 3,840,492	\$ 8,431,956

10. DEFICIT FUND BALANCES

At June 30, 2016, the following City funds had deficit fund balances:

Major Fund:

General Facility (\$86,401)

Non Major Funds:

Homeland Security (\$ 237)

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.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

11. SPECIAL ASSESSMENT DISTRICT BOND OBLIGATIONS

The City acts as an agent and is not liable for repayment of the special assessment and community facilities district debt. The City is 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 debt is not recorded in these financial statements. The following special assessment and community facilities district debt was outstanding as of June 30, 2016:

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>425,000</u>
Total Special Assessment District Bonds (No City Liability)	<u>\$ 3,870,000</u>

12. COMMITMENTS AND CONTINGENCIES

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

The City has construction contract commitments in the amount of \$40,874 at June 30, 2016 for the following project:

Project	Commitment
Mt. Hermon Road and Scotts Valley Drive Improvements	\$40,874

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.

13. RISK MANAGEMENT

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.

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.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

14. 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 (MBASIA). 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. Financial statements may be obtained from MBASIA c/o Alliant Insurance Services, 100 Pine Street, 11th Floor, San Francisco, CA 94111.

15. FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has released the following new pronouncements, which can read in their entirety at <http://www.gasb.org>.

GASB Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73 -

Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 81, Irrevocable Split-Interest Agreements -

Effective Date: The requirements of this Statement are effective for periods beginning after December 15, 2016. Earlier application is encouraged.

GASB Statement No. 80, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14 -

Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 79, Certain External Investment Pools and Pool Participants -

Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans –

Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 77, Tax Abatement Disclosures -

Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

**CITY OF SCOTTS VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

15. FUTURE ACCOUNTING PRONOUNCEMENTS (concluded)

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments -

Effective Date: The provisions in Statement 76 are effective for reporting periods beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions -

Effective Date: The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans -

Effective Date: The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 -

Effective Date: The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015 except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Earlier application is encouraged.