

City of Scotts Valley California



COMPREHENSIVE ANNUAL FINANCIAL REPORT For Fiscal Year Ended June 30, 2016

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Of

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

For the Fiscal Year Ended June 30, 2016

**Jenny Haruyama
City Manager**

**CITY OF SCOTTS VALLEY
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016
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INTRODUCTORY SECTION

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CITY OF SCOTTS VALLEY

OFFICE OF THE CITY MANAGER

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October 19, 2016

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

SUBJECT: COMPREHENSIVE ANNUAL FINANCIAL REPORT - JUNE 30, 2016

Honorable Mayor and Council Members:

The Comprehensive Annual Financial Report (CAFR) for the City of Scotts Valley for the fiscal year ended June 30, 2016 is hereby submitted. The responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with City management. The CAFR is accurate in all material respects and sets forth the financial position of the City. The report reflects the necessary disclosures enabling readers to gain a deeper understanding of the City's financial and operational activities. These statements have been audited by the City's independent auditor, Marcello and Company, who issued an unqualified opinion. The Auditors' Report is included in this report.

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

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

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

REPORTING ENTITY AND SERVICES PROVIDED

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

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

- Scotts Valley Public Financing Authority

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

MAJOR INITIATIVES

During fiscal year 2015/16, the City accomplished the following:

- Completion of the Housing Element plan.
- Negotiated an agreement to provide secondary water to Pasatiempo Golf Course.
- Completion of sidewalk and drainage improvements at Skypark Park.
- Replacement and upgrade of equipment at the Wastewater Treatment Plant, including a new alarm system.

The following are current and future projects:

- Development of the City's Town Center, a mixed use retail/residential project.
- Renovation of a former university site into a private conference center and educational facility.
- Construction of two residential projects: 40 and 50 units, respectively, and two four-lot subdivisions
- Construction of a 128-room hotel and planned construction on a 120-room extended stay hotel.
- Facilitation of the General Plan update.
- Completion of planned intersection improvements to Scotts Valley Drive/Whispering Pines to improve traffic flow.
- Implementation of agreement to provide water to Pasatiempo Golf Course to water greens.

FINANCIAL INFORMATION

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

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

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

ECONOMIC FACTORS

The City of Scotts Valley is located in Santa Cruz County, approximately 75 miles south of San Francisco. The average and median prices of single-family homes increased for the fourth straight year, another reflection of the local economy. Average prices had dropped 23% from 2007 to 2008; however, with the improvement in the housing market the last five years, the 2016 prices have surpassed the 2007 levels. The 2016 average price is approximately 2% above the 2007 level and 5% above for the median price. Property values do not have as much an impact on the City's property tax revenue as other cities in Santa Cruz County because the City is a low property tax city. The City receives approximately 6.5% of the assessed property taxes.

Based on information obtained from the Santa Cruz County Association of Realtors, the following is a table of the average and median sales prices of houses sold in Santa Cruz County as of June for each of the last five fiscal years.

Single-Family Homes				
<u>June 30,</u>	<u>Average Price</u>	<u>Increase (Decrease) Over(Under) Prior Year</u>	<u>Median Price</u>	<u>Increase (Decrease) Over(Under) Prior Year</u>
2012	531,649	(15.2%)	495,000	(9.2%)
2013	667,368	25.5%	585,000	18.2%
2014	763,717	14.4%	699,500	19.6%
2015	800,980	4.9%	725,000	3.6%
2016	905,800	13.1%	800,000	10.3%

Based on information obtained from the Employment Development Department (EDD), the unemployment rates for the City of Scotts Valley, the County of Santa Cruz, and the State of California as of June for the last five fiscal years are shown as follows.

Unemployment Rate			
<u>June 30,</u>	<u>Scotts Valley</u>	<u>Santa Cruz County</u>	<u>California</u>
2012	4.8%	10.0%	10.6%
2013	4.1%	8.6%	9.2%
2014	3.2%	6.8%	7.3%
2015	5.2%	6.2%	6.3%
2016	5.6%	6.3%	5.7%

OTHER INFORMATION

Independent Audit: The Government Code requires an annual audit by independent certified public accountants selected by the City Council. This requirement has been complied with. The auditors' unqualified opinion has been included in the financial section of this report. The City is also required to undergo an annual single audit in conformity with the provisions of the Single Audit Act and the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, unless exempt. The City did not meet the minimum threshold of federal funding to require a single audit for 2015.

Awards: The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Scotts Valley for its comprehensive annual financial report for the fiscal year ended June 30, 2015. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standard for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR), whose contents conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

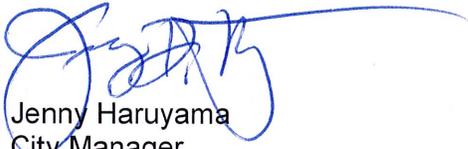
A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report (CAFR) continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

I want to extend my appreciation to Laurie Grundy, Accountant II, and the Finance Department for helping prepare this report. This would have not been accomplished without their initiative and commitment.

In closing, I would like to recognize the leadership and support of the City Council which was instrumental to the preparation of this report.

Respectfully submitted,



Jenny Haruyama
City Manager

LIST OF PRINCIPAL OFFICIALS

JUNE 30, 2016

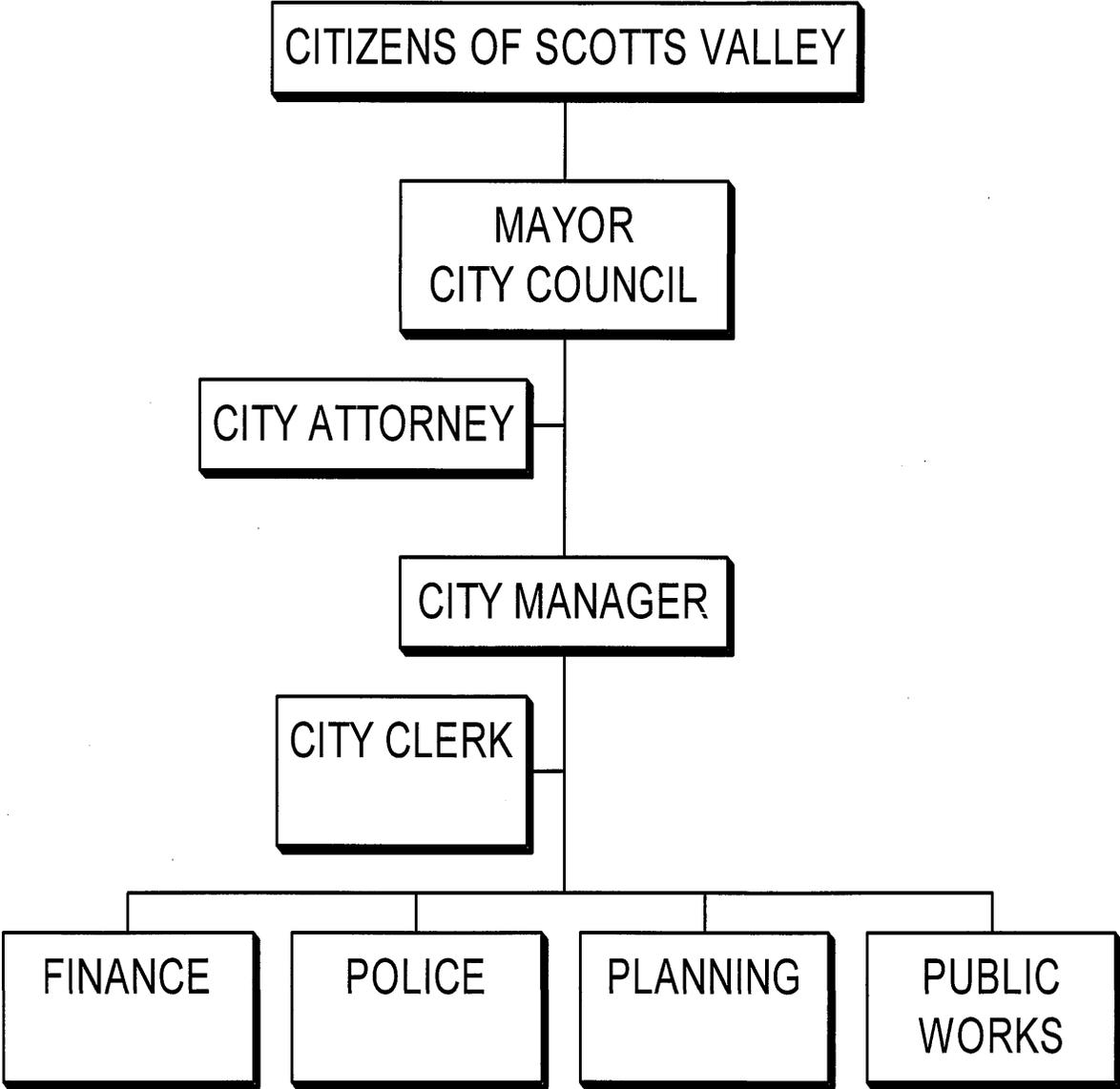
CITY COUNCIL MEMBERS

Donna Lind	Mayor
Randy Johnson	Vice Mayor
Dene Bustichi	Councilmember
Randy Johnson	Councilmember
Jim Reed	Councilmember

CHIEF ADMINISTRATIVE PERSONNEL

Jenny Haruyama	City Manager
Kirsten Powell	City Attorney
Tracy Ferrara	City Clerk
John Weiss	Chief of Police
Scott Hamby	Director of Public Works
Taylor Bateman	Interim Community Development Director

CITY OF SCOTTS VALLEY
ORGANIZATION CHART





Government Finance Officers Association

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

Presented to

**City of Scotts Valley
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO