

# **Santa Cruz County Redevelopment Agency**

Santa Cruz, California

*Basic Financial Statements  
and Independent Auditors' Reports*

*As of January 31, 2012 and for the seven month  
period July 1, 2011 through January 31, 2012*

# Santa Cruz County Redevelopment Agency

As of January 31, 2012 and for the Seven Month Period July 1, 2011 through January 31, 2012

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## INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Directors  
of the Santa Cruz County Redevelopment Agency  
Santa Cruz, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Cruz County Redevelopment Agency (the "Agency"), a component unit of the County of Santa Cruz, California (the "County"), as of and for the seven months ended January 31, 2012, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Agency as of January 31, 2012, and the respective changes in financial position for the seven months ended January 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

As explained further in Note 14 to the basic financial statements, the California State Legislature enacted Assembly Bill X1 26 (the "Bill") dissolving the County's redevelopment agency as of January 31, 2012. In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund). The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) to the Santa Cruz County Redevelopment Successor Agency is reported in the private-purpose trust fund as an extraordinary loss in the amount of \$174,032,971.



To the Members of the Board of Directors  
of the Santa Cruz County Redevelopment Agency  
Santa Cruz, California  
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Also as explained further in Note 14, due to the dissolution of the redevelopment agencies, it is necessary to read this report in conjunction with that of the Santa Cruz County Redevelopment Successor Agency basic financial statements for the five months ended June 30, 2012, in order to gain a full understanding of the fiscal year (twelve month period ended June 30, 2012).

In accordance with Government Auditing Standards, we have also issued our report dated December 21, 2012, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Budgetary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a 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 historical 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.

*Marcum LLP*

Marcum LLP  
Certified Public Accountants  
Irvine, CA  
December 21, 2012

SANTA CRUZ COUNTY REDEVELOPMENT AGENCY  
Management's Discussion and Analysis  
7 Month Period Ended January 31, 2012

This section of the Santa Cruz County Redevelopment Agency (the "Agency") audit report presents a discussion and analysis of the Agency's financial performance during the 7 month period ended January 31, 2012. Please read it in conjunction with the Agency's basic financial statements following this section.

**FINANCIAL HIGHLIGHTS**

- The liabilities of the Agency exceeded assets at the close of the 7 month period ended January 31, 2012, by \$174,032,971 (*net assets*). Of this amount, \$16,309 is invested in capital assets, net of related debt.
- The Agency's total net assets increased by \$8,443,571. This increase is mainly attributed to the \$11,961,371 increase in loans receivable, and \$4,850,519 decrease in Long term Debt and an \$1,140,396 increase in interest payable.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements comprise three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

## **Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.

The statement of *net assets* presents information on all Agency assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the Agency is improving or deteriorating.

The *statement of activities* presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of these government-wide financial statements would distinguish functions of the Agency that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). There are no business-type activities for the Agency.

## **Fund Financial Statements**

The fund financial statements are designed to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Agency are classified as governmental funds.

*Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statement—i.e. most of the Agency's basic services are reported in governmental funds. These statement, however, focus on (1) how cash and other financial assets can readily be converted to available resources and (2) the balances left at year-end that are available for spending. Such information may be useful in determining what financial resources are available in the near future to finance the Agency's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Agency maintains five governmental funds organized according to their type (special revenue and debt service). Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the Tax Increment Revenue, Administration Revenue, Capital Projects, and LMIH Projects funds, which are considered to be major funds. Data from the remaining governmental fund is in a single presentation.

### **Notes to the Basic Financial Statements**

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### **Required Supplementary Information**

The Agency adopts an annual appropriated budget for each of its special revenue funds. A budgetary comparison statement has been provided for each special revenue fund to demonstrate compliance with this budget.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve as a useful indicator of a government's financial position. In the case of the Agency, liabilities exceeded assets by \$174,032,971 at the close of the 7 month period ended January 31, 2012.

<b>Net Assets</b>			
	Governmental Activities		
	January 31, 2012	2011	Increase/ (Decrease) %
Assets:			
Current and other assets	\$ 76,193,607	\$ 71,045,177	7.25
Capital assets, net	<u>16,309</u>	<u>19,094</u>	(14.59)
Total assets	<u>\$ 76,209,916</u>	<u>\$ 71,064,271</u>	7.24
Liabilities:			
Current liabilities	\$ 6,294,005	\$ 9,525,374	(33.92)
Long-term liabilities	<u>243,948,882</u>	<u>244,015,439</u>	(0.03)
Total liabilities	<u>250,242,887</u>	<u>253,540,813</u>	(1.30)
Net assets:			
Invested in capital assets, net of related debt	16,309	19,094	(14.59)
Restricted: Capital Projects	2,366,544	3,774,034	(37.29)
Restricted: LMIH Projects	47,534,733	32,172,547	47.75
Restricted: Debt Service	20,014,154	17,898,385	11.82
Unrestricted net assets	<u>(243,964,711)</u>	<u>(236,340,602)</u>	(3.23)
Total net assets	<u>\$ (174,032,971)</u>	<u>\$ (182,476,542)</u>	4.63

### **Analysis of Net Assets**

A portion of the Agency's net assets reflects its investment in capital assets (e.g. land, structures and improvements, and mobile homes and other equipment), less any related debt used to acquire those assets that is still outstanding, \$16,309. The Agency uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Agency's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.



At the end of the current fiscal year, the Agency reported a positive balance in the amount invested in capital assets, net of related debt, while it showed a negative balance in unrestricted net assets totaling \$243,964,711.

Changes in Net Assets			
	Governmental Activities		
	January 31, 2012	2011	Increase/ (Decrease) %
Revenues:			
General revenues:			
Tax increment	\$ 11,882,927	\$ 22,865,258	(48.03)
Interest and investment income	55,681	603,737	(90.78)
Rents and concessions	3,177	104,069	(96.95)
Aid from other governments	0	26,540	(100.00)
Other revenue - Fees	0	2,102	(100.00)
Other revenue - Loan payments	(19,399)	62	(313.89)
Gain/(Loss) on sale of assets	9,599	(9,056)	206.00
Gain/(Loss) on conversion of debt	<u>5,024,265</u>	<u>0</u>	100.00
Total revenues	<u>16,956,250</u>	<u>23,592,712</u>	(28.13)
Expenses:			
Public ways and facilities	1,997,662	150,386,932	(98.67)
Interest on long-term bonds and loans payable	8,390,485	13,046,016	(35.69)
Total expenses	<u>10,388,147</u>	<u>163,432,948</u>	(93.64)
Transfers in from Primary Government	1,875,468	0	100.00
Change in net assets	8,443,571	(139,840,236)	106.04
Net assets, beginning	(182,476,542)	(42,636,306)	(3.28)
Net assets, ending	<u>\$(174,032,971)</u>	<u>\$(182,476,542)</u>	4.63

## **Analysis of Changes in Net Assets**

**Governmental activities.** Governmental activities increased the Agency's net assets by \$8,443,571 or 100% of the total increase in Agency's net assets. The key factors that contributed to this increase were the \$11,961,371 increase in loans receivable, \$4,850,519 decrease in Long Term Debt, \$1,140,396 increase in interest payable.

## **FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS**

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### **Governmental Funds**

The Agency's governmental funds provide the same type of information found in the government-wide financial statements, but in more detail. Types of governmental funds reported by the Agency include Special Revenue Funds and Debt Service Funds.

At January 31, 2012, the Agency's governmental funds reported combined ending fund balances of \$71,865,646, an increase of 7.54%, or \$5,041,255 from the prior year.

Revenues for governmental functions totaled \$11,922,386 for the 7 month period ended January 31, 2012. Expenditures for governmental functions amounted to \$13,790,463 for the same period. In the 7 month period ended January 31, 2012, expenditures for governmental functions exceeded revenues by \$1,868,077.

The following table shows actual revenues from various sources:

Revenues Classified by Source Governmental Funds						
	January 31, 2012		FY 2011		Increase/(Decrease)	
Revenues by Source	Amount	% of Total	Amount	% of Total	Amount	% of Change
Tax increment	\$ 11,850,929	99.40	\$ 22,848,351	96.81	(10,997,422)	(48.13)
Penalties on taxes	31,998	0.27	16,907	0.07	15,091	89.26
Interest income	55,681	0.47	603,737	2.56	(548,056)	(90.78)
Rents and concession	3,177	0.03	104,069	0.44	(100,892)	(96.95)
Aid from other governments	0	0.00	26,540	0.11	(26,540)	(100.00)
Other revenue - Fees	0	0.00	2,102	0.01	(2,102)	(100.00)
Other revenue - Loan payments	<u>(19,399)</u>	<u>0.16</u>	<u>62</u>	<u>0.00</u>	<u>(19,461)</u>	<u>(313.89)</u>
Total	<u>\$ 11,922,386</u>	<u>100.00</u>	<u>\$ 23,601,768</u>	<u>100.00</u>	<u>(11,679,382)</u>	<u>(49.49)</u>

The following provides explanations in significant changes in revenues by source:

- Tax increment revenue decreased by \$10,997,422 due to the shorter time period of 7 months rather than the full 12 months.
- Interest income decreased by \$548,056 due to the shorter time period, lower fund balances and interest rates.
- Rents and concession decreased by \$100,892 due to the shorter time period and transfer of properties to the County in the previous fiscal year.

The current year excess of revenues and other financing sources over expenditures and other financing uses is presented below:

<b>Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds</b>						
	Major Funds				Nonmajor Funds	
	Tax Increment Revenue Fund	Administration Revenue Fund	Capital Projects Fund	LMIH Projects Fund	Trustee Funds	Total
Revenues	\$ 11,890,468	\$ (838)	\$ 10,387	\$ 21,397	\$ 972	\$ 11,922,386
Expenditures	(2,954)	1,070,559	1,349,641	149,750	11,223,467	13,790,463
Net other financing sources (uses)	<u>(12,962,091)</u>	<u>1,519,855</u>	<u>(10,961)</u>	<u>5,024,265</u>	<u>13,338,264</u>	<u>6,909,332</u>
Net change in fund balances	(1,068,669)	448,458	(1,350,215)	4,895,912	2,115,769	5,041,255
Fund balances, beginning	<u>22,695,051</u>	<u>984</u>	<u>3,716,759</u>	<u>22,513,212</u>	<u>17,898,385</u>	<u>66,824,391</u>
Fund balances, ending	<u>21,626,382</u>	<u>449,442</u>	<u>2,366,544</u>	<u>27,409,124</u>	<u>20,014,154</u>	<u>71,865,646</u>

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The Agency's investment in capital assets, net of related debt, for its governmental activities as of January 31, 2012, amounted to \$16,309 (net of accumulated depreciation). This investment in capital assets includes structures and improvements, and other equipment.

Capital assets for the governmental activities are presented below to illustrate changes from the prior year:

	Governmental Activities		Increase/(Decrease)
	January 31, 2012	2011	% of Change
Land	\$ 0	\$ 0	0.00%
Construction in Progress	0	0	0.00%
Structures and Improvements	35,204	35,204	0.00%
Equipment	76,941	76,941	0.00%
Total cost	112,145	112,145	0.00%
Less: accumulated depreciation	(95,836)	(93,051)	2.99%
Capital assets, net	\$ 16,309	\$ 19,094	(14.59%)

### Long-term debt

At January 31, 2012, the Agency had total long-term debt outstanding of \$243,948,883 as compared to \$248,296,880 in the prior year. This amount was comprised of \$244,560,000 of tax allocation bonds (including current portion of \$0), (\$662,340) of unamortized bond discounts and premiums (including current portion of \$0), and \$51,223 of compensated absences payable (including current portion of \$0).

### REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Agency's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Santa Cruz County Auditor-Controller, 701 Ocean Street, Room 100, Santa Cruz, CA 95060.

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## **BASIC FINANCIAL STATEMENTS**

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**Santa Cruz County Redevelopment Agency**  
**Statement of Net Assets**  
**January 31, 2012**

	Governmental Activities
<b>ASSETS</b>	
Current Assets:	
Cash and investments	\$ 8,810,310
Restricted cash with fiscal agent	3,960,000
Accounts receivable	-
<b>Total current assets</b>	<b>12,770,310</b>
Noncurrent Assets:	
Restricted cash with fiscal agent	16,054,154
Loans receivable - housing	43,220,784
Land held for resale	235,029
Deferred bond issuance costs	3,913,330
Capital assets:	
Depreciable, net	16,309
<b>Total capital assets</b>	<b>16,309</b>
<b>Total noncurrent assets</b>	<b>63,439,606</b>
<b>Total assets</b>	<b>76,209,916</b>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable - claims	414,631
Interest payable	5,879,374
<b>Total current liabilities</b>	<b>6,294,005</b>
Long-Term Liabilities:	
Compensated absences - due in more than one year	51,223
Long-term debt - due in more than one year	243,897,659
<b>Total long-term liabilities</b>	<b>243,948,882</b>
<b>Total liabilities</b>	<b>250,242,887</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	16,309
Restricted for:	
Capital projects	2,366,544
Low and moderate income housing projects	47,534,733
Debt service	20,014,154
Unrestricted	(243,964,711)
<b>Total net assets (deficit)</b>	<b>\$ (174,032,971)</b>

See accompanying Notes to Basic Financial Statements.

**Santa Cruz County Redevelopment Agency**  
**Statement of Activities and Changes in Net Assets**  
**For the seven months ended January 31, 2012**

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue and Changes in Net Assets
<b>Primary government:</b>			
<b>Governmental activities:</b>			
Public ways and facilities	\$ 1,997,662	\$ -	\$ (1,997,662)
Interest and fiscal charges on long-term debt (unallocated)	8,390,485	-	(8,390,485)
<b>Total governmental activities</b>	<b>\$ 10,388,147</b>	<b>\$ -</b>	<b>(10,388,147)</b>
 <b>General Revenues:</b>			
Incremental property taxes			11,882,927
Interest Earnings:			
Unrestricted			54,709
Restricted			972
Other Revenue:			
Rental revenue			3,177
Miscellaneous			(9,800)
Gain/(Loss) on conversion of debt			5,024,265
<b>Total general revenues</b>			<b>16,956,250</b>
Transfers from primary government			1,875,468
<b>Change in net assets</b>			<b>8,443,571</b>
<b>Net assets - beginning of year</b>			<b>(182,476,542)</b>
<b>Net assets - end of year</b>			<b>\$ (174,032,971)</b>

See accompanying Notes to Basic Financial Statements.

**Santa Cruz County Redevelopment Agency**  
**Balance Sheet**  
**Governmental Funds**  
**January 31, 2012**

	Special Revenue Funds				Debt Service	Total Governmental Funds
	Tax	Administrative Revenue	Capital Project	LMIH Project	Trustee	
	Increment Revenue					
<b>ASSETS</b>						
Cash with County Treasury	\$ 5,209,249	\$ 451,298	\$ 2,739,721	\$ 410,042	\$ -	\$ 8,810,310
Cash restricted for debt service	-	-	-	-	20,014,154	20,014,154
Receivables:						
Loans - Housing	16,214,076	-	-	27,006,708	-	43,220,784
Land held for resale	235,029	-	-	-	-	235,029
Due from other funds		31,829	-	-	-	31,829
<b>Total assets</b>	<b>\$ 21,658,354</b>	<b>\$ 483,127</b>	<b>\$ 2,739,721</b>	<b>\$ 27,416,750</b>	<b>\$ 20,014,154</b>	<b>\$ 72,312,106</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts payable - claims	\$ 143	\$ 33,685	\$ 373,177	\$ 7,626	\$ -	\$ 414,631
Due to other funds	31,829	-	-	-	-	31,829
<b>Total liabilities</b>	<b>31,972</b>	<b>33,685</b>	<b>373,177</b>	<b>7,626</b>	<b>-</b>	<b>446,460</b>
<b>Fund Balances:</b>						
Restricted	21,626,382	449,442	2,366,544	27,409,124	20,014,154	71,865,646
<b>Total fund balances</b>	<b>21,626,382</b>	<b>449,442</b>	<b>2,366,544</b>	<b>27,409,124</b>	<b>20,014,154</b>	<b>71,865,646</b>
<b>Total liabilities and fund balances</b>	<b>\$ 21,658,354</b>	<b>\$ 483,127</b>	<b>\$ 2,739,721</b>	<b>\$ 27,416,750</b>	<b>\$ 20,014,154</b>	<b>\$ 72,312,106</b>

See accompanying Notes to Basic Financial Statements

**Santa Cruz County Redevelopment Agency**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of Net Assets**  
**For the seven months ended January 31, 2012**

**Total fund balances reported on the governmental funds balance sheet** \$ 71,865,646

Amounts reported for governmental activities in the Statement of Net Assets were different because:

**CAPITAL ASSETS**

Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the governmental funds. 16,309

**LONG TERM ASSETS AND LIABILITIES**

Bond issuance costs from issuing debt were expenditures in the governmental funds. However, they were deferred and subject to capitalization and amortization in the Government-Wide Financial Statements. 3,913,330

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in the governmental funds. (5,879,374)

Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the governmental funds:

Bonds payable, net of unamortized loss of defeasance, premium and discount:

Due in more than one year (243,897,659)

Compensated absences:

Due in more than one year (51,223) (243,948,882)

**Net Assets of Governmental Activities** \$ (174,032,971)

**Santa Cruz County Redevelopment Agency**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the seven months ended January 31, 2012**

	Special Revenue Funds				Debt Service	Total
	Tax Increment Revenue	Admin. Revenue	Capital Project	LMIH Project	Trustee	Governmental Funds
<b>REVENUES:</b>						
Incremental property taxes	\$ 11,850,929	\$ -	\$ -	\$ -	\$ -	\$ 11,850,929
Penalties and interest on delinquent taxes	31,998	-	-	-	-	31,998
Interest income - County pool	14,769	(838)	10,387	12,827	-	37,145
Interest income - investment banks	-	-	-	-	972	972
Interest income - loans	17,101	-	-	463	-	17,564
Rents and concessions	372	-	-	2,805	-	3,177
Loan Repayments - Principal	65,693	-	-	167,978	-	233,671
Repaid Loan Offset	(90,394)	-	-	(162,676)	-	(253,070)
<b>Total revenues</b>	<b>11,890,468</b>	<b>(838)</b>	<b>10,387</b>	<b>21,397</b>	<b>972</b>	<b>11,922,386</b>
<b>EXPENDITURES:</b>						
Current:						
Public ways and facilities:						
Administrative costs	(1)	358,496	-	-	-	358,495
Professional services	-	281,330	44,607	17,253	-	343,190
Accounting services	-	10,175	-	-	-	10,175
Legal services	-	32,834	-	-	-	32,834
Planning Survey and Design services	-	387,724	22,842	-	-	410,566
Real estate purchases	(2,953)	-	-	-	-	(2,953)
Operation of acquired property	-	-	-	21,234	-	21,234
Relocation costs and payments	-	-	-	-	-	-
Project improvement costs	-	-	1,282,192	111,263	-	1,393,455
Disposal costs	-	-	-	-	-	-
Rehabilitation costs and grants	2,177,780	-	-	5,012,396	-	7,190,176
Loan receivable offset	(2,177,780)	-	-	(5,012,396)	-	(7,190,176)
Debt service:						
Principal retirement	-	-	-	-	4,115,000	4,115,000
Interest and fiscal charges	-	-	-	-	7,108,467	7,108,467
<b>Total expenditures</b>	<b>(2,954)</b>	<b>1,070,559</b>	<b>1,349,641</b>	<b>149,750</b>	<b>11,223,467</b>	<b>13,790,463</b>
<b>REVENUES OVER (UNDER)</b>	<b>11,893,422</b>	<b>(1,071,397)</b>	<b>(1,339,254)</b>	<b>(128,353)</b>	<b>(11,222,495)</b>	<b>(1,868,077)</b>
<b>EXPENDITURES</b>						
<b>OTHER FINANCING SOURCES (USES):</b>						
Sale of Fixed Assets	9,599	-	-	-	-	9,599
Gain on conversion of debt	-	-	-	5,024,265	-	5,024,265
Transfers in (Operating within RDA)	1,240	1,521,095	-	-	13,338,264	14,860,599
Transfers in (from Primary Gov - County)	1,886,429	-	-	-	-	1,886,429
Transfers out (Operating within RDA)	(14,859,359)	(1,240)	-	-	-	(14,860,599)
Transfers out (to Primary Gov - County)	-	-	(10,961)	-	-	(10,961)
<b>Total other financing sources (uses)</b>	<b>(12,962,091)</b>	<b>1,519,855</b>	<b>(10,961)</b>	<b>5,024,265</b>	<b>13,338,264</b>	<b>6,909,332</b>
<b>Net change in fund balance</b>	<b>(1,068,669)</b>	<b>448,458</b>	<b>(1,350,215)</b>	<b>4,895,912</b>	<b>2,115,769</b>	<b>5,041,255</b>
<b>FUND BALANCES:</b>						
Beginning of year	22,695,051	984	3,716,759	22,513,212	17,898,385	66,824,391
End of year	\$ 21,626,382	\$ 449,442	\$ 2,366,544	\$ 27,409,124	\$ 20,014,154	\$ 71,865,646

See accompanying Notes to Basic Financial Statements.

# Santa Cruz County Redevelopment Agency

## Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets For the seven months ended January 31, 2012

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<u>\$ 5,041,255</u>
<p>Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets were different because:</p>	
<p><b>CAPITAL ASSETS TRANSACTIONS</b></p>	
<p>Governmental funds reported acquisition of capital assets as part of capital outlay expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets was allocated over their estimated useful lives as depreciation expense:</p>	
- Current year depreciation	(2,785)
<p><b>LONG TERM DEBT AND PAYMENTS</b></p>	
<p>Repayment of debt principal was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets:</p>	
- Principal retirement	4,115,000
<p>Issuance of long-term debt provided current financial resources to governmental funds, but issuing debt increased long-term liabilities in the Government-Wide Statement of Net Assets. Also, governmental funds report the effect of issuance costs, premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:</p>	
- Bond issuance costs	321,924
<p>Some expenses reported in the Governmental-Wide Statement of Activities and Changes in Net Assets do not require the use of current financial resources. Therefore, they are not reported as expenditures in the governmental funds:</p>	
- Change in interest payable	(1,140,396)
- Amortization of bond fees and premium and discount	(141,622)
- Change in long-term compensated absences	<u>250,195</u>
<b>Change in Net Assets of Governmental Activities</b>	<u><u>\$ 8,443,571</u></u>

See accompanying Notes to Basic Financial Statements.

**NOTES TO BASIC FINANCIAL STATEMENTS**

**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements**  
**For the 7 month period ended January 31, 2012**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the County of Santa Cruz Redevelopment Agency (Agency), a component unit of the County of Santa Cruz, California (County), have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applies to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

***A. Reporting Entity***

The County was incorporated in 1850 under the provisions of Article II, Section 3 of the California State Constitution and is a general law county. The Agency was activated by the Board of Supervisors with the adoption of Ordinance No. 3736 on April 1, 1986. The Board of Supervisors established the Live Oak/Soquel Community Improvement Project on May 12, 1987, by Ordinance No. 3836, pursuant to the California Community Redevelopment Law. The Live Oak/Soquel Community Improvement Project consists of approximately 3,760 acres encompassing the urban portions of two of the County's fifteen planning areas, the Live Oak Planning Area and the Soquel Planning Area.

The Agency is governed by the County Board of Supervisors serving in a separate capacity as the governing board of the Agency. As such, the Agency is included as a component unit of the County.

***B. Basis of Accounting and Measurement Focus***

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Agency resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

**Government - Wide Financial Statements**

The Agency's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental Activities for the Agency.

The Government-Wide Financial Statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets and liabilities are included in the accompanying Statement of Net Assets. The Statement of Activities and Changes in Net Assets presents changes in net assets. 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.

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 Assets have been eliminated. The following interfund activities have been eliminated:

- Due to and from other funds
- Transfers in and out



**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***B. Basis of Accounting and Measurement Focus, Continued***

*Governmental Fund Financial Statements*

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance for all major governmental funds. All funds of the Agency are presented as major funds.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except that revenues subject to accrual (generally within 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency are property taxes, certain grant revenues and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Reconciliations of the Governmental Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach of GASB Statement No. 34.

The Agency reports all of its funds as major governmental funds:

*Tax Increment Revenue Fund* – This fund is used for the accumulation of tax increment revenue and the allocation of this revenue for purposes including the payment of principal and interest on bonds, advances or other indebtedness or paying financing or carrying charges and to fund the expenses incurred in administering the Agency. For every redevelopment plan adopted after January 1, 1977, 20% of Tax Increment Revenues received by the Agency is to be set aside in a separate low and moderate income housing fund. In prior years, the Agency elected to set aside twenty percent (20%) of the Tax Increment Revenues received from the Redevelopment Project after deducting payments under the Pass-Through Agreements, in a Low and Moderate Income Housing Fund, commencing with Fiscal Year 1988-89. Beginning with 1993-94, per AB1290, the Agency is required to set aside twenty percent (20%) of the gross Tax Increment Revenues received from the Redevelopment Project after deducting only the General Fund and Schools' 2% Pass-Through, the State ERAF payment, and the County Tax Administrative Fee, set aside in a separate low and moderate income housing fund. Beginning July 1, 2002, per Board Resolution No. 292-2002, the Agency has set aside 25% through Fiscal Year 2009-10. On March 8, the Agency suspended the additional 5% Set Aside to the Low and Moderate Income Housing Fund per Board Resolution No. 85-2011 for the Fiscal Year 2010-11. With the dissolution of the Agency as of January 31, 2012, per Assembly Bill X1 26, the 20% Set Aside requirement no longer applied in fiscal year 2011-12. The Agency has pledged such amounts towards the repayment of the Bonds and any qualifying debt.

**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***B. Basis of Accounting and Measurement Focus, Continued***

*Governmental Fund Financial Statements, Continued*

*Administration Revenue Fund* - This fund is used to account for the costs of administering the Agency.

*Capital Projects Fund* - This fund is a general operating fund of the Agency and is funded by proceeds of bond issues. It is used to account for any lawful purpose in connection with financing the Redevelopment Project, including certain reimbursements for public improvements and other purposes authorized by the Redevelopment Plan, the State law, and the Bond Indenture, except those required to be accounted for in another fund.

*Low/Moderate Income Housing Special Revenue Fund (LMIH)* - This fund is a general operating fund of the Agency, funded by proceeds of bond issues, and is used for the purpose of increasing and improving the community's supply of low and moderate income housing available at affordable housing costs to persons and families of very low, low, or moderate income.

*Debt Service Fund* - This fund accounts for the accumulation of resources for payment of principal, interest and related costs of the Agency's long-term debt.

***C. Cash, Cash Equivalents and Investments***

The Agency maintains a cash balance in the County investment pool to meet current operating requirements. Cash in excess of current requirements is invested by the Agency in various interest-bearing securities and disclosed as part of the Agency's investments.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

***D. Restricted Cash and Investments for Debt Service Fund***

Certain restricted cash and investments are held by fiscal agents for the redemption of bonded debt.

**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*E. Interfund Transactions*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds."

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursed fund. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as transfers.

*F. Capital Assets*

**Government-Wide Financial Statements**

The Agency's assets are capitalized at historical cost or estimated historical cost. The Agency's policy has set the capitalization threshold for reporting capital assets at \$5,000 (for equipment and vehicles) and \$25,000 (for buildings and structures). Gifts or contributions of capital assets are recorded at fair market value when received.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and structures	10-50 years
Equipment and vehicles	3-15 years

The Agency had no infrastructure assets at January 31, 2012.

**Governmental Fund Financial Statements**

The Governmental Fund Financial Statements do not present capital assets. As such, capital assets are shown as a reconciling item in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

*G. Long-Term Liabilities*

**Government-Wide Financial Statements**

Long-term debt and other financed obligations are reported as liabilities in the Government-Wide Financial Statements. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges.

**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Governmental Fund Financial Statements**

The Governmental Fund Financial Statements do not present long-term debt. As such, long-term debt is shown as a reconciling item in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

Governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

***H. Net Assets and Fund Balances***

In the Government-Wide Financial Statements, net assets are classified in the following categories:

*Invested in Capital Assets, Net of Related Debt* - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the capital assets.

*Restricted Net Assets* - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

*Unrestricted Net Assets* - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Agency's policy is to apply restricted net assets first.

In the Governmental Fund Financial Statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the Agency is bound to honor constraints on how specific amounts can be spent.

*Nonspendable fund balance* - amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

*Restricted fund balance* - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed fund balance* - amounts that can only be used for specific purposes determined by formal action of the Agency's highest level of decision-making authority (the Board of Supervisors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***H. Net Assets and Fund Balances, Continued***

*Assigned fund balance* - amounts that are constrained by the Agency's intent to be used for specific purposes. The intent can be established at either the highest level of decision making, or by a body or an official designated for that purpose.

*Unassigned fund balance* - the residual classification for the Agency's Funds that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The Agency Board of Directors establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution.

The Agency considers restricted fund balances to be spent first when both restricted and unrestricted resources are available for use. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the Agency considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts. The Agency had only restricted fund balances at January 31, 2012.

***I. Property Taxes***

All property taxes are levied, collected, and allocated by the County to the various taxing entities including the Agency. All property taxes are determined annually on July 1 and attached as an enforceable lien on January 1. Secured property taxes are due in two installments on November 1 and February 1 and become delinquent, if unpaid, on December 10 and April 10, respectively. Property tax revenues include only property taxes resulting from increased assessed values within the boundaries of the Agency and are recognized in the fiscal year for which the taxes have been levied and apportioned to the Agency's accounts by the County.

Incremental property tax revenues represent excess taxes levied in the redevelopment project area over that amount levied in the base year (the inception year of the redevelopment project area). The Agency dissolved as of January 31, 2012, so it only received incremental property tax revenues for the first installment.

The County bills and collects property taxes and remits them to the Agency. The Agency participates in the County "Teeter Plan" method of property tax distribution. Under the Teeter Plan, the County remits property taxes to the Agency based upon assessments, not collections. Property tax revenue is recognized when it is available and measurable.

***J. Use of Estimates***

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*K. Low and Moderate Income Housing*

The California Health and Safety Code requires Agency project areas to deposit 20% of allocated incremental property tax revenues (or 20% of net bond proceeds plus 20% of tax incremental revenues in excess of debt service payments on the bond) into a Low and Moderate Income Housing Fund. This money is restricted for the purpose of increasing or improving the community's supply of low and moderate income housing. The Agency accounts for these revenues in a special revenue fund.

**2. CASH AND INVESTMENTS**

*A. Summary of Deposit and Investment Balances*

Cash and investments consisted of the following at January 31, 2012:

	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Pooled cash and investments held by the County of Santa Cruz	\$ -	\$ 8,810,310	\$ 8,810,310
Cash with fiscal agent	<u>20,014,154</u>	<u>-</u>	<u>20,014,154</u>
Total	<u>\$ 20,014,154</u>	<u>\$ 8,810,310</u>	<u>\$ 28,824,464</u>

*B. Cash Held with the Santa Cruz County Treasury*

The Agency pools cash from all sources and all funds except cash and investments with fiscal agents with the County Treasurer so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time. The Santa Cruz County Treasury Oversight Committee oversees the Treasurer's investments and policies.

The California Government Code requires California banks and savings and loan associations to secure the County's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the County's name.

The market value of pledged securities must equal at least 110% of the County's cash deposits. California law also allows institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the County's total cash deposits. The County may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The County, however, has not waived the collateralization requirements.

**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

**2. CASH AND INVESTMENTS, Continued**

***C. Investments***

The table below identifies the investment types that are authorized for the County by the California Government Code or the County's investment policy, where more restrictive. The table also identifies certain provisions of the County's investment policy that address interest rate risk, credit risk, and concentration risk.

Authorized Investment Types	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local agency bonds	5 years	100%	None
U.S. Treasury obligations	5 years	100%	None
U.S. Government Agency obligations	None	25%	None
State of California obligations	5 years	100%	None
Banker's acceptances	180 days	40%	30%
Commercial paper	270 days	40%	10%
Negotiable certificates of deposit	5 years	30%	None
Non-negotiable certificates of deposit	180 days	10%	10%
Repurchase agreements	1 year	100%	None
Medium-term notes	5 years	30%	None
Mutual funds/money market mutual funds	N/A	10%	10%
Local Agency Investment Fund (LAIF)	N/A	\$50 million	None
Joint Powers Authority investment funds	None	25%	None

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at cost, as the fair market value adjustment at the year end was immaterial.

Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the County's investment policy.

***D. Interest Rate Risk***

The County manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five years or less in accordance with its investment policy.

**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

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**2. CASH AND INVESTMENTS, Continued**

*E. Concentration of Credit Risk*

At January 31, 2012, in accordance with State law and the County's Investment Policy, the County did not have 5% or more of its net investment in commercial paper, corporate bonds or medium term notes of a single organization, nor did it have 10% or more of its net investment in any one money market mutual fund. Investments in obligations of the U.S. government, U.S. government agencies, or government-sponsored enterprises are exempt from these limitations.

*F. Custodial Credit Risk*

For investments and deposits held with fiscal agents, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or deposits that are in the possession of an outside party. At year end, the County's investment pool and cash with fiscal agents had no securities exposed to custodial credit risk.

*G. Local Agency Investment Fund*

The County is a participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The County's investments with LAIF at January 31, 2012, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities:

*Structured Notes:* 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 have embedded forwards or options.

*Asset-Backed Securities:* generally mortgage-backed securities that 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 (for example, Collateralized Mortgage Obligations) or credit card receivables.

As of January 31, 2012, the County invested in LAIF, which had invested 0.51% of the pool investment funds in Structured Notes and Asset-Backed Securities. As of January 31, 2012, the LAIF fair value factor of 1.001219643 was used to calculate the fair values of the investments in LAIF.

LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute.

*H. Cash Held with Fiscal Agent*

Cash and investments with fiscal agents in the amount of \$20,014,154 included certain amounts which are held by fiscal agents to be used for payment of long term debt. These funds have been invested as permitted by applicable County ordinance and resolutions.



**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

**3. LAND HELD FOR RESALE**

Due to the current economic downturn, there is an increased threat of foreclosure on housing units with affordability restrictions, which may result in the loss of the affordability restriction. The Agency has invested considerable resources to create housing units with affordability restrictions. It has implemented a program to retain the affordability restrictions by purchasing threatened units and re-selling them to income eligible buyers. At January 31, 2012, the Agency had assets of \$235,029 in Land Held for Resale.

**4. INTERFUND TRANSACTIONS**

*A. Due To and Due From Other Funds*

At January 31, 2012, the Agency had the following due to/from other funds:

	Due from Other funds		
	Tax Increment Revenue	Administrative Revenue	Total
Due to other funds			
Tax Increment Revenue	-	31,829	31,829
	\$ -	\$ 31,829	\$ 31,829

The due to and due from transactions within the Agency were made to allow for pass-through funds, project costs, and administrative costs.

*B. Transfers*

At January 31, 2012, the Agency had the following transfers in/out:

Transfer Out	Transfer In			
	Debt Service	Tax Increment Revenue	Administrative Revenue	Total
Tax Increment Revenue	\$ 13,338,264	\$ -	\$ 1,521,095	\$ 14,859,359
Administrative Revenue	-	1,240	-	1,240
	\$ 13,338,264	\$ 1,240	\$ 1,521,095	\$ 14,860,599

Transfers within the Agency were used to move funds for operating expenses and debt service payments.

**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

**4. INTERFUND TRANSACTIONS, Continued**

At January 31, 2012, the Agency had the following transfers in from/ out to the Primary Government (County):

Transfer Out	Transfer In		Total
	County of Santa Cruz	Tax Increment Revenue	
Capital Projects	\$ 10,961	\$ -	\$ 10,961
County of Santa Cruz		1,886,429	1,886,429
	<u>\$ 10,961</u>	<u>\$ 1,886,429</u>	<u>\$ 1,897,390</u>

Some previous transfers to the Primary Government (County), used to move funds for services per the Amended and Restated Cooperation Agreement, adopted February 15, 2011, were reversed in this period.

**5. LOANS RECEIVABLE**

As of January 31, 2012, loans receivable consisted of the following:

RDA Housing Loan	Special Revenue Funds		Total Governmental Funds
	Tax Increment Revenue	Low and Moderate Income Housing Project	
Aptos Cottages (Miller)	\$ -	\$ 3,150,000	\$ 3,150,000
Felton Faire Predevelopment	-	1,667,863	1,667,863
First time homebuyer	5,728,796	340,192	6,068,988
Golden Torch	-	1,296,239	1,296,239
Housing for independent people	-	40,940	40,940
Marmo's	1,500,000	142,323	1,642,323
McGregor	891,748	-	891,748
McGregor II	-	2,943,763	2,943,763
McIntosh Coach Purchases	-	104,656	104,656
McIntosh Coach Purchase #12	98,000	-	98,000
Mercy - McIntosh (Coach Loan)	-	348,666	348,666
Mercy - Rehab	-	95,237	95,237
Minto	2,177,780	8,013,963	10,191,743
Mobile Home Change Out Program	5,464,980	-	5,464,980
Mobile Home Rehab	352,772	23,069	375,841
Pacific Family - SCH	-	2,973,314	2,973,314
Pacific Family Coach Acquisitions	-	261,940	261,940
Pleasant Acres Permanent Financing	-	3,512,452	3,512,452
Pleasant Acres Coach Acquisitions	-	124,875	124,875
San Andreas	-	700,000	700,000
Sorrento Oaks	-	10,000	10,000
Vista Verde Family Housing	-	1,165,000	1,165,000
St. Stephens Predevelopment	-	92,216	92,216
<b>Total assets</b>	<u>\$ 16,214,076</u>	<u>\$ 27,006,708</u>	<u>\$ 43,220,784</u>

**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

**5. LOANS RECEIVABLE, Continued**

	Balance June 30, 2011	Increases	Decreases	Balance January 31, 2012
<u>Aptos Cottages (Miller)</u>				
Original amount: \$3,150,000				
Deferred until permanent financing				
Interest : 0.00%				
Principal	\$ 3,150,000	\$ -	\$ -	\$ 3,150,000
<u>Felton Housing Site</u>				
Original amount: \$1,667,863				
Deferred until 6/1/10				
Interest : 3.00%				
Principal	1,667,863	-	-	1,667,863
<u>First Time Homebuyers</u>				
Original amount: \$5,378,523				
Aggregate balance is comprised of multiple loans to individual homebuyers				
Interest : 0.00% - 5.00%				
Principal	6,090,206	-	(21,218)	6,068,988

**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

**5. LOANS RECEIVABLE, Continued**

	Balance June 30, 2011	Increases	Decreases	Balance January 31, 2012
<u>Golden Torch (Parkhurst Terrace)</u>				
Original amount: \$2,316,427				
Aggregate balance is comprised of multiple loans to Mid-Peninsula Housing, a non-profit affordable housing developer, deferred until 2061				
Interest : 0.00%				
Principal	\$ 1,296,239	\$ -	\$ -	\$ 1,296,239
<u>Housing for Independent People</u>				
Original amount: \$40,940				
Deferred until 11/01/35				
Interest : 0.00%				
Principal	40,940	-	-	40,940
<u>Marmo's</u>				
Original amount: \$1,500,000				
Deferred until 11/27/57				
Interest : 0.00%				
Principal	1,642,323	-	-	1,642,323
<u>McGregor</u>				
Original amount: \$948,250				
Deferred until 1/25/60				
Interest : 3.00%				
Principal	891,748	-	-	891,748
<u>McGregor II</u>				
Original amount: \$2,943,763				
Aggregate balance is comprised of multiple loans to South County Housing, a non-profit affordable housing developer, with varying terms and payment schedules				
Interest : 0.00% - 4.00%				
Principal	2,943,281	482	-	2,943,763
<u>McIntosh Coach Replacement Program</u>				
Original amount: \$129,727				
Aggregate balance is comprised of multiple loans to Mercy Charities Housing, a non-profit affordable housing developer, with varying terms and payment schedules				
Interest : 3.00%				
Principal	205,765	-	(3,109)	202,656

**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

**5. LOANS RECEIVABLE, Continued**

	Balance June 30, 2011	Increases	Decreases	Balance January 31, 2012
<u>Mercy McIntosh</u>				
Original amount: \$290,000				
\$4,500 minimum annual payment				
Interest : 3.00% compounding annually				
Principal	\$ 348,666	\$ -	\$ -	\$ 348,666
<u>Mercy McIntosh Rehab</u>				
Original amount: \$70,000				
Annual payment contingent upon positive net cash flow				
Interest : 3.00% compounding annually				
Principal	95,237	-	-	95,237
<u>Mobile Home Change Out</u>				
Original amount: \$5,517,980				
Aggregate balance is comprised of multiple loans to individuals with Shared Application, deferred until sale/transfer.				
Interest : 0.00%				
Principal	5,517,980	-	(53,000)	5,464,980
<u>Mobile Home Rehab</u>				
Original amount: \$416,702				
Aggregate balance is comprised of multiple loans to individuals with varying terms and payment schedules				
Interest : 3.00%				
Principal	392,017	-	(16,176)	375,841
<u>Pacific Family - SCH</u>				
Original amount: \$1,242,565				
Original amount to be rolled into permanent financing				
Interest : 0.00%				
Principal	1,043,314	1,930,000	-	2,973,314
<u>Pacific Family Coach Acquisitions</u>				
Original amount: \$456,154				
Deferred until project completion				
Interest : 3.00%				
Principal	261,940	-	-	261,940

**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

**5. LOANS RECEIVABLE, Continued**

	Balance June 30, 2011	Increases	Decreases	Balance January 31, 2012
<u>Pleasant Acres</u>				
Original amount: \$3,879,582				
Aggregate balance is comprised of multiple loans with varying terms and payment schedules				
Interest : 0.00% - 1.00%				
Principal	\$ 3,672,019	\$ -	\$ (159,567)	\$ 3,512,452
<u>Pleasant Acres Coach Acquisition</u>				
Original amount: \$184,650				
Aggregate balance is comprised of multiple loans with varying terms and payment schedules				
Interest : 3.00%				
Principal	124,875	-	-	124,875
<u>San Andreas</u>				
Original amount: \$700,000				
Balloon payment due 1/06/55				
Interest : 3.00%				
Principal	700,000	-	-	700,000
<u>Sorrento Oaks</u>				
Original amount: \$10,000				
Deferred until sale or transfer				
Interest : 3.00%				
Principal	10,000	-	-	10,000
<u>Vista Verde</u>				
Original amount: \$1,165,000				
Aggregate balance is comprised of multiple loans to Vista Verde Housing Associates, a non-profit affordable housing developer. Terms and payment schedules vary.				
Interest : 3.00% - 4.00%				
Principal	1,165,000	-	-	1,165,000
<u>Minto</u>				
Original amount: \$5,484,948				
Deferred until 55 years after 50% of units are leased.				
Interest : 3.00%				
Principal	-	13,291,743	(3,100,000)	10,191,743
<u>St. Stephens</u>				
Original amount: \$423,500				
Original amount to be rolled into permanent financing				
Interest : 0.00%				
Principal	-	92,216	-	92,216
<b>Total</b>	<b>\$ 31,259,413</b>	<b>\$ 15,314,441</b>	<b>\$ (3,353,070)</b>	<b>\$ 43,220,784</b>

**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

**6. CAPITAL ASSETS**

Capital assets of the Agency at January 31, 2012 are presented in the table below.

	Balance June 30, 2011	Additions	Deletions	Balance January 31, 2012
Non-depreciable assets:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	-	-	-
Total non-depreciable assets:	-	-	-	-
Depreciable assets:				
Buildings and improvement	35,204	-	-	35,204
Machinery and equipment	76,941	-	-	76,941
Total depreciable assets:	112,145	-	-	112,145
Less accumulated depreciation for:				
Buildings and improvement	(24,640)	(685)	-	(25,325)
Machinery and equipment	(68,411)	(2,100)	-	(70,511)
Total accumulated depreciation:	(93,051)	(2,785)	-	(95,836)
Total depreciable assets, net:	19,094	(2,785)	-	16,309
<b>Total Capital Assets</b>	<b>\$ 19,094</b>	<b>\$ (2,785)</b>	<b>\$ -</b>	<b>\$ 16,309</b>

Depreciation expense was charged to functions/programs of the governmental activities as follows:

**Governmental activities:**

Public ways and facilities

Total depreciation expense - governmental activities \$ 2,785

**7. RELATED PARTY TRANSACTIONS**

County personnel provide management, accounting, and legal services to the Agency. Total charges for such services in the period ended January 31, 2012 were approximately \$681,569 and are included in total expenses.

**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

**8. LONG-TERM DEBT**

Activity in long-term debt at January 31, 2012, was as follows:

Description	Original Issue Amount	Beginning Balance June 30, 2011	Additions	Retirements	Ending Balance January 31, 2012
<b>Tax Allocation Bonds</b>					
2000 Subordinate Subordinate 2000 Series A	17,855,000	11,875,000	-	(755,000)	11,120,000
2003 Refunding	48,435,000	35,800,000	-	(2,020,000)	33,780,000
Unamortized bond discount	(194,382)	(123,108)	-	5,670	(117,438)
2005 Series A	47,860,000	47,860,000	-	-	47,860,000
Unamortized bond premium	468,371	390,310	-	(9,108)	381,202
2005 Taxable Series B	21,000,000	19,690,000	-	(250,000)	19,440,000
Unamortized bond discount	(45,159)	(37,633)	-	878	(36,755)
2007 Refunding	10,755,000	10,365,000	-	(85,000)	10,280,000
2007 Refunding Series A	7,370,000	6,190,000	-	(405,000)	5,785,000
Unamortized bond premium	224,669	170,051	-	(8,737)	161,314
2009 Series A	55,970,000	55,970,000	-	(390,000)	55,200,000
Unamortized bond discount	(180,815)	(164,889)	-	3,907	(160,982)
2010 Taxable Series	18,500,000	18,500,000	-	-	18,500,000
Unamortized bond discount	(462,750)	(462,750)	-	10,797	(451,953)
2011 Series A	11,315,000	11,315,000	-	-	11,315,000
Unamortized bond discount	(247,945)	(247,945)	-	9,040	(238,905)
2011 Series B	5,595,000	5,595,000	-	-	5,595,000
Unamortized bond discount	(203,574)	(203,574)	-	4,750	(198,824)
<b>Total Tax Allocation Bonds</b>		<b>247,995,462</b>	<b>-</b>	<b>(4,097,803)</b>	<b>243,897,659</b>
Compensated absences		301,418	-	(250,195)	51,223
<b>Total Governmental Activities</b>		<b>\$ 248,296,880</b>	<b>\$ -</b>	<b>\$ (4,347,998)</b>	<b>\$ 243,948,882</b>

Due to the dissolution of the Agency as of January 31, 2012, \$243,948,882 in long-term debt was assumed by the Santa Cruz County Redevelopment Successor Agency. See the Basic Financial Statements for the period ended June 30, 2012, for the Santa Cruz County Redevelopment Successor Agency, for information on \$243,962,239 in long-term debt (\$4,969,184 due within one year and \$238,993,055 due in more than one year) as of June 30, 2012.

2000 Subordinate Tax Allocation Refunding Bonds

In August, 2000, the Agency issued the 2000 Subordinate Tax Allocation Refunding Bonds (Live Oak/Soquel Community Improvement Project Area) in the original amount of \$17,855,000. Interest from 4.25% to 5.25% is paid semi-annually and principal payments are made at September 1<sup>st</sup>. Payments are secured by the pledge of tax revenues. As of January 31, 2012, the total principal balance was \$11,120,000. Principal and interest paid for the current period were \$1,052,720.

2000 Series A Subordinate Tax Allocation Bonds

In December, 2000, the Agency issued Subordinate Tax Allocation Bonds, 2000 Series A (Live Oak/Soquel Community Improvement Project Area) in the original amount of \$27,415,000. Interest from 5.0% to 5.375% is paid semi-annually and principal payments are made at September 1<sup>st</sup>. Payments are secured by the pledge of tax revenues. As of January 31, 2012, the total principal balance was \$25,685,000. Principal and interest paid for the current period were \$895,306.



**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

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**8. LONG-TERM DEBT, Continued**

2003 Tax Allocation Refunding Bonds

On August 28, 2003, the Agency issued 2003 Tax Allocation Refunding Bonds (Live Oak/Soquel Community Improvement Project Area) in the original amount of \$48,435,000. Interest from 2.00% to 5.00% is paid semi-annually and principal payments are made at September 1<sup>st</sup>. Payments are secured by the pledge of tax revenues. As of January 31, 2012, the total principal balance was \$33,780,000 and the unamortized bond discount was \$117,438. Principal and interest paid for the current period were \$2,822,518.

2005 Series A Subordinate Tax Allocation Bonds

On November 17, 2005, the Agency issued Subordinate Tax Allocation Bonds, 2005 Series A (Live Oak/Soquel Community Improvement Project Area) in the original amount of \$47,860,000. Interest from 4.5% to 5.0% is paid semi-annually and principal payments are made at September 1<sup>st</sup>. Payments are secured by the pledge of tax revenues. As of January 31, 2012, the total principal balance was \$47,860,000 and the unamortized bond premium was \$381,202. Principal and interest paid for the current period were \$1,173,328.

2005 Series B Subordinate Tax Allocation Bonds

On November 17, 2005, the Agency issued Subordinate Tax Allocation Bonds, 2005 Taxable Series B (Live Oak/Soquel Community Improvement Project Area) in the original amount of \$21,000,000. Interest from 5.0% to 5.650% is paid semi-annually and principal payments are made at September 1<sup>st</sup>. Payments are secured by the pledge of tax revenues. As of January 31, 2012, the total principal balance was \$19,440,000 and the unamortized bond discount was \$36,755. Principal and interest paid for the current period were \$799,923.

2007 Taxable Subordinate Tax Allocation Refunding Bonds

On May 8, 2007, the Agency issued Subordinate Tax Allocation Refunding Bonds, 2007 Taxable (Live Oak/Soquel Community Improvement Project Area) in the original amount of \$10,755,000. Interest from 5.208% to 5.495% is paid semi-annually and principal payments are made at September 1<sup>st</sup>. Payments are secured by the pledge of tax revenues. As of January 31, 2012, the total principal balance was \$10,280,000. Principal and interest paid for the current period were \$368,788.

2007 Series A Tax Allocation Refunding Bonds

On November 7, 2007, the Agency issued Tax Allocation Refunding Bonds, 2007 Series A (Live Oak/Soquel Community Improvement Project Area) in the original amount of \$7,370,000. Interest from 4.00% to 5.25% is paid semi-annually and principal payments are made at September 1<sup>st</sup>. Payments are secured by the pledge of tax revenues. As of January 31, 2012, the total principal balance was \$5,785,000 and the unamortized bond premium was \$161,314. Principal and interest paid for the current period were \$535,144.

**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

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**8. LONG-TERM DEBT, Continued**

2009 Series A Tax Allocation Bonds

On February 12, 2009, the Agency issued Tax Allocation Bonds, 2009 Series A (Live Oak/Soquel Community Improvement Project Area) in the original amount of \$55,970,000. Interest from 3.25% to 7.00% is paid semi-annually and principal payments are made at September 1<sup>st</sup>. Payments are secured by the pledge of tax revenues. As of January 31, 2012, the total principal balance was \$55,200,000 and the unamortized bond discount was \$160,982. Principal and interest paid for the current period were \$2,266,004.

2010 Taxable Housing Tax Allocation Bonds

On July 22, 2010, the Agency issued Tax Allocation Bonds, 2010 Taxable Housing Tax Allocation Bonds (Live Oak/Soquel Community Improvement Project Area) in the original amount of \$18,500,000. Interest from 2.95% to 7.40% is paid semi-annually and principal payments are made at September 1<sup>st</sup>. Payments are secured by the pledge of tax revenues. As of January 31, 2012, the total principal balance was \$18,500,000 and the unamortized bond discount was \$451,953 . Principal and interest paid for the current period were \$659,203.

2011 Series A Taxable Tax Allocation Bonds

On March 9, 2011, the Agency issued Tax Allocation Bonds, 2011 Series A Taxable Tax Allocation Bonds in the original amount of \$11,315,000. Interest from 3.10% to 9.00% is paid semi-annually and principal payments are made at September 1<sup>st</sup>. Payments are secured by the pledge of tax revenues. As of January 31, 2012, the total principal balance was \$11,315,000 and the unamortized bond discount was \$238,905. Principal and interest paid for the current period were \$420,358.

2011 Series B Taxable Housing Tax Allocation Bonds

On March 9, 2011, the Agency issued Tax Allocation Bonds, 2011 Series B Taxable Housing Tax Allocation Bonds in the original amount of \$5,595,000. Interest from 3.10% to 9.25% is paid semi-annually and principal payments are made at September 1<sup>st</sup>. Payments are secured by the pledge of tax revenues. As of January 31, 2012, the total principal balance was \$5,595,000 and the unamortized bond discount was \$198,824. Principal and interest paid for the current period were \$230,175.

**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

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**8. LONG-TERM DEBT, Continued**

*Pledges of future revenues*

The Agency has pledged to the repayment of the 2000 Subordinate Refunding Bonds, the 2000 Series A Subordinate Bonds, the 2003 Refunding Bonds, the 2005 Series A Bonds, the 2005 Series B Subordinate Bonds, the 2007 Taxable Subordinate Refunding Bonds, the 2007 Series A Refunding Bonds, the 2009 Series A Bonds, the 2010 Taxable Housing Bonds, the 2011 Series A Taxable Bonds, and the 2011 Series B Taxable Housing Bonds (the "Bonds") Tax Revenues of the Agency's Live Oak/Soquel Community Improvement Project Area pursuant to the various applicable Indentures of Trust, through the final maturity of the Bonds on March 1, 2037, or early retirement of the Bonds, whichever occurs first. Tax Revenues consist of tax increment revenues allocated to the Agency with respect to the Live Oak/Soquel Community Improvement Project Area pursuant to Section 33670 of the Redevelopment Law excluding (i) that portion of such tax increment revenues required to be paid under the Tax-Sharing Agreements, unless the payment of such amounts has been subordinated to the payment of debt service on the bonds; (ii) the School District Election amount; and (iii) amounts required to be paid as statutory tax sharing. Annual principal and interest payments on the bonds are expected to require 92 percent of tax revenues. The total principal and interest remaining to be paid on the Bonds is \$476,091,677.

At January 31, 2012, the total tax revenues for the current period were \$11,850,929, and the total debt service payment was \$11,223,467. During the 7 month period ended January 31, 2012, bond debt service payments required 94.71% of the total tax increment revenues. The ratio of tax revenues to the bonds debt service payments due during the 7 month period ended January 31, 2012, was 1.06 (106%). The Santa Cruz County Redevelopment Successor Agency assumed all assets and liabilities of the Agency as of February 1, 2012.

*Compensated Absences*

Compensated absences are not accrued in governmental funds. At January 31, 2012, Agency liabilities included approximately \$30,622 vacation pay, \$7,791 sick pay and \$9,170 in other employee leave, for a total of \$47,583. These amounts do not exceed normal year's accumulation. The compensated absences total has been increased by 7.65% for an adjusted total of \$51,223. Adequate amounts are appropriated annually to pay these obligations out of available financial resources.

GASB Statement No. 16, which became effective for the 1993-94 fiscal year, requires the Agency to accrue the current portion of the liability. The Agency's current portion of the liability is \$0. The Santa Cruz County Redevelopment Successor Agency assumed all assets and liabilities of the Agency as of February 1, 2012.

**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

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**9. RISK MANAGEMENT**

The Agency is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disasters; medical malpractice; unemployment coverage and dental benefits to employees. The Agency is covered under the County's insurance policies. The County is self-insured for its general and auto liability, workers' compensation, medical malpractice, and employees' dental coverage. The County has chosen to establish risk-financing internal service funds where funds are set aside for claim settlements associated with the above risk of loss up to certain limits. Excess coverage is provided by the California State Association of Counties (CSAC) Excess Insurance Authority (Insurance Authority), a joint powers authority whose purpose is to develop and fund programs of excess insurance for its member counties. The Insurance Authority is governed by a Board of Directors consisting of representatives of the member counties. Self-insurance limits per occurrence and Insurance Authority limits per year are presented in the County's financial statement. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years for the Agency.

County-wide information concerning risks, insurance policy limits, deductible and designation for the period ended January 31, 2012, may be found in the notes of the County's basic financial statements as of June 30, 2012.

**10. ARBITRAGE REBATE PAYABLE**

Section 148 of the Internal Revenue Code requires issuers of most types of tax-exempt bonds to rebate investment earnings in excess of bond yield to the United States Internal Revenue Service in installment payments made at least once every five years, with the final installment made when the last bond in the issue is redeemed.

The 2000 Subordinate Tax Allocation Refunding Bonds are subject to this requirement. The most recent Interim Arbitrage Rebate Analysis was completed September 20, 2010. There was no rebate due to the government.

The 2000 Series A Subordinate Tax Allocation Bonds are subject to this requirement. The most recent Interim Arbitrage Rebate Analysis was completed September 27, 2010. There was no rebate due to the government.

The 2005 Series A Subordinate Tax Allocation Bonds are subject to this requirement. The most recent Interim Arbitrage Rebate Analysis was completed November 27, 2010. There was no rebate due to the government.

Future computations of the rebate requirement for the tax allocation bonds and new bond issues will be calculated by a consulting firm as the Agency management considers appropriate. Agency management, as of January 31, 2012, believes there are no arbitrage rebate liabilities.

**11. COMMITMENTS AND CONTINGENCIES**

***A. Lawsuits***

The Agency is presently involved in certain matters of litigation that have arisen in the normal course of conducting Agency business. Agency management believes, based upon consultation with the Agency Attorney, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the Agency. Additionally, Agency management believes that the Agency's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize.

**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

**11. COMMITMENTS AND CONTINGENCIES, Continued**

**B. Commitments**

The following is a list of commitments at January 31, 2012:

LION Program	\$ 55,090
The Farm Park	40,901
East Cliff Beach Improvements	2,552,530
Twin Lakes Beach Improvements	24,361
East Cliff Stabilization Project	55,406
Live Oak Resource Center	22,026
St. Stephens Affordable Housing	331,284
Gemma Program Housing	19,875
<b>Total</b>	<u><u>\$ 3,101,473</u></u>

As of January 31, 2012, in the opinion of Agency management, there were no additional outstanding matters that would have a significant effect on the financial position of the funds of the Agency. The Santa Cruz County Redevelopment Successor Agency assumed all assets and liabilities of the Agency as of February 1, 2012.

**12. RESTRICTED NET ASSETS**

Restricted net assets are net assets whose use is subject to constraints that are either (1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation. At January 31, 2012, the Agency had \$47,534,733 restricted for low income housing, which is restricted by enabling legislation.

**13. EXCESS OF EXPENDITURE OVER APPROPRIATIONS**

The following funds had expenditures that exceeded appropriations:

<u>Account with excess expenditure</u>	<u>Excess Amount</u>
Capital Projects Fund:	
Professional Services	\$ 44,607
Total	<u><u>\$ 44,607</u></u>
LMIH Projects Fund:	
Operation of Acquired Property	20,125
Total	<u><u>\$ 20,125</u></u>

**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

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**13. EXCESS OF EXPENDITURE OVER APPROPRIATIONS, Continued**

Expenditures in excess of appropriations are explained as follows:

*Capital Project Fund* - These overages are due to certain expenditures being accounted for in expenditure categories other than those anticipated during the budgeting process and are offset by under expenditures in other categories.

*LMIH Project fund* - These overages are due to certain expenditures being accounted for in expenditure categories other than those anticipated during the budgeting process and are offset by under expenditures in other categories.

**14. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES**

On June 29, 2011, the Governor of the State of California signed Assembly Bill X1 26 as part of the State's budget package. The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bill X1 26 on the grounds that it violates the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of most of Assembly Bill X1 26. On December 29, 2011, the California Supreme Court issued a ruling upholding Assembly Bill X1 26, with provision to delay certain implementation dates in Assembly Bill X1 26 by four months. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency.

Per Assembly Bill X1 26, the Agency dissolved as of January 31, 2012. On January 10, 2012, per Resolution No. 5-2012, the County of Santa Cruz elected to assume the duties of the Santa Cruz County Redevelopment Successor Agency, as well as the duties of the Santa Cruz County Redevelopment Agency housing successor. The Santa Cruz County Redevelopment Successor Agency assumed all assets and liabilities of the Agency as of February 1, 2012. Per Assembly Bill X1 26, all housing assets, except cash balances, then transferred from the Successor Agency to the County of Santa Cruz as Contributions to other agencies in the amount of \$45,701,406 as of February 1, 2012. It is necessary to look at the Santa Cruz County Redevelopment Successor Agency Basic Financial Statements for the five months ended June 30, 2012, in conjunction with this report to have a full picture of the whole 2011-12 fiscal year. Management believes that the Successor Agency will have sufficient funds to pay its obligations as they become due during the remainder of the fiscal year ending June 30, 2012.

Assets and liabilities transferred from the Santa Cruz County Redevelopment Agency to the Santa Cruz County Redevelopment Successor Agency as of January 31, 2012 are presented in the table below. They result in an extraordinary loss in the amount of \$174,032,971 to the Santa Cruz County Redevelopment Successor Agency because of its assumption of the Santa Cruz County Redevelopment Agency's long term debt.

**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

**14. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES,**  
**Continued**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current Assets:	
Cash and investments	\$ 8,810,310
Restricted cash with fiscal agent	3,960,000
<b>Total current assets</b>	<u>12,770,310</u>
Noncurrent Assets:	
Restricted cash with fiscal agent	16,054,154
Loans receivable - housing	43,220,784
Land held for resale	235,029
Deferred bond issuance costs	3,913,330
Capital assets:	
Depreciable, net	16,309
<b>Total capital assets</b>	<u>16,309</u>
<b>Total noncurrent assets</b>	<u>63,439,606</u>
<b>Total assets</b>	<u>76,209,916</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable - claims	414,631
Interest payable	5,879,374
<b>Total current liabilities</b>	<u>6,294,005</u>
Long-Term Liabilities:	
Compensated absences - due in more than one year	51,223
Long-term debt - due in more than one year	243,897,659
<b>Total long-term liabilities</b>	<u>243,948,882</u>
<b>Total liabilities</b>	<u>250,242,887</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	16,309
Restricted for:	
Capital projects	2,366,544
Low and moderate income housing projects	47,534,733
Debt service	20,014,154
Unrestricted	(243,964,711)
<b>Total net assets (deficit)</b>	<u>\$ (174,032,971)</u>

**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

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**14. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES,**  
**Continued**

The Santa Cruz County Redevelopment Agency, as a component unit of the Santa Cruz County, is a governmental fund and thus is presented with the modified accrual basis of accounting, which includes governmental fund financial statements. The Santa Cruz County Redevelopment Successor Agency, as a private purpose trust fund, is a fiduciary fund and thus is presented with the accrual basis of accounting, which does not include governmental fund financial statements.

Assembly Bill X1 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26.

The Agency did transfer assets to the County of Santa Cruz after January 1, 2011, pursuant to various cooperation agreements with the County of Santa Cruz. In the event that the State Controller of the State of California orders any of the transferred assets returned to the Santa Cruz County Redevelopment Successor Agency, the County might be impacted.



**Santa Cruz County Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the 7 month period ended January 31, 2012**

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**15. Supplemental Educational Revenue Augmentation Fund**

On July 28, 2009, the State adopted AB 26 4x, which includes provisions that require the Agency to pay from the Tax Increment Revenue Fund to a Supplemental Educational Revenue Augmentation Fund \$2,245,594 in 2010/11. The California Redevelopment Association has taken legal action to challenge the provisions as unconstitutional. On May 4, 2010, Judge Lloyd G. Connelly denied the petitions of the California Redevelopment Association. The California Redevelopment Association has appealed. At the time of this writing, the outcome of the appeal is uncertain.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**Santa Cruz County Redevelopment Agency  
Required Supplementary Information, Continued  
For the 7 month period ended January 31, 2012**

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**1. BUDGETARY INFORMATION**

In accordance with Section 33606 of the California Community Development Law, the Agency prepares and adopts a budget for each fiscal year.

The budget is a compilation of operating budgets from: individual functional units within the Tax Increment Revenue Fund, Administration Fund, Capital Project Fund, and Low and Moderate Income Housing Fund. Budgets are adopted for all funds except for Debt Service Funds.

The Agency follows the County's procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the County Administrative Officer submits to the Board of Supervisors a proposed program budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. In addition, the Auditor-Controller submits a proposed budget containing the line items of revenue and appropriations based upon the County Administrative Office budget proposal.
2. On or before August 20, public hearings are conducted to obtain public comments. Such hearings shall be concluded within 10 calendar days.
3. On or before October 2, the budget is legally enacted through passage of a resolution.
4. On or before November 1, the Auditor-Controller publishes a final budget as recommended by the County Administrative Officer and adopted by the Board of Supervisors.
5. Budget units are expenditure classifications which identify accounting or cost centers necessary or desirable for control of the County financial operation.
6. The Agency uses formal budgetary integration as a management control device during the year.
7. Budgets are adopted on a basis consistent with GAAP except for the following different classifications:
  - Interfund transfers are reported as revenues or expenditures for budgetary purposes, however, for GAAP purpose are reported as other financing sources.
  - Proceeds for the sale of assets and the issue of new debt are reported as revenues for budgetary purposes, however, for GAAP purpose are reported as other financing sources.
8. Budgetary control is maintained at the character level, except for capital assets and other charges which are controlled by line item. Character levels are appropriation totals for categories of expenditure. The Board of Supervisors approves all transfers of budgeted appropriation amounts between budget units within any fund or between expenditures outside of budgetary control limits.

**Santa Cruz County Redevelopment Agency**  
**Required Supplementary Information, Continued**  
**For the 7 month period ended January 31, 2012**

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**1. BUDGETARY INFORMATION, Continued**

The Board of Directors of the Agency approves all transfers of budgeted appropriation amounts between budget units, expenditure objects and accounts within the capital asset object. The expenditure objects are salaries and employee benefits, services and supplies, intra-fund transfers or control accounts, redevelopment projects and programs, and capital assets.

All appropriations (except those required by law to be continuously appropriated from year to year) lapse at the end of the fiscal year, except for encumbered balances and project length budgets which are re-appropriated in the next year.

**Santa Cruz County Redevelopment Agency**  
**Required Supplementary Information, Continued**  
**For the 7 month period ended January 31, 2012**

The following is the budget comparison schedules for the major special revenue funds.

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Tax Increment Special Revenue Fund

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>FUND BALANCE, BEGINNING</b>	\$ 22,695,051	\$ 22,695,051	\$ 22,695,051	\$ -
<b>RESOURCES (INFLOWS)</b>				
Incremental property taxes	22,141,306	22,141,306	11,850,929	(10,290,377)
Penalties and interest on delinquent	-	-	31,998	31,998
Interest income - combined	161,250	161,250	32,242	(129,008)
Sale of fixed assets	-	-	9,599	9,599
Gain on land held for resale	-	-	-	-
Other revenue	4,800	4,800	(24,701)	(29,501)
Transfers in	229,887	1,887,667	1,887,669	2
<b>Amount Available for Appropriation</b>	<u>22,537,243</u>	<u>24,195,023</u>	<u>13,787,736</u>	<u>(10,407,287)</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS)</b>				
Administrative costs	-	-	(1)	1
Real estate purchases	-	-	(2,953)	2,953
Rehabilitation costs and grants	-	3,989,435	-	3,989,435
Interest expense	10,219,685	10,219,685	-	10,219,685
Long term debt principal payments	3,118,631	3,118,631	-	3,118,631
Loss on sale of fixed assets	-	-	-	-
Transfers out	948,694	1,484,819	14,859,359	(13,374,540)
<b>Total Charges to Appropriation</b>	<u>14,287,010</u>	<u>18,812,570</u>	<u>14,856,405</u>	<u>3,956,165</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 30,945,284</u>	<u>\$ 28,077,504</u>	<u>\$ 21,626,382</u>	<u>\$ (6,451,122)</u>

**Santa Cruz County Redevelopment Agency**  
**Required Supplementary Information, Continued**  
**For the 7 month period ended January 31, 2012**

**1. BUDGETARY INFORMATION, Continued**

*Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Administration Special Revenue Fund*

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>FUND BALANCE, BEGINNING</b>	\$ 984	\$ 984	\$ 984	\$ -
<b>RESOURCES (INFLOWS)</b>				
Interest income - County pool	2	2	(838)	(840)
Other revenue	20	20	-	(20)
Transfers in	948,694	1,484,819	1,521,095	36,276
<b>Amounts Available for Appropriation</b>	<b>948,716</b>	<b>1,484,841</b>	<b>1,520,257</b>	<b>35,416</b>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS)</b>				
Administrative cost	466,836	466,836	358,496	108,340
Professional services	289,344	437,744	281,330	156,414
Accounting services	15,175	15,175	10,175	5,000
Legal services	70,000	70,000	32,834	37,166
Planning survey and design services	107,106	494,831	387,724	107,107
Operating transfers out	1,241	1,241	1,240	1
<b>Total Charges to Appropriation</b>	<b>949,702</b>	<b>1,485,827</b>	<b>1,071,799</b>	<b>414,028</b>
<b>FUND BALANCE, ENDING</b>	<b>\$ (2)</b>	<b>\$ (2)</b>	<b>\$ 449,442</b>	<b>\$ 449,444</b>



**Santa Cruz County Redevelopment Agency**  
**Required Supplementary Information, Continued**  
**For the 7 month period ended January 31, 2012**

**1. BUDGETARY INFORMATION, Continued**

*Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Capital Project Special Revenue Fund*

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>FUND BALANCE, BEGINNING</b>	\$ 3,716,759	\$ 3,716,759	\$ 3,716,759	\$ -
<b>RESOURCES (INFLOWS)</b>				
Interest income - County pool	9,497	9,497	10,387	890
<b>Amounts Available for Appropriation</b>	<u>9,497</u>	<u>9,497</u>	<u>10,387</u>	<u>890</u>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS)</b>				
Professional services	-	-	44,607	(44,607)
Planning survey and design services	111,973	111,973	22,842	89,131
Project improvement costs	3,567,080	3,567,080	1,282,192	2,284,888
Operating transfers out	20,454	20,454	10,961	9,493
<b>Total Charges to Appropriation</b>	<u>3,699,507</u>	<u>3,699,507</u>	<u>1,360,602</u>	<u>2,338,905</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 26,749</u>	<u>\$ 26,749</u>	<u>\$ 2,366,544</u>	<u>\$ 2,339,795</u>

**Santa Cruz County Redevelopment Agency**  
**Required Supplementary Information, Continued**  
**For the 7 month period ended January 31, 2012**

**1. BUDGETARY INFORMATION, Continued**

*Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Low and Moderate Income Housing Special Revenue Fund*

	Budgeted Amounts		Actual Amount	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>FUND BALANCE, BEGINNING</b>	\$ 22,513,212	\$ 22,513,212	\$ 22,513,212	\$ -
<b>RESOURCES (INFLOWS)</b>				
Interest income - combined	17,231	17,231	13,290	(3,941)
Rents and concessions	14,534	14,534	2,805	(11,729)
Other revenue	6,611	6,611	5,302	(1,309)
Gain/(Loss) on conversion of debt	-	-	5,024,265	5,024,265
Transfers In	2,369,434	2,369,434	-	(2,369,434)
<b>Amounts Availables for Appropriation</b>	<b>2,407,810</b>	<b>2,407,810</b>	<b>5,045,662</b>	<b>2,637,852</b>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS)</b>				
Professional services	55,000	55,000	17,253	37,747
Project improvement costs	123,293	123,293	111,263	12,030
Operation of acquired property	1,109	1,109	21,234	(20,125)
Rehabilitation costs and grants	7,515,726	7,515,726	-	7,515,726
<b>Total Charges to Appropriation</b>	<b>7,695,128</b>	<b>7,695,128</b>	<b>149,750</b>	<b>7,545,378</b>
<b>FUND BALANCE, ENDING</b>	<b>\$ 17,225,894</b>	<b>\$ 17,225,894</b>	<b>\$ 27,409,124</b>	<b>\$ 10,183,230</b>



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS**

To the Members of the Board of Directors  
of the Santa Cruz County Redevelopment Agency  
Santa Cruz, California

We have audited the basic financial statements of the governmental activities, each major fund, and aggregated remaining fund information of the Santa Cruz County Redevelopment Agency (the "Agency"), a component unit of the County of Santa Cruz, California (the "County"), as of and for the seven months ended January 31, 2012, and have issued our report thereon dated December 21, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reports. In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



To the Members of the Board of Directors  
of the Santa Cruz County Redevelopment Agency  
Santa Cruz, California  
Page 2

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the County's audit committee, the Board of Directors of the Agency, others within the Agency, and the California State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Marcum LLP". The letters are cursive and fluid.

Marcum LLP  
Certified Public Accountants  
Irvine, California  
December 21, 2012