
BASIC FINANCIAL STATEMENTS

Notes to the Financial Statements



COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 1: **Summary of Significant Accounting Policies**

The County of Santa Cruz (the “County”) was established by an act of the State Legislature of California in 1850 and is governed by a five-member elected Board of Supervisors (the “Board”). The Board is responsible for the legislative and executive control of the County. The County provides various services on a countywide basis including law and justice, education, detention, social, health, hospital, fire protection, road construction, road maintenance, transportation, park and recreation facilities, elections and records, communications, planning, zoning, and tax collection.

The County’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The County has elected to apply all applicable FASB pronouncements issued on or before that date to its proprietary funds. The more significant accounting policies established in GAAP and used by the County are discussed below.

The County has elected to retroactively report infrastructure (assets acquired after fiscal year ending June 1980) in the fiscal year ending June 30, 2005.

A. Reporting Entity

These financial statements present the County (the primary government) and its component unit, the Santa Cruz County Sanitation District. As defined by GASB Statement No. 39, component units are legally separate entities that are included in the County’s reporting entity because of the significance of their operating or financial relationships with the County.

Blended Component Units. The following entities serve citizens of the government and provide for the construction and maintenance of County parks and recreation, police protection, mosquito abatement, fire protection, street lighting, roads, flood control, sewer, and refuse disposal districts. They are reported as if they were part of the primary government because they are governed by a board comprised of the County Board of Supervisors. The Board of Supervisors establishes the district work program and adopts the budget. Administrative services are provided by various departments of the County of Santa Cruz.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 1: **Summary of Significant Accounting Policies** (continued)

A. Reporting Entity (continued)

The following funds are grouped by the Special Revenue Fund under which they are reported in the Combining Statements:

Library
County Fire Protection
Off Highway, Road and Transportation
Public Financing Authority
Fish and Game
Private Revitalization of Downtown
Redevelopment Agency
Park Dedication
Health Services Agency Capital Outlay
Santa Cruz County Flood Control and Water Conservation Zone 7
In-Home Support Service

Districts Governed by the Board of Supervisors

Public Protection

Aptos Seascapes County Service Area (CSA) 3
County Fire Protection CSA 48
Police Protection CSA 38
Pajaro Storm Drain Maintenance District
Pajaro Dunes Fire Protection CSA 4
Pajaro Dunes Station Maintenance Fund
Pajaro Dunes Station Assessment District Reserve
Santa Cruz County Flood Control and Water Conservation Zone 4
Santa Cruz County Flood Control and Water Conservation Zone 5
Santa Cruz County Flood Control and Water Conservation Zone 6
Santa Cruz County Flood Control and Water Conservation Zone 8
Santa Cruz County Flood Control and Water Conservation Zone – General

Health and Sanitation

Pasatiempo Rolling Woods Sewer District

Recreation and Culture

Streetscape CSA 9E
Parks and Recreation District CSA 11
CSA 11 Zone E
CSA 11L Lompico Community

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 1: **Summary of Significant Accounting Policies** (continued)

A. **Reporting Entity** (continued)

Public Ways and Facilities

County Highway Lighting CSA 9	Redwood Drive CSA 33
County Highway Residential Lighting CSA 9 Zone A	Larsen Road CSA 34
School Crossing Guard CSA 9 Zone B	County Estates CSA 35
County Road Maintenance CSA 9D Zone 1	Forest Glen CSA 36
County Road Maintenance CSA 9D Zone 2	Roberts Road CSA 37
CSA 9D Zone 3	Reed Street CSA 39
Hutchinson Road CSA 13	Ralston Way CSA 40
Oakflat Road CSA 13A	Loma Prieta CSA 41
Huckleberry Woods Road CSA 15	Sunlit Lane CSA 42
Robak Drive CSA 16	Bonita-Encino Drive CSA 43
Empire Acres CSA 17	Sunbeam Woods CSA 44
Whitehouse Canyon CSA 18	Pinecrest CSA 46
Westdale Drive CSA 21	Braemoor CSA 47
Kelly Hill CSA 22	Vineyard CSA 50
Old Ranch Road CSA 23	Hopkins Gulch CSA 51
Pineridge CSA 24	Upper Pleasant Valley CSA 52
Viewpoint Road CSA 25	Mosquito Abatement CSA 53
Hidden Valley CSA 26	Riverdale Park Road CSA 55
Lomond Terrace CSA 28	Felton Gove CSA 56
Glenwood Acres CSA 30	Mansfield Street Assessment Dist.
View Circle CSA 32	Underground Utilities #4-41 st Ave.

Geologic Hazard Abatement Districts (GHAD)

Corralitos GHAD
Mid-County GHAD
Heartwood GHAD

The following Board of Supervisor Governed District funds are reported as Enterprise Funds (Sewer and Refuse Disposal Districts):

Boulder Creek CSA 7	Place De Mer CSA 2
Rolling Woods CSA 10	Sand Dollar Beach CSA 5
Septic Tank Maintenance CSA 12	Trestle Beach CSA 20
Freedom County Sanitation District	Summit West CSA 54
Davenport County Sanitation District	Graham Hill CSA 57
County Disposal Sites CSA 9C	

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 1: **Summary of Significant Accounting Policies** (continued)

A. Reporting Entity (continued)

Santa Cruz County Flood Control and Water Conservation District – Zone 7, a Special Revenue Fund, was established to provide funding for the local share of proposed Army Corps of Engineers flood control projects on the Pajaro River, Salsipuedes Creek, and Corralitos Creek. The District is governed by a seven-member board consisting of the County Board of Supervisors and two additional members, one appointed by the City of Watsonville and another appointed by the Pajaro Valley Water Agency. Administrative services are provided by the County of Santa Cruz, Department of Public Works, 701 Ocean Street, Room 410, Santa Cruz, CA 95060.

The Redevelopment Agency, a Special Revenue Fund, was established by the County Board of Supervisors for the purpose of financing improvement projects in the Live Oak/Soquel areas. The Agency is governed by the Board of Supervisors. The Board of Supervisors establishes the Agency work program and adopts the budget. Administrative services are provided by the County of Santa Cruz, Department of Public Works, 701 Ocean Street, Room 410, Santa Cruz, CA 95060.

The Public Financing Authority, a Special Revenue Fund, facilitates financing for the County and Redevelopment Agency. The Authority is established and governed by the Board of Supervisors; it is not legally required to adopt a budget. Administrative services are provided by the County of Santa Cruz, 701 Ocean Street, Room 100, Santa Cruz, CA 95060.

Discretely Presented Component Unit. The Santa Cruz County Sanitation District (the “District”) is included as a component unit of the County of Santa Cruz because: 1) the County’s Board of Supervisors appoints the District’s governing board, and 2) the District has an ongoing relationship with the County. The District is governed by a three-member board and managed by the County Department of Public Works under the direction of the District Board of Directors. The District, as a component unit, is presented separately from the primary government in the government-wide financial statements. Administrative services are provided by the County of Santa Cruz, Department of Public Works and central support departments (i.e. personnel, purchasing, treasury, etc.). Complete financial statements may be obtained from 701 Ocean Street, Room 410, Santa Cruz, CA 95060.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 1: **Summary of Significant Accounting Policies** (continued)

B. Implementation of Governmental Accounting Standards Board Statements

GASB Statement No. 40

At June 30, 2005, the County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures* – an amendment of GASB Statement No. 3. The Statement modifies the custodial credit risk disclosures required by Statement No. 3. Deposits with financial institutions, investments (including repurchase agreements), and reverse repurchase agreements and addresses deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Accordingly, the cash and investments disclosures has been revised to conform to the provisions of GASB Statement No. 40.

C. Basis of Presentation

Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the primary government, the County, and its component unit. This government-wide focus is more on the sustainability of the County as an entity and the change in the County's net assets resulting from the current year's activities. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between governmental and business-type activities of the County and between the county and its component unit.

The government-wide Statement of Activities reports both the gross and net cost of each of the County's functions and business-type activities. The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales or gas taxes, intergovernmental revenues, interest income, etc.).

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 1: **Summary of Significant Accounting Policies** (continued)

C. **Basis of Presentation** (continued)

The County prepares a County-wide cost allocation plan in accordance with Federal OMB Circular A-87. Using this directive, all central support costs are allocated to County funds and departments using a step-down method so that the true cost of operations can be included in determining the rates to be charged to users.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Financial Statements

The financial transactions of the County are reported in individual funds in the fund financial statements. Each fund is account for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental and enterprise funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service funds are presented in a single column in the proprietary fund financial statements. The various funds are reported by generic classification within the financial statements.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary services.

The County reports the following major governmental funds:

- The **General Fund** is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be account for in other specialized fund.
- The **Redevelopment Agency fund** accounts for a legal entity separate from the County, although the entity is reported as a component unit. The Agency was established by law to use tax increment financing for the purpose of curing blight in the Live Oak/Soquel improvement project areas.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 1: **Summary of Significant Accounting Policies** (continued)

C. **Basis of Presentation** (continued)

Fund Financial Statements (continued)

The County reports the following major enterprise fund:

- The **County Disposal Sites fund** accounts for the operation and expansion of the County's landfills and implementation of state mandated environmental health programs. User fees, service area charges and revenues from the waste recovery and recycling projects finance the fund.

Additionally, the County reports the following fund types:

- **Internal Service funds** account for central duplicating, information services, public works, fleet management, and self-insurance services provided to other departments, or to other governments, on a cost reimbursement basis.
- **Agency funds** are custodial in nature and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. These funds account for assets held by the County in an agency capacity for individuals or other government units.

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

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

The government-wide, proprietary, and fiduciary fund financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The accounting objectives of the economic resources measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net assets.

Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred or economic asset used.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 1: **Summary of Significant Accounting Policies** (continued)

D. Measurement Focus and Basis of Accounting (continued)

Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

The governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

In the current financial resources measurement focus, only current financial assets and liabilities are generally included on the balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. The fund balance is used as the measure of available spendable financial resources at the end of the period.

Under the modified accrual basis of accounting, revenues are recognized when measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means having been earned, and collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related liability is incurred, except for debt service expenditures (principal and interest), as well as expenditures related to compensated absences which are reported when due.

E. Financial Statement Amounts

Cash and Cash Equivalents

The County has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agent with original maturities of three months or less from the date of acquisition.

Investments

Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments" was implemented during 1997. In accordance with this statement, investments held at June 30, 2005 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 1: **Summary of Significant Accounting Policies** (continued)

E. **Financial Statement Amounts** (continued)

Inventories

Inventories in the general fund consist of expendable supplies held for the County's use and are carried at cost using the first-in, first-out method.

Inventories in the internal service funds, enterprise funds, and the general fund are stated at cost. Cost is determined by the average cost method.

The costs of inventory items are recorded as expenditures in the governmental fund types and expenses in the proprietary fund types when used.

Capital Assets and Depreciation

Capital assets purchased or acquired with an original cost of \$1,500 (for equipment and vehicles) and \$25,000 (for infrastructure, buildings and structures) or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Infrastructure	4-65 years
Buildings and structures	10-50 years
Equipment and vehicles	3-15 years

GASB Statement No. 34 requires the County to report and depreciate new infrastructure assets effective with the beginning of the 2001-2002 fiscal year. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. The retroactive reporting of infrastructure (assets acquired after fiscal year ending June 1980) is subject to an extended implementation period and is first effective for fiscal years ending 2006. The County elected to implement retroactive infrastructure provisions in the fiscal year ending June 30, 2005.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 1: **Summary of Significant Accounting Policies** (continued)

E. **Financial Statement Amounts** (continued)

Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of tax allocation bonds, certificates of participation, lease revenue refunding bonds, local assessment bonds, notes payable, compensated absences, and capital leases.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

The County accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee, including salary-related payments such as employer's share of social security and medicare taxes. These amounts, estimated to be used in subsequent fiscal years for governmental funds, is maintained separately and represents a reconciling item between the fund and government-wide presentations.

Interfund Activity

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 1: **Summary of Significant Accounting Policies** (continued)

E. **Financial Statement Amounts** (continued)

Revenues

Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as nonoperating revenue based on GASB Statement No. 33. In applying GASB Statement No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

Expenditures

Expenditures are recognized when the related fund liability is incurred. Inventory costs are reported in the period when inventory items are used, rather than in the period purchased.

Equity Classifications

Government-Wide Financial Statements

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 1: **Summary of Significant Accounting Policies** (continued)

E. **Financial Statement Amounts** (continued)

Equity Classifications (continued)

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

Reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Board and management and can be increased, reduced or eliminated by similar actions.

As of June 30, 2005, reservations of fund balance are described below:

- Encumbrances – to reflect the outstanding contractual obligations for which goods and services have not been received.
- Inventories and imprest cash – to reflect the portion of assets which do not represent available spendable resources.
- Advances and loans – to reflect the amount due from other funds that are long-term in nature. Such amounts do not represent available spendable resources.
- Debt service – to reflect the funds held by trustees or fiscal agents for future payment of bond principal and interest. These funds are not available for general operations.
- Capital asset acquisition – to reflect the amount set aside for the purchase of capital assets from the issuance of loans by the public financing authority.

Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intent are subject to change and have not been legally authorized or may not result in expenditures. Fund balance designations were reported in the following funds:

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 1: **Summary of Significant Accounting Policies** (continued)

E. **Financial Statement Amounts** (continued)

Equity Classifications (continued)

Fund Financial Statements (continued)

- General fund – to reflect management’s intent to expend certain funds for the health services facility, emergency reserve, federally qualified health program, working capital, and medicruz risk reserve.
- Special revenue – to reflect management’s intent to expend certain funds to support the County’s redevelopment agency projects and debt service.
- Capital projects – to reflect management’s intent to expend certain funds solely for planned capital projects.

F. **Property Tax Levy, Collection and Maximum Rates**

The State of California Constitution, Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by the voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased by no more than 2% per year unless the property is sold or transferred. These general property tax rates do not apply to taxes levied to pay the interest and redemption charges on any indebtedness incurred prior to June 6, 1978, or subsequently approved by the voters. Supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction. The State Legislature has determined the method of distribution among the counties, cities, school districts, and other districts of receipts from the 1% property tax levy.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 1: **Summary of Significant Accounting Policies** (continued)

F. Property Tax Levy, Collection and Maximum Rates (continued)

The County assesses properties, bills for, and collects taxes as follows:

	<u>Secured</u>	<u>Unsecured</u>
Levy dates	July 1	July 1
Lien dates	January 1	January 1
Due dates	50% on November 1 50% on February 1	August 1
Delinquent after	December 10 (for Nov) April 10 (for Feb)	August 31
Tax rate per \$100 full cash value	\$1	\$1
Late penalty	10%	10%
Delinquent interest	1 – ½% per month	1 – ½% per month

These taxes are secured by liens on the property being taxed. The Board of Supervisors annually sets the rates of the County and district taxes and levies State, County, and district taxes as provided by law. The term “secured” refers to taxes on land and buildings, while “unsecured” refers to taxes on personal property other than land and buildings. During fiscal year 1993-1994, the Board adopted the Alternative Method of Tax Apportionment (the Teeter Plan). Under this method, the County allocates to all taxing jurisdictions under the County, 100% of the secured property taxes billed, even if it has not yet been collected. In return, the County retains the subsequent delinquent payments and associated penalties and interest. The penalties and interest are accumulated in a Tax Losses Reserve Agency Fund. The County may transfer to the General Fund any excess over the reserve required by the Board of Supervisors and the State.

Delinquent property taxes receivable are shown on the balance sheet of the property tax trust funds. Under California law, real property is not subject to sale for reasons of delinquent taxes until the end of the fifth year of delinquency, and the taxpayer may arrange to repay the delinquent taxes over a five year period any time within the five year period, although the property is subject to a cash redemption up to the time of the sale.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The County apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by ¶ 4705 of the State of California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 1: **Summary of Significant Accounting Policies** (continued)

F. **Property Tax Levy, Collection and Maximum Rates** (continued)

Under the alternate apportionment method, specified amounts of penalties and interest collected on delinquent secured taxes are held in trust in the secured tax losses reserve fund to fund specified tax redemption short falls. This reserve is used to fund the apportionment of secured taxes.

G. **Estimates**

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

Note 2: **Cash and Investments**

The County sponsors an investment pool that is managed by the County Treasurer for the purpose of increasing interest earnings through investment activities. Cash and investments for most County activities are included in the investment pool. Interest earned on the investment pool is distributed to the participating funds using a formula based on the average daily cash balance of each fund. Interest earned from April 1 through June 30, 2005 is distributed July 1, 2005 and is shown as interest receivable on the financial statements.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements For the Year Ended June 30, 2005

Note 2: **Cash and Investments** (continued)

At June 30, 2005, total cash, investments and restricted cash were disclosed at book value in the County's financial statements as follows:

	Cash and Investments	Restricted Cash	Total
Primary Government and Fiduciary Funds:			
Cash on hand or imprest cash	\$ 49,280	\$ --	\$ 49,280
Deposits in treasury pool	13,387,998	--	13,387,998
Investments in treasury pool	397,506,443	--	397,506,443
Deposits in other banks	187,233,396	--	187,233,396
Investments in other banks	9,000,000	14,611,986	23,611,986
Investments in other pools	100,000	--	100,000
Restricted cash in treasury pool:			
Freedom County Sanitation	(139)	139	--
Davenport Sanitation	(56,061)	56,061	--
Disposal Sites	(3,849,718)	3,849,718	--
Sand Dollar Beach	(7,226)	7,226	--
Total	603,363,973	18,525,130	621,889,103
Component Unit:			
Restricted cash in treasury pool	(426,724)	426,724	--
Investments in treasury pool	32,408,840	--	32,408,840
Investments in other banks	--	1,043,996	1,043,996
Total	31,982,116	1,470,720	33,452,836
Total Cash and Investments	\$ 635,346,089	\$ 19,995,850	\$ 655,341,939

It is the policy of the County to offset outstanding warrants through an agency fund, the result of which increased the agency fund's aggregate cash balance by \$20,312,828 at June 30, 2005.

At June 30, 2005, the County's cash on hand, deposits, and investments consisted of:

	Treasury Pool	Other Banks	Cash on Hand or Imprest	Total
Primary Government:				
Cash on hand or imprest	\$ --	\$ --	\$ 49,280	\$ 49,280
Deposits	13,387,998	187,233,396	--	200,621,394
Investments	397,606,443	23,611,986	--	421,218,429
Total Primary Government	410,994,441	210,845,382	49,280	621,889,103
Component Unit:				
Restricted cash	426,724	--	--	\$ 426,724
Investments	31,982,116	1,043,996	--	33,026,112
Total Component Unit	32,408,840	1,043,996	--	33,452,836
Total Reporting Entity	\$ 443,403,281	\$ 211,889,378	\$ 49,280	\$ 655,341,939

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements For the Year Ended June 30, 2005

Note 2: **Cash and Investments** (continued)

Pooled investments are carried at cost or amortized cost. In accordance with Government Accounting Standards Board Statement Number 31, the County calculated the fair value of all investments included in the pooled investments based on quoted market prices. County management deemed that the difference between book value and fair value was immaterial in relation to each investment account included in the pool. Based on this determination the unrealized decrease in fair value of the investments was not recognized and is not included in the balances reported in the financial statements.

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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 Years	10%	None
U.S. Treasury Obligations	5 Years	None	None
U.S. Agency Obligations	5 Years	40%	15%
State of California Obligations	5 Years	10%	None
Banker's Acceptances	180	40%	10%
Commercial Paper	270	40%	10%
Negotiable Certificates of Deposit	5 Years	30%	None
Non-negotiable Certificates of Deposit	180 days	None	None
Repurchase Agreements	90 days	None	None
Medium Term Notes	5 years	30%	None
Mutual Funds/Money Market Mutual Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Investment Funds	None	25%	None

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements For the Year Ended June 30, 2005

Note 2: **Cash and Investments** (continued)

At June 30, 2005, the County had the following investments:

	Interest Rates	Maturities	Par	Cost	Fair Value	WAM (Years)
Investments in Investment Pool						
U.S. Government Agencies	1.63% - 3.37%	07/20/05 - 01/23/09	\$ 77,000,000	\$ 76,912,500	\$ 76,716,150	0.47
Medium Term Notes	2.05% - 3.43%	07/15/05 - 09/22/08	173,500,000	173,755,303	173,533,166	0.11
Commercial Paper	3.15% - 3.42%	07/07/05 - 08/30/05	172,000,000	171,047,480	171,502,967	0.09
Teeter Note	3.00%	7/31/2005	8,200,000	8,200,000	8,200,000	0.08
Money Market Mutual Funds	1.60% - 3.00%	On Demand	9,000,000	9,000,000	9,020,339	--
Local Agency Investment Fund (LAIF)	1.67% - 2.85%	On Demand	100,000	100,000	99,775	0.45
Total investments in investment pool			<u>\$ 439,800,000</u>	<u>\$ 439,015,283</u>	<u>\$ 439,072,397</u>	<u>0.16</u>
Investments Outside Investment Pool						
<i>Bank of New York</i>						
Money Market Mutual Funds	6.45%	On Demand	\$ 1,196,100	\$ 1,154,308	\$ 1,196,100	--
Investment Agreements	5.86% - 6.45%	Various	2,141,240	2,141,240	2,141,240	--
Repurchase Agreement	5.48%	Various	2,612,277	2,612,277	2,612,277	--
			<u>5,949,617</u>	<u>5,907,825</u>	<u>5,949,617</u>	<u>--</u>
<i>Public Finance Authority:</i>						
<i>Bank of New York</i>						
Money Market Mutual Funds	Various	On Demand	8,662,369	8,662,369	8,662,369	--
Total investments outside investment pool			<u>\$ 14,611,986</u>	<u>\$ 14,570,194</u>	<u>\$ 14,611,986</u>	<u>--</u>

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.

Credit Risk

State law and the County's Investment Policy limit investments in commercial paper to the rating of A1 by Standards & Poor's or P-1 by Moody's Investors Service. State law and the County's Investment Policy also limit investments in corporate bonds to the rating of A by Standard & Poor's and Moody's Investors Service. The County does not have credit limits on government agency securities.

Concentration of Credit Risk

At June 30, 2005, 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.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 2: **Cash and Investments** (continued)

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of the County Investment Pool's fair value at June 30, 2005.

	<u>S&P</u>	<u>Moody's</u>	<u>% of Portfolio</u>
Investments in Investment Pool			
U.S. Government Agencies	AAA	Aaa	12.28%
Negotiable Certificates of Deposit	AAA	Aaa	27.15%
Certificates of Deposit	A	A	2.72%
Certificates of Deposit	Unrated	Unrated	0.02%
Medium Term Notes	A	A	27.75%
Commercial Paper	A-1	Aaa	27.32%
Teeter Note	Unrated	Unrated	1.31%
Money Markets	A-1	P-1	1.44%
Local Agency Investment Fund (LAIF)	Unrated	Unrated	0.02%
Total for investments in pool			<u><u>100.00%</u></u>
 Investments Outside Investment Pool			
<i>Bank of New York</i>			
Money Market Mutual Funds	Unrated	Unrated	20.10%
Investment Agreements	AA	Aa1	35.99%
Repurchase Agreement	AA	Aa1	43.91%
			<u><u>100.00%</u></u>

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.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 2: **Cash and Investments** (continued)

Local Agency Investment Fund

The County Treasurer’s Pool maintains an investment in the State of California Local Agency Investment Fund (LAIF), managed by the State Treasurer. This fund is not registered with the Securities and Exchange Commission as an investment company, but is required to invest according to California State Code. Participants in the pool include voluntary and involuntary participants, such as special districts and school districts for which there are legal provisions regarding their investments. The Local Investment Advisor Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute.

At June 30, 2005, the County’s investment position in the State of California Local Agency Investment Fund (LAIF) was \$99,775, which approximates fair value and is the same as value of the pool shares. The total amount invested by all public agencies in LAIF on that day was \$60,635,664,345. Of that amount, 97.6% was invested in non-derivative financial products and 2.4% in structured notes and asset-backed securities.

At June 30, 2005 the difference between the cost and fair value of cash and investments was not material (fair value was 99% of carrying value). Therefore, an adjustment to fair value was not required. Fair value is based on information provided by the State for the Local Agency Investment Fund. Investments are liquid.

Note 3: **Receivables**

Receivables at year-end of the County’s major individual funds and nonmajor and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	<u>General Fund</u>	<u>Redevelopment Agency</u>	<u>Nonmajor Funds</u>	<u>Internal Service Funds</u>	<u>Total Governmental Activities</u>
<i>Governmental Activities:</i>					
Accounts	\$ 29,610,251	\$ --	\$ 3,201,831	\$ 209,814	\$ 33,021,896
Interest	469,041	96,632	97,219	--	662,892
Taxes	<u>792,245</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>792,245</u>
	30,871,537	96,632	3,299,050	209,814	34,477,033
Gross receivables					
Less: allowance for uncollectibles	<u>6,835,095</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>6,835,095</u>
Total Receivables	<u>\$ 24,036,442</u>	<u>\$ 96,632</u>	<u>\$ 3,299,050</u>	<u>\$ 209,814</u>	<u>\$ 27,641,938</u>

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 3: **Receivables** (continued)

	<u>County Disposal Sites CSA</u>	<u>Nonmajor Funds</u>	<u>Total Business-Type Activities</u>
<i>Business-Type Activities</i>			
Accounts Receivable	\$ 816,100	\$ 159,203	\$ 975,303

Governmental funds report deferred revenues in connection with receivables for revenues not considered available to liquidate liabilities of the current period. Governmental and enterprise funds also defer revenue recognition in connection with resources that have been received or accrued but not yet earned.

At June 30, 2005, the various components of deferred revenue and unearned revenue reported were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
<i>Governmental Activities:</i>		
Grant drawdowns prior to meeting all eligibility requirements	\$ --	\$ 20,788,927
Due from governmental agencies	294,307	--
Other receivables	<u>--</u>	<u>10,262</u>
Total Governmental Activities	<u>\$ 294,307</u>	<u>\$ 20,799,189</u>

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 4: **Interfund Transactions**

Interfund Balances

Interfund balances at June 30, 2005 consisted of the following:

Due to General Fund from:	
Nonmajor governmental funds	\$ 604,079
Nonmajor enterprise funds	1,000
Internal service funds	1,143,332
Agency funds	2,101,382
All others	1,861
Due to the Redevelopment Agency Tax Increment Fund from:	
Redevelopment Agency Administration Revenue fund	16,521
Due to Nonmajor Governmental Funds from:	
Nonmajor governmental funds	1,276,171
Due to Internal Service Funds from:	
Nonmajor governmental funds	193,247
Due to Component unit from:	
Internal service funds	<u>4,317</u>
Total	<u>\$ 5,341,910</u>

These balances resulted from short-term loans used to cover operating cash deficits at year-end. These amounts will be repaid in the following fiscal year.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 4: **Interfund Transactions** (continued)

Interfund Transfers

The following transfers are between governmental funds. These transfers were eliminated in the consolidation for the governmental activities:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	\$ 7,388,004
General fund	Nonmajor governmental funds	18,000
General fund	Nonmajor governmental funds	35,365
General fund	Nonmajor governmental funds	10,669
Redevelopment Agency	Nonmajor governmental funds	7,765,382
Redevelopment Agency	Redevelopment Agency	2,909,816
Nonmajor governmental funds	Nonmajor governmental funds	126,375
Nonmajor governmental funds	Nonmajor governmental funds	96,152
Nonmajor governmental funds	Nonmajor governmental funds	41,934
Nonmajor governmental funds	Nonmajor governmental funds	262,539
Nonmajor governmental funds	Nonmajor governmental funds	353,023
Nonmajor governmental funds	Nonmajor governmental funds	679,947
Nonmajor governmental funds	General fund	321,174
Nonmajor governmental funds	General fund	5,972
Nonmajor governmental funds	General fund	<u>226,343</u>
Total		<u>\$20,240,695</u>

Transfers are contributions to other funds to finance various programs in accordance with budgetary authorizations.

Advances

Advances from General Fund to Agency Fund	<u>\$ 128,000</u>
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COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements For the Year Ended June 30, 2005

Note 5: Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Restated Balance <u>July 1, 2004</u>	<u>Additions</u>	<u>Retirement</u>	Balance <u>June 30, 2005</u>
<u>Governmental activities</u>				
Capital assets, not being depreciated:				
Land	\$ 43,352,752	\$ 5,514,809	\$ --	\$ 48,867,561
Construction in progress	<u>870,501</u>	<u>3,366,339</u>	<u>--</u>	<u>4,236,840</u>
Total Capital Assets, Not Being Depreciated	<u>44,223,253</u>	<u>8,881,148</u>	<u>--</u>	<u>53,104,401</u>
Capital assets, being depreciated:				
Infrastructure	440,106,814	15,063,728	--	455,170,542
Buildings and structures	94,046,031	3,408,364	--	97,454,395
Equipment	<u>46,709,528</u>	<u>1,800,954</u>	<u>(6,659,304)</u>	<u>41,851,178</u>
Total Capital Assets, Being Depreciated	<u>580,862,373</u>	<u>20,273,046</u>	<u>(6,659,304)</u>	<u>594,476,115</u>
Less accumulated depreciation for:				
Infrastructure	(130,123,856)	(9,565,256)	--	(139,689,112)
Buildings and structures	(40,851,483)	(3,203,829)	--	(44,055,312)
Equipment	<u>(36,321,574)</u>	<u>(3,553,541)</u>	<u>6,444,321</u>	<u>(33,430,794)</u>
Total Accumulated Depreciation	<u>(207,296,913)</u>	<u>(16,322,626)</u>	<u>6,444,321</u>	<u>(217,175,218)</u>
Total Capital Assets, Being Depreciated, Net	<u>373,565,460</u>	<u>3,950,420</u>	<u>(214,983)</u>	<u>377,300,897</u>
Governmental Activities Capital Assets, Net	<u>\$ 417,788,713</u>	<u>\$ 12,831,568</u>	<u>\$ (214,983)</u>	<u>\$ 430,405,298</u>
<u>Business-Type Activities</u>				
Capital assets, not being depreciated:				
Land	\$ 1,858,849	\$ --	\$ --	\$ 1,858,849
Total Capital Assets, Not Being Depreciated	<u>1,858,849</u>	<u>--</u>	<u>--</u>	<u>1,858,849</u>
Capital assets, being depreciated:				
Buildings and structures	28,643,462	2,340,296	--	30,983,758
Equipment	<u>8,646,820</u>	<u>332,294</u>	<u>(44,917)</u>	<u>8,934,197</u>
Total Capital Assets, Being Depreciated	<u>37,290,282</u>	<u>2,672,590</u>	<u>(44,917)</u>	<u>39,917,955</u>
Less accumulated depreciation for:				
Buildings and structures	(9,909,928)	(919,005)	--	(10,828,933)
Equipment	<u>(5,440,787)</u>	<u>(865,606)</u>	<u>44,917</u>	<u>(6,261,476)</u>
Total Accumulated Depreciation	<u>(15,350,715)</u>	<u>(1,784,611)</u>	<u>44,917</u>	<u>(17,090,409)</u>
Total Capital Assets, Being Depreciated, Net	<u>21,939,567</u>	<u>887,979</u>	<u>--</u>	<u>22,827,546</u>
Governmental Activities Capital Assets, Net	<u>\$ 23,798,416</u>	<u>\$ 887,979</u>	<u>\$ --</u>	<u>\$ 24,686,395</u>

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 5: **Capital Assets** (continued)

Component Unit – Santa Cruz County Sanitation District (SCCSD)

	Restated Balance July 1, 2004	Additions	Retirement	Transfers & Adjustments	Balance June 30, 2005
Capital Assets, Not Being Depreciated:					
Construction in progress	\$ 8,276,190	\$ 4,521,763	\$ --	\$ (6,442,255)	\$ 6,355,698
Total Capital Assets, Not Being Depreciated	<u>8,276,190</u>	<u>4,521,763</u>	<u>--</u>	<u>(6,442,255)</u>	<u>6,355,698</u>
Capital Assets, Being Depreciated:					
Building and structures	113,186,747	26,834	--	6,442,255	119,655,836
Equipment	<u>4,496,808</u>	<u>127,779</u>	<u>(118,064)</u>	<u>--</u>	<u>4,506,523</u>
Total Capital Assets, Being Depreciated	<u>117,683,555</u>	<u>154,613</u>	<u>(118,064)</u>	<u>6,442,255</u>	<u>124,162,359</u>
Less Accumulated Depreciation for:					
Buildings and structures	(37,600,526)	(2,771,389)	--	--	(40,371,915)
Equipment	<u>(2,433,128)</u>	<u>(354,074)</u>	<u>118,064</u>	<u>--</u>	<u>(2,669,138)</u>
Total Accumulated Depreciation	<u>(40,033,654)</u>	<u>(3,125,463)</u>	<u>118,064</u>	<u>--</u>	<u>(43,041,053)</u>
Total Capital Assets, Being Depreciated, Net	<u>77,649,901</u>	<u>(2,970,850)</u>	<u>--</u>	<u>6,442,255</u>	<u>81,121,306</u>
Total Capital Assets, Net	<u>\$ 85,926,091</u>	<u>\$ 1,550,913</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 87,477,004</u>

The restatement to beginning balance of the governmental activities – governmental funds in the amount of \$286,451,797 was to reflect the appraised balances for land and infrastructure and depreciation (See Note 19).

Depreciation expense was charged to governmental functions as follows:

General government	\$ 2,069,218
Public protection	1,201,519
Public ways and facilities	9,512,948
Health and sanitation	820,964
Public assistance	220,577
Recreation and culture	140,973
Capital assets held by the County's internal service funds are charged to the various functions based on their usage of the assets	<u>2,356,427</u>
Total	<u>\$ 16,322,626</u>

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 5: **Capital Assets** (continued)

Depreciation expense was charged to business-type functions as follows:

Business-Type Activities:

County Disposal Sites CSA	\$ 1,537,019
Boulder Creek CSA	54,767
Rolling Woods CSA	8,231
Freedom County Sanitation District	85,277
Davenport Sanitation District	80,459
Place de Mer CSA	3,868
Sand Dollar Beach CSA	10,672
Trestle Beach CSA	678
Summit West CSA	<u>3,640</u>
Total Depreciation Expense – Business-Type Activities	<u>\$ 1,784,611</u>

Note 6: **Payables**

Payables at June 30, 2005 are as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Accrued Interest</u>	<u>Total Payables</u>
Governmental Activities:				
General Fund	\$ 7,446,487	\$ 5,711,554	\$ 767,861	\$ 13,925,902
Redevelopment Agency	698,661	31,131	--	729,792
Nonmajor governmental funds	1,745,154	16,268	--	1,761,422
Internal service funds	<u>660,272</u>	<u>1,058,728</u>	<u>5,768</u>	<u>1,724,768</u>
Total Governmental Activities	<u>\$ 10,550,574</u>	<u>\$ 6,817,681</u>	<u>\$ 773,629</u>	<u>\$ 18,141,884</u>
	<u>Vendors</u>		<u>Accrued Interest</u>	<u>Total Payables</u>
Business-Type Activities:				
County Disposal Sites CSA		\$ 725,732	\$ 32,611	\$ 758,343
Nonmajor enterprise funds		<u>321,412</u>	<u>11,909</u>	<u>333,321</u>
Total Business-Type Activities		<u>\$ 1,047,144</u>	<u>\$ 44,520</u>	<u>\$ 1,091,664</u>

Note 7: **Short-Term Debt – Tax and Revenue Anticipation Notes**

The County issues tax and revenue anticipation notes annually to meet current expenses, capital expenditures and other obligations or indebtedness until sufficient taxes or revenues are collected to fund the County's operations.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 7: **Short-Term Debt – Tax and Revenue Anticipation Notes** (continued)

Tax and revenue anticipation notes payable debt activity for the year ended June 30, 2005 was as follows:

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Balance July 1, 2004</u>	<u>Addition</u>	<u>Deletion</u>	<u>Accrued Interest</u>	<u>Balance June 30, 2005</u>
2004	2.0%	\$ 38,757,889	\$ --	\$ 38,757,889	\$ --	\$ --
2005	3.0 – 3.5%	<u> --</u>	<u> 61,000,000</u>	<u> --</u>	<u> 1,170,000</u>	<u> 62,170,000</u>
Total		<u>\$ 38,757,889</u>	<u>\$ 61,000,000</u>	<u>\$ 38,757,889</u>	<u>\$ 1,170,000</u>	<u>\$ 62,170,000</u>

Note 8: **Capital Leases**

The County has entered into certain capital lease agreements under which the related equipment, computers, vehicles, and furniture will become the property of the County when all terms of the lease agreements are met.

	<u>Stated Interest Rate</u>	<u>Present Value of Remaining Payments as of June 30, 2005</u>
Governmental Fund Activities:		
Health Services – equipment & furniture	5.81 – 8.78%	\$ 64,090
Human Resources – computers & furniture	5.74%	152,050
Service Center – vehicles	3.48 – 7.00%	81,301
Central Duplicating – Xerox machine	7.50%	<u>40,024</u>
Total Capital Lease Obligations		<u>\$ 337,465</u>

Equipment, computers, vehicles, furniture, and accumulated amortization under capital lease are as follows:

	<u>Governmental Activities</u>
Equipment, computers, furniture, and vehicles	<u>\$ 1,624,946</u>
Total assets under capital lease	1,624,946
Less: Accumulated depreciation	<u>(1,272,573)</u>
Net Value	<u>\$ 352,373</u>

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 8: **Capital Leases** (continued)

As of June 30, 2005, capital lease annual amortization is as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>
2006	\$ 300,306
2007	43,855
2008	<u>12,027</u>
Total Requirements	356,188
Less: Interest	<u>18,723</u>
Present Value of Remaining Payments	<u>\$ 337,465</u>

Note 9: **Long-Term Liabilities**

Long-term liabilities at June 30, 2005 included in the following:

<u>Type of Indebtedness (Purpose)</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2005</u>
<u>Governmental Activities</u>					
<i>Refunding Certificates of Participation</i>					
1996 Issue (financed construction of the County Emeline Avenue Health Services building and an infirmary in the County Medium Security Detention Facility)					
Serial certificates	9/1/97 – 9/1/26	4.00% – 5.65%	\$190,000 – \$1,605,000	\$ 20,955,000	\$ 17,610,000
Term bonds	3/1/21 – 9/1/23	5.60%	\$1,230,000 – \$1,370,000	3,900,000	3,900,000
2002 Issue (refinanced road improvements, a detention facility, a library, equipment, purchases of parkland and construction of a transfer station; financed improvements to County buildings)					
Serial certificates	8/1/03 – 8/1/22	4.00% – 5.15%	\$50,000 – \$605,000	4,380,000	3,140,000
Term certificates	8/1/23 – 8/1/32	5.25%	\$100,000 – \$155,000	1,260,000	1,260,000
Unamortized bond premium				126,230	117,814
2005 Issue (defeased 1995A Lease Revenue Refunding Bonds and financed construction and improvements to the Santa Cruz County Water Street and Roundtree Lane Detention Facilities)					
Serial certificates	8/1/05 – 8/1/20	2.75 – 4.25%	\$500,000 – \$910,000	10,580,000	10,580,000
Unamortized bond discount				(67,249)	(67,249)
<i>Lease Revenue Bonds</i>					
2001 Series B Issue (financed equipment for the Santa Cruz County Departments of Public Works, County Counsel and Agricultural Commissioner, and improvements to the Health Service Buildings)					
Serial bonds	8/1/02 – 8/1/26	2.10% – 4.625%	\$200,000 – \$760,000	9,675,000	7,650,000
Term bonds	2/1/27 – 8/1/31	4.75%	\$405,000 – \$485,000	2,225,000	2,225,000

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements For the Year Ended June 30, 2005

Note 9: Long-Term Liabilities (continued)

<u>Type of Indebtedness (Purpose)</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2005</u>
<u>Governmental Activities</u> (continued)					
<i>Lease Revenue Refunding Bonds</i>					
2002 Series A Issue (refinanced construction and equipment costs for the Santa Cruz County Consolidated Emergency Communications Center)					
Serial bonds	6/15/04 – 6/15/12	2.00% – 3.50%	\$76,000 – \$295,000	\$ 1,449,665	\$ 803,257
Term bonds	6/15/13 – 6/15/24	5.25%	\$81,000 – \$140,214	1,288,063	1,288,063
Unamortized bond premium				65,966	61,568
<i>Revenue Bonds</i>					
1995 Series B Issue (financed improvements to existing drainage facilities of the Santa Cruz County Flood Control Zone No. 7)					
Serial bonds	8/1/97 – 8/1/10	4.20% – 6.35%	\$175,000 – \$360,000	3,565,000	1,870,000
Term bonds	2/1/11 – 8/1/12	6.50%	\$380,000 – \$405,000	785,000	785,000
<i>Local Agency Revenue Bonds</i>					
1999 Issue (defeased 1992 Place de Mer and 1993 Sand Dollar Beach Districts, and financed construction of the Sunset Beach Water Main Extension Project)					
Local oblig. bonds	9/2/00 – 9/2/19	4.00% – 5.50%	\$20,000 – \$85,000	895,000	585,000
<i>Certificates of Participation</i>					
2004 Series Issue (financed payments due for settlement of lawsuits arising from damage to property caused by flooding of the Pajaro River)					
Serial certificates	6/1/05 – 6/1/24	2.25% – 5.00%	\$525,000 – \$1,720,000	23,000,000	22,415,000
Unamortized bond premium				<u>27,378</u>	<u>26,465</u>
Total Public Financing Authority Debt				<u>84,110,053</u>	<u>74,249,918</u>
<i>CA Health Facilities Financing Authority (CHFFA)</i>					
1987 (financed capital projects for County health facilities)					
Notes	1987 – 2011	7.20%	\$60,000 – \$757,000	<u>3,829,696</u>	<u>1,233,252</u>
<i>Redevelopment Agency Tax Allocation Bonds</i>					
(to finance Live Oak/Soquel community improvement projects)					
1996 Issue Subordinate Tax Allocation Bonds					
Serial bonds	9/1/97 – 9/1/14	4.00% – 5.50%	\$180,000 – \$485,000	5,845,000	3,860,000
Term bonds	9/1/15 – 9/1/17	5.60%	\$510,000 – \$570,000	1,620,000	1,620,000
Term bonds	9/1/18 – 9/1/22	5.625%	\$600,000 – \$725,000	3,335,000	3,335,000
2000 Issue Subordinate Tax Allocation Refunding Bonds					
Serial bonds	9/1/01 – 9/1/22	4.25% – 5.25%	\$490,000 – \$1,280,000	17,855,000	15,780,000
2000 Issue Series A Subordinate Tax Allocation Bonds					
Serial bonds	9/1/02 – 9/1/22	5.00% – 5.25%	\$140,000 – \$2,035,000	6,525,000	6,080,000
Term bonds	9/1/23 – 9/1/27	5.25%	\$2,150,000 – \$2,660,000	11,990,000	11,990,000
Term bonds	9/1/28 – 9/1/30	5.375%	\$2,810,000 – \$3,125,000	8,900,000	8,900,000

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 9: **Long-Term Liabilities** (continued)

<u>Type of Indebtedness (Purpose)</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2005</u>
<u>Governmental Activities</u> (continued)					
<i>Redevelopment Agency Tax Allocation Bonds</i> (continued)					
2000 Taxable Series B Subordinate Tax Allocation Bonds					
Serial bonds	9/1/22	7.75%	\$800,000	\$ 800,000	\$ 800,000
Term bonds	9/1/23 – 9/1/30	7.875%	\$865,000 – \$1,480,000	9,200,000	9,200,000
2003 Tax Allocation Refunding Bonds					
Serial bonds	9/1/04 – 9/1/24	2.00% – 5.00%	\$1,665,000 – \$3,500,000	48,435,000	46,770,000
Unamortized bond discount				(194,382)	(187,903)
Total Redevelopment Agency Bonds				<u>114,310,618</u>	<u>108,147,097</u>
<i>Redevelopment Agency CERTS Loans Payable</i> (financing for the Community Swim Center)					
1996 CERTS loan	8/1/96 – 8/1/06	4.25% – 5.00%	\$99,000 – \$352,000	<u>2,231,380</u>	<u>352,417</u>
<i>Internal Service Funds</i>					
Loan Payable – Santa Cruz County Public Financing Authority					
Loans payable		2.10% – 4.75%	\$330,000 – \$560,000	3,249,566	1,723,436
Unamortized bond discount				(42,217)	(24,125)
Total Governmental Activities				<u>\$ 207,689,096</u>	<u>\$ 185,681,995</u>
<u>Business-Type Activities</u>					
<i>Loans Payable</i>					
Enterprise Fund – Sand Dollar Beach CSA					
Santa Cruz County Public Financing Authority	9/1/99 – 9/1/08	4.99% – 6.09%	\$10,000 – \$20,000	\$ 135,000	\$ 69,232
Enterprise Fund – County Disposal Sites CSA					
Loans payable	8/1/88 – 8/1/06	5.50% – 8.375%	\$145,000 – \$380,000	7,328,287	1,256,710
Unamortized discount				(72,495)	(9,304)
Enterprise Fund – Davenport Sanitation District					
California State Department of Water Resources	1/1/88 – 1/1/22	2.50%	\$4,550 – \$10,575	250,000	148,145
California Technology, Trade & Commerce Agency	2/28/95 – 7/1/05	2.75%	\$3,550 – \$4,817	310,691	233,302
California State Water Resources Control Board – Revolving Loan					
	5/31/01 – 5/31/20	2.60%	\$5,940 – \$9,429	<u>151,547</u>	<u>118,906</u>
Total Business-Type Activities				<u>\$ 8,103,030</u>	<u>\$ 1,816,991</u>

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements For the Year Ended June 30, 2005

Note 9: **Long-Term Liabilities** (continued)

Type of Indebtedness (Purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2005
Component Unit – Santa Cruz County Sanitation District (SCCSD)					
<i>Revenue Refunding Bonds</i>					
2005 Wastewater Revenue Refunding Bonds (financed the SCCSD's share of the improvements to the City of Santa Cruz sewer treatment facility)					
Serial bonds	9/1/05 – 9/1/19	2.80% – 5.0%	\$140,000 – \$940,000	\$ 9,335,000	\$ 9,335,000
<i>Limited Obligation Bonds</i>					
2004 Issue Limited Obligation Improvement Bonds Freedom Boulevard Sewer Assessment District (financed construction of sewer facility)					
Serial bonds	9/2/05 – 9/2/18	1.85% – 5.25%	\$55,000 – \$90,000	950,000	950,000
<i>Loans Payable</i>					
City of Santa Cruz (financed construction of the treatment plant expansion)					
Loans payable	2000 – 2019	2.80%	\$928,354 – \$1,564,248	24,374,832	18,370,380
Unamortized premium				<u>41,252</u>	<u>41,252</u>
Total Component Unit				<u>\$ 34,701,084</u>	<u>\$ 28,696,632</u>

The following is a summary of long-term liabilities transactions for the year ended June 30, 2005:

	Restated Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005	Amounts Due Within One Year	Amounts Due Beyond One Year
Governmental Activities						
Governmental Funds						
PFA-1996 Refunding COP	\$ 22,020,000	\$ --	\$ 510,000	\$ 21,510,000	\$ 535,000	\$ 20,975,000
PFA-2002 Refunding COP	5,035,000	--	635,000	4,400,000	670,000	3,730,000
Unamortized Bond Premium	<u>122,022</u>	--	<u>4,208</u>	<u>117,814</u>	<u>4,208</u>	<u>113,606</u>
Subtotal	<u>27,177,022</u>	--	<u>1,149,208</u>	<u>26,027,814</u>	<u>1,209,208</u>	<u>24,818,606</u>
PFA-2005 Refunding COP	--	10,580,000	--	10,580,000	650,000	9,930,000
Unamortized Bond Discount	--	<u>(67,249)</u>	--	<u>(67,249)</u>	<u>(4,483)</u>	<u>(62,766)</u>
Subtotal	--	<u>10,512,751</u>	--	<u>10,512,751</u>	<u>645,517</u>	<u>9,867,234</u>
PFA-2001B Lease Revenue Bonds	10,595,000	--	720,000	9,875,000	740,000	9,135,000
PFA-1995A Lease Revenue Refunding Bonds	12,800,000	--	12,800,000	--	--	--
PFA-2002A Lease Revenue Refunding Bonds	2,200,639	--	109,319	2,091,320	114,072	1,977,248
Unamortized Bond Premium	<u>63,767</u>	--	<u>2,199</u>	<u>61,568</u>	<u>2,199</u>	<u>59,369</u>
Subtotal	<u>2,264,406</u>	--	<u>111,518</u>	<u>2,152,888</u>	<u>116,271</u>	<u>2,036,617</u>
PFA-1995B Revenue Bonds	2,910,000	--	255,000	2,655,000	270,000	2,385,000
PFA-1999 Local Agency Revenue Bonds	655,000	--	70,000	585,000	65,000	520,000
PFA-2004 COP	23,000,000	--	585,000	22,415,000	525,000	21,890,000
Unamortized Bond Premium	<u>27,378</u>	--	<u>913</u>	<u>26,465</u>	<u>913</u>	<u>25,552</u>
Subtotal	<u>23,027,378</u>	--	<u>585,913</u>	<u>22,441,465</u>	<u>525,913</u>	<u>21,915,552</u>

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 9: **Long-Term Liabilities** (continued)

	Restated Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005	Amounts Due Within One Year	Amounts Due Beyond One Year
Governmental Funds (continued)						
Redevelopment Agency – Bonds	\$ 111,010,000	\$ --	\$ 2,675,000	\$ 108,335,000	\$ 2,770,000	\$ 105,565,000
Unamortized Bond Discount	(194,382)	--	(6,479)	(187,903)	(6,479)	(181,424)
Subtotal	<u>110,815,618</u>	<u>--</u>	<u>2,668,521</u>	<u>108,147,097</u>	<u>2,763,521</u>	<u>105,383,576</u>
CA Health Facilities	1,382,106	--	148,854	1,233,252	161,513	1,071,739
Redevelopment Agency – Notes	679,120	--	326,703	352,417	352,417	--
Local Assessment Bonds	40,000	--	40,000	--	--	--
Compensated Absences	16,240,802	15,272,418	14,408,462	17,104,758	13,317,469	3,787,289
Capital leases	399,874	--	183,734	216,140	189,376	26,764
Total Governmental Funds	<u>208,986,326</u>	<u>25,785,169</u>	<u>33,467,913</u>	<u>201,303,582</u>	<u>20,356,205</u>	<u>180,947,377</u>
Internal Service Funds						
Loan Payable	2,238,141	--	514,705	1,723,436	546,307	1,177,129
Unamortized Discount	(30,155)	--	(6,030)	(24,125)	(6,031)	(18,094)
Subtotal	<u>2,207,986</u>	<u>--</u>	<u>508,675</u>	<u>1,699,311</u>	<u>540,276</u>	<u>1,159,035</u>
Estimated Claims	18,791,906	9,803,844	9,493,702	19,102,048	9,146,280	9,955,768
Compensated Absences	3,303,799	3,208,864	2,946,560	3,566,103	2,776,506	789,597
Capital Leases	270,987	--	149,662	121,325	94,955	26,370
Total Internal Service Funds	<u>24,574,678</u>	<u>13,012,708</u>	<u>13,098,599</u>	<u>24,488,787</u>	<u>12,558,017</u>	<u>11,930,770</u>
Total Governmental Activities	<u>\$ 233,561,004</u>	<u>\$ 38,797,877</u>	<u>\$ 46,566,512</u>	<u>\$ 225,792,369</u>	<u>\$ 32,914,222</u>	<u>\$ 192,878,147</u>
Business-Type Activities						
Enterprise Funds:						
Sand Dollar Beach	\$ 84,232	\$ --	\$ 15,000	\$ 69,232	\$ 15,232	\$ 54,000
County Disposal Sites	1,782,472	--	525,762	1,256,710	598,698	658,012
Unamortized Bond Discount	(14,257)	--	(4,953)	(9,304)	(4,954)	(4,350)
Subtotal	<u>1,768,215</u>	<u>--</u>	<u>520,809</u>	<u>1,247,406</u>	<u>593,744</u>	<u>653,662</u>
Davenport Sanitation District Postclosure Liability – County Disposal Sites	521,105	--	20,752	500,353	23,058	477,295
Total Business-Type Activities	<u>\$ 5,896,232</u>	<u>\$ 460,809</u>	<u>\$ 556,561</u>	<u>\$ 5,800,480</u>	<u>\$ 632,034</u>	<u>\$ 5,168,446</u>
Component Unit – Santa Cruz County Sanitation District						
1977 Revenue Bonds	\$ 4,005,000	\$ --	\$ 4,005,000	\$ --	\$ --	\$ --
Special Assessment Bonds – Freedom Boulevard	1,125,000	--	1,125,000	--	--	--
Wastewater Treatment COP	5,905,000	--	5,905,000	--	--	--
2005 Wastewater Revenue Refunding Bonds	--	9,335,000	--	9,335,000	410,000	8,925,000
Limited Obligation Refunding Improvement Bonds	--	950,000	--	950,000	55,000	895,000
Loan Payable	19,430,498	--	1,060,118	18,370,380	1,089,801	17,280,579
Unamortized Bond Discount/ Premium	(72,762)	41,252	(72,762)	41,252	--	41,252
Subtotal	<u>19,357,736</u>	<u>41,252</u>	<u>987,356</u>	<u>18,411,632</u>	<u>1,089,801</u>	<u>17,321,831</u>
Total Component Unit	<u>\$ 30,392,736</u>	<u>\$ 10,326,252</u>	<u>\$ 12,022,356</u>	<u>\$ 28,696,632</u>	<u>\$ 1,554,801</u>	<u>\$ 27,141,831</u>

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 9: **Long-Term Liabilities** (continued)

For financial reporting purposes, generally accepted accounting principles define the reporting entity as the primary government (the County), organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Accordingly, at June 30, 2005, long-term debt of Santa Cruz County includes debt of the Santa Cruz County Redevelopment Agency (RDA), the Public Financing Authority, and Local Assessment Districts.

California Community Redevelopment Law (Health and Safety Code 33000 et seq) establishes the Santa Cruz County Redevelopment Agency as a distinct and separate legal entity responsible for its own bonded debt obligations. The RDA Tax Allocation Bonds are not a debt of the County of Santa Cruz, and the County is under no circumstances liable therefore. Similarly, the Public Financing Authority is a separate legal entity for whose debts the County of Santa Cruz is not liable. All Special Assessment debt disclosed on the County's financial report is payable solely from levies collected from property owners within an assessment area. The County has no obligations on this debt. The County is acting in an agent capacity for the property owners.

The County of Santa Cruz is therefore not obligated in any way for Redevelopment, Public Financing Authority, or Local Assessment obligations.

Internal Service Funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. Estimated claims and compensated absences are generally liquidated by the General Fund and Internal Service Funds.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 9: **Long-Term Liabilities** (continued)

Governmental Activities

At June 30, 2005, annual debt service requirements of governmental activities to maturity are as follows:

Public Financing Authority

Fiscal Year June 30,	Lease Revenue Refunding Bonds		Refunding Certificates of Participation		Certificates of Participation	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 114,072	\$ 91,763	\$ 1,855,000	\$ 1,587,569	\$ 525,000	\$ 951,156
2007	116,449	89,481	1,765,000	1,643,245	860,000	939,344
2008	118,825	85,988	1,835,000	1,572,399	890,000	916,769
2009	121,202	82,423	1,195,000	1,512,249	920,000	890,069
2010	128,331	78,787	1,255,000	1,462,553	945,000	860,169
2011-2015	458,665	334,920	7,195,000	6,421,371	5,330,000	3,727,819
2016-2020	518,075	219,339	9,300,000	4,495,014	6,525,000	2,484,525
2021-2025	515,701	69,495	7,910,000	2,197,803	6,420,000	803,538
2026-2030	--	--	3,735,000	379,251	--	--
2031-2033	--	--	445,000	35,831	--	--
	<u>\$ 2,091,320</u>	<u>\$ 1,052,196</u>	<u>\$ 36,490,000</u>	<u>\$ 21,307,285</u>	<u>\$ 22,415,000</u>	<u>\$ 11,573,389</u>

Fiscal Year June 30,	Lease Revenue Bonds		Revenue Bonds		Local Agency Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 740,000	\$ 394,154	\$ 270,000	\$ 155,503	\$ 65,000	\$ 28,973
2007	760,000	373,334	285,000	139,749	75,000	25,473
2008	535,000	354,078	300,000	122,705	85,000	21,473
2009	550,000	336,439	320,000	104,255	40,000	18,328
2010	200,000	323,676	335,000	84,270	25,000	16,670
2011-2015	1,110,000	1,497,114	1,145,000	114,293	130,000	64,254
2016-2020	1,360,000	1,239,954	--	--	165,000	23,513
2021-2025	1,640,000	896,819	--	--	--	--
2026-2030	2,030,000	474,759	--	--	--	--
2031-2033	950,000	45,600	--	--	--	--
	<u>\$ 9,875,000</u>	<u>\$ 5,935,927</u>	<u>\$ 2,655,000</u>	<u>\$ 720,775</u>	<u>\$ 585,000</u>	<u>\$ 198,684</u>

The Certificates of Participation, the Lease Revenue Bonds, and the Lease Revenue Refunding Bond retirements and related interest payments are paid from revenues from the General Fund. The Revenue Bonds retirements and related interest payments are paid from revenues generated from the Flood Control Zone No. 7 special revenue fund. The Local Agency Revenue Bonds retirements and related interest payments are paid from revenues generated from property owner's assessments.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 9: **Long-Term Liabilities** (continued)

Governmental Activities (continued)

California Health Facilities Financing Authority (CHFFA)

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 161,513	\$ 83,531
2007	173,714	71,497
2008	186,840	58,553
2009	200,951	44,632
2010	216,138	29,659
2011-2012	<u>294,096</u>	<u>14,286</u>
Total Requirements	<u>\$ 1,233,252</u>	<u>\$ 302,158</u>

Redevelopment Agency

<u>Year Ending</u> <u>June 30,</u>	<u>Tax Allocation Bonds</u>		<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 2,770,000	\$ 5,318,830	\$ 352,417	\$ 8,810
2007	2,850,000	5,230,579	--	--
2008	2,945,000	5,134,316	--	--
2009	3,045,000	5,031,910	--	--
2010	3,150,000	4,920,265	--	--
2011-2015	17,740,000	22,527,048	--	--
2016-2020	22,115,000	18,006,352	--	--
2021-2025	29,845,000	11,574,428	--	--
2026-2030	<u>23,875,000</u>	<u>4,658,513</u>	<u>--</u>	<u>--</u>
Total Requirements	<u>\$ 108,335,000</u>	<u>\$ 82,402,241</u>	<u>\$ 352,417</u>	<u>\$ 8,810</u>

The Tax Allocation Bonds retirements and related interest payments are secured by the pledge of tax revenues. The loan payable principal and interest are paid from redevelopment agency revenues.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 9: **Long-Term Liabilities** (continued)

Governmental Activities (continued)

Internal Service

At June 30, 2005, annual debt service requirements of the internal service fund's loans payable to maturity are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 546,307	\$ 44,976
2007	560,741	29,610
2008	330,175	16,419
2009	<u>286,213</u>	<u>5,609</u>
Total Requirements	<u>\$ 1,723,436</u>	<u>\$ 96,614</u>

Business-Type Activities

At June 30, 2005, annual debt service requirements of business-type activities to maturity are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 636,988	\$ 57,726
2007	366,938	36,187
2008	374,021	21,093
2009	43,936	12,310
2010	25,603	10,959
2011-2015	138,419	44,269
2016-2020	157,653	24,946
2021-2024	<u>82,737</u>	<u>5,477</u>
Total Requirements	<u>\$ 1,826,295</u>	<u>\$ 212,967</u>

Loans payable principal and interest are paid from various enterprise fund revenues.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 9: **Long-Term Liabilities** (continued)

Component Unit

At June 30, 2005, annual debt service requirements of the Santa Cruz County Sanitation District to maturity are as follows:

Fiscal Year June 30,	Wastewater Revenue Refunding Bonds		Limited Obligation Improvement Bonds		Loans Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 410,000	\$ 165,527	\$ 55,000	\$ 39,504	\$ 1,089,801	\$ 514,370
2007	475,000	351,053	55,000	38,308	1,120,316	483,856
2008	490,000	336,802	55,000	36,795	1,151,684	452,487
2009	515,000	322,102	60,000	34,920	1,183,932	420,240
2010	535,000	306,653	60,000	32,730	1,217,082	387,090
2011-2015	3,840,000	1,196,728	335,000	123,834	6,616,072	1,404,788
2016-2020	3,070,000	350,850	330,000	35,378	5,991,493	469,450
	<u>\$ 9,335,000</u>	<u>\$ 3,029,715</u>	<u>\$ 950,000</u>	<u>\$ 341,469</u>	<u>\$ 18,370,380</u>	<u>\$ 4,132,281</u>

The 2004 Issue Limited Obligation Improvement Bonds – Freedom Boulevard Sewer Assessment District is collateralized by liens against properties of the assessments. Bond retirements and related interest payments are paid from assessments levied against the properties that benefit from the improvements.

During 2005, the Santa Cruz County Sanitation District issued Limited Obligation Refunding Improvement Bonds to refinance the Freedom Blvd. Special Assessment bonds, pay costs related to the issuance of the bonds and to make a deposit to a Reserve Fund. As a result, the refunded Special Assessment bonds are considered to be defeased and the liability has been removed. As a result of the refunding, the District reduced its total debt service payment by \$418,217 and obtained an economic gain of \$118,272.

The Loan Payable – City of Santa Cruz principal and related interest payments are payable from the District’s net revenues after provision has been made for payment on the District’s 1977 Revenue Bonds.

During 2005, the District issued \$9,335,000 of 2005 Wastewater Revenue Refunding Bonds which refunded the 1977 Sewer Revenue Bonds, Series A, and the 1994 COPs issued for the wastewater treatment plant. The bonds are obligations of the District, and are payable from and secured by a pledge of net revenues, as defined in the Indenture. While the 1994 COPs were fully refunded prior to the end of the 04/05 fiscal year, as of June 30, 2005, a portion of the net proceeds from the 2005 Refunding was deposited in an irrevocable escrow account with the trustee to provide for the payment of the refunded 1977 Revenue Bonds. These bonds were fully repaid in September, 2005. As a result of the refunding, the District reduced its total debt service payment by \$1,367,715 and obtained an economic gain of \$1,144,109.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 9: **Long-Term Liabilities** (continued)

Advance Refunding

On June 1, 2005, the County of Santa Cruz Public Financing Authority issued \$10,580,000 Refunding Certificates of Participation, Series 2005, with interest rates ranging from 2.75% to 4.25% to currently refund \$11,590,000 of then outstanding 1995 A Lease Revenue Refunding Bonds. The redemption premium in the amount of \$206,200 is being amortized as a deferred charge over the remaining life of the current debt. Moneys from the 1995 A Reserve and Project funds in the amount of \$1,943,685 and \$735,090, respectively, and the net proceeds from the 2005 Refunding Certificates of Participation were deposited in an irrevocable escrow account with the trustee to provide for the payment of the refunded debt.

As a result of the advance refunding, the County reduced its total debt service payments by \$1,676,651 and obtained an economic gain of \$552,747.

Legal Debt Limit

The County's legal annual debt service limit as of June 30, 2005, is approximately \$ 344,800,352. The County's legal debt service limit is 1.25% of the total full cash valuation of all real and personal property within the County.

Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years. During the coming year, the County has hired a consultant to perform calculations of excess investment earnings on various bonds and financings.

Note 10: **Landfill Closure And Postclosure Costs**

The County of Santa Cruz operates the Buena Vista landfill for the disposal of municipal waste and a transfer station at the site of the closed Ben Lomond landfill. State and federal laws and regulations, including the California Integrated Waste Management Board Title 14, The California State Water Resources Control Board Title 23, and the Environmental Protection Agency Subtitle D of the Codified Federal Regulations 40, require the County to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 10: **Landfill Closure And Postclosure Costs** (continued)

site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that landfills stop accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on each County landfill's capacity used as of each balance sheet date.

As of June 30, 2005, a liability for closure and postclosure maintenance in the amount of \$3,983,489 is reflected in the County Disposal Sites Enterprise Fund based upon landfill capacity used to date. As of June 30, 2005, Ben Lomond landfill was filled to 100% capacity, and the County estimates that the Buena Vista landfill is filled to 50.23% of capacity with an estimated remaining useful life of 15 years. The County will recognize the remaining estimated cost of closure and postclosure maintenance of \$3,045,176 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2005. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The estimates will also be adjusted annually for inflation or deflation, in accordance with State guidelines.

The County is required by State and Federal laws and regulations to make annual contributions to a fund to finance closure and postclosure maintenance. The County is in compliance with these requirements, and at June 30, 2005, cash of \$3,849,718 is held for this purpose, reported as restricted assets on the balance sheet. The County expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example) these costs may need to be covered by charges to future landfill users.

Postclosure maintenance for both the Buena Vista and closed Ben Lomond landfill is provided for through a "Pledge of Revenue". The County Board of Supervisors adopted resolutions pledging future Refuse Disposal District (CSA 9-C) revenues annually through the prescribed postclosure maintenance period. An initial postclosure cost was estimated at the time of adoption of Pledge of Revenue resolutions and is adjusted for inflation on an annual basis.

Note 11: **Prior Year Defeasance of Debt**

In prior years, the Santa Cruz County Public Financing Authority defeased Certificates of Participation (CERTS) by placing the proceeds of the new CERTS in an irrevocable trust to provide for all future debt service payments on the old CERTS. Accordingly, the trust account assets and liability for the defeased CERTS are not included in the County's financial statements. On June 30, 2005, the amount of defeased debt outstanding is \$190,000.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 12: **Deficit Net Assets**

Individual proprietary fund deficit net assets at June 30, 2005 are as follows:

Nonmajor Governmental Funds	
Local assessment bonds	\$ 63
Internal Service Funds	
Central duplicating	\$ 408,135
Self-insurance – Worker’s compensation	13,144,300

The Central Duplicating fund had deficit net assets of \$408,135 that resulted from current year losses.

The Workers’ Compensation fund had deficit net assets of \$13,144,300 related to the losses payable for claims and the inclusion of estimates for incurred but not reported (IBNR) claims. It is anticipated that the County will have sufficient funds to pay annual requirements.

The Local Assessment Bonds fund had deficit net assets of \$63 related to bond payments. This deficit is expected to be recovered in fiscal year 2005-2006.

Note 13: **Defined Benefit Pension Plan**

Plan Description

All eligible County employees participate in the California Public Employees’ Retirement System (PERS). PERS is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state governmental agencies within the state. PERS provides retirement, disability, and death benefits based on the employees’ years of service, age and final compensation. Employees vest after five years of PERS-credited service and they are eligible for service retirement if they are 50 years old or over and have at least 5 years of PERS-credited service. These provisions and all other requirements are established by state statute and County resolutions. Copies of PERS’ annual financial report and the required 10-year trend information may be obtained from their executive office at 400 P Street, Sacramento, California 95814.

Funding Policy

Participants are required to contribute 7% and 9% for miscellaneous and safety employees, respectively, of their annual covered salary. The County makes the contributions required of County employees on their behalf and for their account.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 13: **Defined Benefit Pension Plan** (continued)

Funding Policy (continued)

The County is also required to contribute at an actuarially determined rate. The 2005 fiscal year contributions as a percentage of annual covered payroll were 8.352% for miscellaneous employees, 16.155% for safety employees, and 26.047% for safety sheriff employees. The contribution requirements of plan members and the County are established and may be amended by PERS.

Annual Pension Costs

The County's annual pension cost for the current year and two previous years was \$26,000,605, \$17,534,312, and \$11,454,141, respectively. These were equal to the annually required contribution. The current year's required contribution was determined as part of the June 30, 2002 actuarial valuation using a modification of the Entry Age Normal Actuarial Cost Method. The actuarial assumptions includes: (a) a rate of return on investments of 8.25%; (b) projected salary increases of 3.75% to 14.20% or 4.27% to 11.59% (for miscellaneous and safety employees, respectively) depending on age, service, and type of employment. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of the pension plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. There are averages of 15 years and 10 years remaining in the amortization period at June 30, 2002 (the valuation date) under the miscellaneous and safety plan, respectively. There was no net pension obligation upon implementation of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

Three year trend information (amounts in thousands):

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$ 11,454	100%	\$ --
6/30/04	17,534	100%	--
6/30/05	26,000	100%	--

Note 14: **Post-Retirement Health Care Benefits**

In addition to the pension benefits described above, the County provides post-retirement pre-Medicare health care benefits for retirees and their dependents in accordance with the various employee representation units' agreements. These benefits are provided for those retirees who:

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 14: **Post-Retirement Health Care Benefits** (continued)

- Are enrolled in a medical plan at the time of retirement, and
- File an application for monthly retirement through PERS at the time of separation.

At June 30, 2005, approximately 480 retirees were eligible to receive such benefits. County contributions for fiscal year 2004-2005 were \$1,387,040. These contributions are funded on a pay-as-you-go basis.

Note 15: **Deferred Compensation Plan**

The County offers all of its full-time employees a deferred compensation plan (the Plan) created in accordance with Section 457 of the Internal Revenue Code. The Plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or emergency. Employees direct the investment of plan assets into certificates of deposits and various mutual funds. The County has insignificant administrative duties.

The County implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, on July 1, 1997. The Statement requires new reporting standards for deferred compensation plans. Under these new requirements, the County no longer owns the amount deferred by employees or related income on these amounts as long as all assets and income of the Plan are held in trust for the exclusive benefit of participants and their beneficiaries.

As of June 30, 2005, the Plan's assets, at market value, of \$64,103,137 are not recorded in the County's financial statements.

Note 16: **Commitments**

As of June 30, 2005, the County has construction contract commitments in the Department of Public Works (all fund types) and in Special Revenue and Capital Project Funds in the amount of \$734,505 and \$6,269,159, respectively.

Note 17: **Contingencies**

A. **Litigation**

There are no pending litigations for the County.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 17: **Contingencies** (continued)

B. Federal and State Grants

The County participates in a number of Federal and State grant programs subject to financial and compliance audits by the grantors or their representatives. Audits of certain grant programs for or including the year ended June 30, 2005, have not yet been conducted or settled. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. However, management does not believe that any audit disallowances would have a significant effect on the financial position of the County.

C. Medicare and Medi-Cal Reimbursements

The County's Medicare and Medi-Cal cost reports for certain prior years are in various stages of review by the third-party intermediaries and have not been settled as a result of certain unresolved reimbursement issues. The County believes that it has adequately provided for any potential liabilities which may arise from the intermediaries' review.

Note 18: **Self-Insurance**

The County 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 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 assets 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, a joint powers authority whose purpose is to develop and fund programs of excess insurance for its member counties. The Authority is governed by a Board of Directors consisting of representatives of the member counties. Self-insurance limits per occurrence and Authority limits per year are as presented in the Statistical Section of this report.

Amounts in excess of these limits are self-insured. None of the insurance settlements over the past three years has exceeded the amount of insurance coverage. As of June 30, 2005, the workers' compensation liability limit per occurrence was \$500,000.

The unpaid claims liability included in each of the Self-Insurance Internal Service Funds are based on the results of actuarial studies and include amounts for claims incurred but not reported. Claim liabilities are calculated considering the effects of inflation,

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 18: **Self-Insurance** (continued)

recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. It is the County's practice to obtain full actuarial studies annually. Annual premiums are charged by each self-insurance fund using various allocation methods which include actual costs, trends in claims experience and number of participants.

The change in the balance of claims liabilities during the fiscal years ended June 30, 2005 and 2004 for all self-insurance Internal Service Funds combined is as follows:

	<u>2005</u>	<u>2004</u>
Unpaid claims and claim adjustment expenses, beginning of the fiscal year	\$ 18,791,906	\$ 18,615,430
Incurred claims and claim adjustment expenses	9,803,844	31,542,454
Claim payments	<u>(9,493,702)</u>	<u>(31,365,978)</u>
Unpaid claims and claim adjustment expenses, end of the fiscal year	<u>\$ 19,102,048</u>	<u>\$ 18,791,906</u>

At June 30, 2005, the self-insurance funds held a total of \$8,504,980 in cash for the payment of these claims.

Workers' Compensation

The Workers' Compensation self-insurance program is funded on a cash flow plus contingency reserve basis. The County is liable for the first \$500,000 and carries catastrophic insurance coverage for any amount required by statute. At June 30, 2005, the estimated future liabilities were \$15,857,482. This was determined by adding the future liability amount to an estimate for incurred by not reported (IBNR) claims and subtracting the amounts in excess of the self-insured retention. As permitted by state and federal guidelines, the Workers' Compensation program is funded on a pay-as-you-go basis. The funding is closely monitored to ensure that claims are paid when due or required by law.

Dental and Health

On September 30, 1994, the County discontinued its medical self-insurance program. On January 5, 1991, the County established a self-insurance program to provide dental benefits. At June 30, 2005, the County had an estimated future liability of \$85,708 for dental and health. The County is fully insured for its alternative capitation dental program and for health coverage for employees represented by Operating Engineers Union Local 3.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 18: **Self-Insurance** (continued)

Liability and Property

The County is fully self-insured with no excess insurance coverage under the County's general insurance program. At June 30, 2005, the County had estimated future liabilities totaling \$3,065,108 which included estimates for known claims and losses as well as 50% of losses incurred but not reported (IBNR), and multiplying the amount by an estimated present value discount factor of 89.1%.

Unemployment Insurance

The Unemployment Insurance self-insurance program is considered a "reimbursable" program by EDD, since EDD provides benefits and bills the County quarterly after the fact. As billings are always one quarter in arrears, the estimated future liabilities are based on 25% of the amount budgeted for the new fiscal year. At June 30, 2005, estimated future liabilities were \$93,750.

Note 19: **Prior Period Adjustments**

The prior period adjustments have no effect on the results of the current year's activities, however, the cumulative effect increased (decreased) the net assets by the respective amounts stated below. The following explains why prior period adjustments were made during the fiscal year ended June 30, 2005:

Governmental Activities – Capital Assets

The prior period adjustment of \$286,451,797 reflects the restatement to include the appraised balances for land infrastructure and depreciation for the fiscal year ending June 30, 2005.

Governmental Activities – Nonmajor Governmental Fund – Capital Projects Fund

The prior period adjustment of (\$1,086,568) reflects the correction of realignment revenues reported in the prior year.

Governmental Activities – Internal Service Fund – Information Services:

The above prior period adjustment of (\$94,087) reflects the correction to the accumulated depreciation of capital assets.

COUNTY OF SANTA CRUZ, CALIFORNIA

Notes to the Financial Statements
For the Year Ended June 30, 2005

Note 20: **Budget Comparison To Actual Expenditure Variance**

The following funds had expenditures that exceeded appropriations:

Capital project	\$ (3,354,807)
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Note 21: **Subsequent Events**

On July 20, 2005, the County issued a Tax and Revenue Anticipation Note at 4.00% in the amount of \$50 million. Tax and Revenue Anticipation Notes are issued annually as part of a cash management policy to maintain the County's working capital until sufficient taxes or revenues are collected to fund the County's operations. The notes are due July 19, 2006 and are collateralized by fiscal year 2005-2006 unrestricted revenues.

Note 22: **New Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) recently released several new accounting and financial reporting standards. Three of the new standards, GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment of NCGA Statement 1*, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers of Postemployment Benefits Other than Pensions (OPEB)*, may have a significant impact on the County's financial reporting process.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. GASB No. 42 will be effective for the fiscal year ending June 30, 2006.

GASB Statement No. 44 guides the preparation of supplementary information included in the statistical section. This new statement provides specific requirements for the information presented in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and will enhance comparability among governments presenting a statistical section. GASB No. 44 will be effective for the fiscal year ending June 30, 2006.

GASB Statement No. 45 establishes standards for the measurement, recognition and display of OPEB expenses/expenditures, related assets and liabilities, note disclosures and, if applicable, required supplementary information in the financial reports of state and local government employers. GASB No. 45 will be effective for the fiscal year ending June 30, 2008.