

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

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, 2006.

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.

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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 Seascape 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

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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	Country 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 Grove 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

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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	

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, Redevelopment Agency, and complete financial statements may be obtained from 701 Ocean Street, Room 510, 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.

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

B. 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 Basic Financial Statements
Year Ended June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - 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.

Fund Financial Statements

The financial transactions of the County are reported in individual funds in the fund financial statements. Each fund is accounted 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 activities.

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 accounted 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 Basic Financial Statements
Year Ended June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - 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.

C. 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.

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. 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.

D. 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.

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2004 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.

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	10-40 years
Buildings and structures	10-50 years
Equipment and vehicles	3-15 years

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2006.

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.

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.

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.”

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, 2004, 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.

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- 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:

- 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.

E. 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 Basic Financial Statements
Year Ended June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - 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 Basic Financial Statements
Year Ended June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - 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.

F. 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 maintains a cash and investment pool with various financial institutions and a safekeeping agent, Bank of the West. The pool is available exclusively for use by those agencies which are statutorily required to maintain their funds in the County's treasury, and which also utilize the services of the county auditor and treasurer as their fiscal and investment officers.

Statutes authorize the County to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements, and the State Treasurer's investment pool.

Investment Policy

Pooled Investments – Funds available from all sources, when permitted, may be pooled in order to achieve greater investment potential. All earnings from pooled fund investments shall be deposited in the Interest Trust Fund. Each calendar month, the Fund shall be charged and each participant in the pooled investments shall be credited in proportion to their investment, based on an average daily balance.

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 2. CASH AND INVESTMENTS - Continued

Authorized Investments – Investments shall be limited to the following listed investment instruments and shall further be limited to the maximum percentage of total accountability, valued at cost:

<u>Instrument</u>	<u>Percentage Limits on Investments</u>	<u>Limitations</u>
Repurchase Agreements	100%	Collateralized by Government Securities, Bankers' Acceptances, Commercial Paper, or Negotiable Certificates of Deposits. Collateral will be included in percentage limitations under authorized investments. The market value plus accrued interest of the collateral must equal or exceed 102% of the repurchase cost at all times. Unless approved by the Treasurer, all collateral will be delivered to a safekeeping account.
U.S. Treasury Bills	100%	None.
U.S. Treasury Notes	100%	None.
U.S. Treasury Bonds	100%	None.
Municipal Bonds	100%	None.
Other Federal Securities	100%	None.
Bankers' Acceptances	40%	Issuers rated "A" or better by the Standard and Poor's Bank Ratings Guide. 270 day maximum maturity.
Commercial Paper	40%	Must be of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical rating organization. Limited to a maturity of 270 days or less.
Negotiable Certificates of Deposit	30%	Issuers rated "A" or better by the Standard and Poor's Bank Ratings Guide, 5 years maximum maturity.
Time Deposits / Non-Negotiable CDs	100%	Maximum maturity shall not exceed six months.
Medium-Term Notes	30%	Notes must be rated "A" for up to one year maturity and "AA" for greater than one year by nationally recognized statistical rating organization.
State Local Agency Investment Fund (LAIF)		Maximum allowed determined by the State of California.

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 2. CASH AND INVESTMENTS - Continued

Cash and Investments

A summary of amounts disclosed as cash and investments and restricted cash as of June 30, 2004 are as follows:

<u>Description</u>	<u>Cash and Investments</u>	<u>Restricted Cash</u>	<u>Total</u>
Primary Government:			
Cash on hand or imprest cash	\$ 5,490	\$ -	\$ 5,490
Deposits in treasury pool	30,226,798	-	30,226,798
Investments in treasury pool	544,650,292	-	544,650,292
Deposits in other banks	4,921,810	-	4,921,810
Investments in other banks	25,910,000	19,880,372	45,790,372
Restricted cash in treasury pool:			
Freedom County Sanitation	(46,722)	46,722	-
Davenport Sanitation	(54,760)	54,760	-
Disposal Sites	(3,467,615)	3,467,615	-
Sand Dollar Beach	(7,226)	7,226	-
Total	<u>602,138,067</u>	<u>23,456,695</u>	<u>625,594,762</u>
Component Unit:			
Restricted cash in treasury pool	(1,242,984)	1,242,984	-
Investments in treasury pool	33,017,442	-	33,017,442
Investments in other banks	<u>726,079</u>	<u>-</u>	<u>726,079</u>
Total	<u>32,500,537</u>	<u>1,242,984</u>	<u>33,743,521</u>
Total Reporting Entity	<u>\$634,638,604</u>	<u>\$24,699,679</u>	<u>\$659,338,283</u>

The County's cash on hand, deposits and investments as of June 30, 2004 consist of:

<u>Description</u>	<u>Treasury Pool</u>	<u>Other Banks</u>	<u>Cash on Hand or Imprest Cash</u>	<u>Total</u>
Primary Government:				
Cash on hand or imprest cash	\$ -	\$ -	\$5,490	\$ 5,490
Deposits	30,226,798	4,921,810	-	35,148,608
Investments	<u>544,650,292</u>	<u>45,790,372</u>	<u>-</u>	<u>590,440,664</u>
Total	574,877,090	50,712,182	5,490	625,594,762
Component Unit:				
Investments	<u>33,017,442</u>	<u>726,079</u>	<u>-</u>	<u>33,743,521</u>
Total Reporting Entity	<u>\$607,894,532</u>	<u>\$51,438,261</u>	<u>\$5,490</u>	<u>\$659,338,283</u>

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 2. CASH AND INVESTMENTS - Continued

Deposits

At June 30, 2004, the balance of the County's deposits was \$35,148,608. Of the bank balance in the treasury pool, \$571,000 was covered by federal depository insurance. The remainder of the deposits are collateralized with securities held by the County or its agent in the County's name. In accordance with the Governmental Accounting Standards Board Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements," the County's deposits are categorized by the level of risk assumed by the County at year end. Category 1 includes deposits insured or collateralized with securities held by the County or its agent in the County's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the County's name. Category 3 includes uncollateralized deposits, which includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the County's name. The County had no deposits in Category 2 or 3 as of June 30, 2004.

County deposits in Category 1 at June 30, 2004 are as follows:

<u>Description</u>	<u>Bank</u>	<u>Insured Amount</u>	<u>Total</u>
Primary Government:			
Treasury Pool	Bank of the West	\$400,000	\$30,191,449
Treasury Pool	Union Bank	100,000	35,034
Welfare Advances Agency Funds, Unrestricted	Bank of the West	70,000	70,000
Welfare Substitute Payee Agency Funds, Unrestricted	Bank of America	1,000	1,000
Place de Mer Agency Funds, Unrestricted	Bank of America	-	20,648
Enterprise Sand Dollar Beach	Bank of America	-	7,226
Enterprise Davenport County Sanitation District	Bank of America	-	25,278
Enterprise County Disposal CSA 9, Unrestricted	BNY Western Trust	-	362,670
Enterprise County Disposal CSA 9, Unrestricted	Bank of America	-	8,537
Internal Service Public Works Redevelopment Agency	BNY Western Trust	-	1,120,928
		<u>-</u>	<u>3,305,838</u>
Total County Deposits		<u>\$571,000</u>	<u>\$35,148,608</u>

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 2. CASH AND INVESTMENTS - Continued

Investments

GASB 31 requires governmental external investment pools to report certain investments at fair value in the financial statements and report the change in the fair value of investments in the year in which the change occurred. In compliance with these requirements, the fair value of the County's combined pool is determined annually and is based on current market prices received from the securities custodian except for money market investments and interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less which are carried at amortized cost. The fair value of the participants' position in the pool is the same as the value of the pool shares. The County also participates in the State Local Agency Investment Fund (LAIF), an investment fund sponsored by the State of California. Funds placed in the LAIF are subject to State statute. The fair value of the County's position in the State pool is the same as the value of the pool shares. The County Treasury has provided a fair value dollar factor in the Quarterly Report of Investments which can be used for financial reporting by the pool participants.

The County's investments are categorized below to give an indication of the level of risk assumed by the County at year-end. Category 1 includes investments that are insured or registered, or securities held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the County's name.

It is the County's intent to hold investments until maturity, unless earlier liquidation would result in an investment gain. Investments for the Santa Cruz County Sanitation District in the amount of \$33,017,442 are held in the County's treasury pool and are commingled with those funds.

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 2. CASH AND INVESTMENTS - Continued

County investments by category as of June 30, 2004 are follows:

<u>Description</u>	<u>Category 1</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Investments in Treasury Pool:			
Negotiable Certificates of Deposit	\$162,407,111	\$162,407,111	\$162,180,481
Other Government Agency Securities	89,864,333	89,864,333	89,459,300
Commercial paper	110,923,605	110,923,605	110,941,453
Medium Term Notes	117,523,905	117,523,905	117,565,150
Restricted Special Revenue Public Financing Authority:			
Other government agencies securities	2,998,491	2,998,491	2,998,491
Component Unit - Santa Cruz County Sanitation District:			
U.S. Treasury bills and notes	<u>726,079</u>	<u>726,079</u>	<u>726,079</u>
Totals	<u>\$484,443,524</u>	484,443,524	483,870,954
County Treasury pool Money Market Funds		18,200,000	18,200,000
County Treasury pool investment in State Treasurer's Investment Pool		78,848,781	78,848,781
Special Revenue Redevelopment Agency investment in State Treasurer's Investment Pool		24,308,629	24,308,629
Special Revenue Redevelopment Agency restricted debt service Money Market Funds		5,968,377	5,968,377
Special Revenue Public Financing Authority restricted Money Market Funds		10,913,504	10,913,504
Santa Cruz County Schools Medical Insurance investment in State Treasurer's Investment Pool		1,496,226	1,496,226
Santa Cruz County Schools Self-Insurance investment in State Treasurer's Investment Pool		<u>5,144</u>	<u>5,144</u>
Total Investments – Reporting Entity		<u>\$624,184,185</u>	<u>\$623,611,615</u>

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

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:

<i>Governmental Activities:</i>	General Fund	Redevelopment Agency	Nonmajor Funds	Internal Service Funds	Total Governmental Activities
Accounts	\$31,604,880	\$ 4,060	\$6,402,812	\$201,506	\$38,213,258
Interest	-	88,073	277,887	-	365,960
Taxes	<u>2,681,715</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,681,715</u>
Gross receivables	34,286,595	92,133	6,680,699	201,506	41,260,933
Less: allowance for uncollectibles	<u>4,618,118</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,618,118</u>
Total receivables	<u>\$29,668,477</u>	<u>\$92,133</u>	<u>\$6,680,699</u>	<u>\$201,506</u>	<u>\$36,642,815</u>
<i>Business-type Activities:</i>					
		County Disposal Sites CSA	Nonmajor Funds	Total Business-type Activities	
Accounts		<u>\$535,216</u>	<u>\$94,590</u>	<u>\$629,806</u>	
Total receivables		<u>\$535,216</u>	<u>\$94,590</u>	<u>\$629,806</u>	

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, 2004, the various components of deferred revenue and unearned revenue reported were as follows:

<i>Governmental activities:</i>	<u>Unavailable</u>	<u>Unearned</u>
General fund:		
Grant drawdowns prior to meeting all eligibility requirements	\$ -	\$19,549,705
Due from governmental agencies	290,901	-
Other receivables	<u>-</u>	<u>25,258</u>
Total governmental activities	<u>\$290,901</u>	<u>\$19,574,963</u>

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 4. INTERFUND TRANSACTIONS

Interfund Balances

Interfund balances at June 30, 2004 consisted of the following:

Due to General fund from:	
Nonmajor governmental funds	\$1,090,690
Nonmajor enterprise funds	877
Agency funds	307,235
All others	136,611
Component unit	718
Due to the Redevelopment Agency Tax Increment fund from:	
Redevelopment Agency Administration Revenue fund	20,510
Due to nonmajor governmental funds from:	
Nonmajor governmental funds	681,372
Due to Internal service funds from:	
Other Internal service funds	720,100
Nonmajor enterprise funds	3,882
Due to Agency funds from:	
Other Agency funds	<u>70,955</u>
Total	<u>\$3,032,950</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 Basic Financial Statements
Year Ended June 30, 2004

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	\$11,566,897
General fund	Nonmajor governmental funds	5,816,002
General fund	Nonmajor governmental funds	18,000
General fund	Nonmajor governmental funds	13,336
Redevelopment Agency	Nonmajor governmental funds	5,101,449
Redevelopment Agency	Redevelopment Agency	2,123,181
Nonmajor governmental funds	General fund	11,566,897
Nonmajor governmental funds	Nonmajor governmental funds	1,000,000
Nonmajor governmental funds	Nonmajor governmental funds	11,724
Nonmajor governmental funds	Nonmajor governmental funds	380,000
Nonmajor governmental funds	Nonmajor governmental funds	35,721
Nonmajor governmental funds	Nonmajor governmental funds	25,512
Nonmajor governmental funds	Nonmajor governmental funds	159,885
Nonmajor governmental funds	Internal service funds	<u>22,200,000</u>
Total		<u>\$60,018,604</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 Basic Financial Statements
Year Ended June 30, 2004

NOTE 5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2004 was as follows:

	Restated Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004
<u>Governmental activities</u>				
Capital assets, not being depreciated:				
Land	\$ 31,780,653	\$ -	\$ -	\$ 31,780,653
Construction in progress	<u>-</u>	<u>870,501</u>	<u>-</u>	<u>870,501</u>
Total capital assets, not being depreciated	<u>31,780,653</u>	<u>870,501</u>	<u>-</u>	<u>32,651,154</u>
Capital assets, being depreciated:				
Infrastructure	31,442,423	9,715,390	-	41,157,813
Buildings and structures	91,802,433	2,243,598	-	94,046,031
Equipment	<u>47,546,612</u>	<u>2,985,582</u>	<u>3,822,666</u>	<u>46,709,528</u>
Total capital assets, being depreciated	<u>170,791,468</u>	<u>14,944,570</u>	<u>3,822,666</u>	<u>181,913,372</u>
Less accumulated depreciation for:				
Infrastructure	3,205,773	2,848,780	-	6,054,553
Buildings and structures	37,767,286	3,084,197	-	40,851,483
Equipment	<u>36,030,462</u>	<u>3,718,779</u>	<u>3,427,667</u>	<u>36,321,574</u>
Total accumulated depreciation	<u>77,003,521</u>	<u>9,651,756</u>	<u>3,427,667</u>	<u>83,227,610</u>
Total capital assets, being depreciated, net	<u>93,787,947</u>	<u>5,292,814</u>	<u>394,999</u>	<u>98,685,762</u>
Governmental activities capital assets, net	<u>\$125,568,600</u>	<u>\$ 6,163,315</u>	<u>\$ 394,999</u>	<u>\$131,336,916</u>
<u>Business-type activities</u>				
Capital assets, not being depreciated:				
Land	\$ 1,858,849	\$ -	\$ -	\$ 1,858,849
Capital assets, being depreciated:				
Buildings and structures	23,902,520	4,740,942	-	28,643,462
Equipment	<u>8,480,832</u>	<u>481,546</u>	<u>315,558</u>	<u>8,646,820</u>
Total capital assets, being depreciated	<u>32,383,352</u>	<u>5,222,488</u>	<u>315,558</u>	<u>37,290,282</u>
Less accumulated depreciation for:				
Buildings and structures	9,074,355	835,573	-	9,909,928
Equipment	<u>4,862,025</u>	<u>893,250</u>	<u>314,488</u>	<u>5,440,787</u>
Total accumulated depreciation	<u>13,936,380</u>	<u>1,728,823</u>	<u>314,488</u>	<u>15,350,715</u>
Total capital assets, being depreciated, net	<u>18,446,972</u>	<u>3,493,665</u>	<u>1,070</u>	<u>21,939,567</u>
Business-type activities capital assets, net	<u>\$20,305,821</u>	<u>\$3,493,665</u>	<u>\$ 1,070</u>	<u>\$23,798,416</u>
<u>Component Unit-Santa Cruz County Sanitation District (SCCSD)</u>				
Capital assets, being depreciated:				
Buildings and structures	\$116,623,459	\$8,443,068	\$3,603,590	\$121,462,937
Equipment	<u>4,327,856</u>	<u>408,541</u>	<u>239,589</u>	<u>4,496,808</u>
Total capital assets, being depreciated	<u>120,951,315</u>	<u>8,851,609</u>	<u>3,843,179</u>	<u>125,959,745</u>
Less accumulated depreciation for:				
Buildings and structures	34,825,621	2,774,904	-	37,600,525
Equipment	<u>2,303,213</u>	<u>353,819</u>	<u>223,903</u>	<u>2,433,129</u>
Total accumulated depreciation	<u>37,128,834</u>	<u>3,128,723</u>	<u>223,903</u>	<u>40,033,654</u>
Total capital assets, being depreciated, net	<u>83,822,481</u>	<u>5,722,886</u>	<u>3,619,276</u>	<u>85,926,091</u>
Component unit capital assets, net	<u>\$ 83,822,481</u>	<u>\$5,722,886</u>	<u>\$3,619,276</u>	<u>\$ 85,926,091</u>

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 5. CAPITAL ASSETS - Continued

The restatement to beginning balance of the governmental activities – governmental funds was the prior period adjustment of \$28,236,650 reflecting the inclusion of infrastructure costs and depreciation for the fiscal years ending June 30, 2002 and 2003.

The restatement to beginning balance of the business-type activities – nonmajor enterprise funds was the prior period adjustment to reflect the correction to the accumulated depreciation of capital assets for the following funds:

Boulder Creek CSA 7	(\$ 164,582)
Rolling Woods CSA 10	(32,427)
Freedom County Sanitation District	(1,810,906)
Davenport Sanitation District	(28,786)

Depreciation expense was charged to governmental functions as follows:

Governmental activities:	
General government	\$1,994,666
Public protection	1,280,370
Health and sanitation	809,550
Public assistance	254,993
Recreation and culture	209,382
Public ways and facilities	2,718,426
Capital assets held by the County's internal service funds are charged to the various functions based on their usage of the assets	<u>2,384,369</u>
Total depreciation expense – governmental activities	<u>\$9,651,756</u>

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

Business-type activities:	
County Disposal Sites CSA	\$1,495,164
Boulder Creek CSA	54,767
Rolling Woods CSA	8,231
Freedom County Sanitation District	72,682
Davenport Sanitation District	79,798
Place de Mer CSA	3,869
Sand Dollar Beach CSA	10,672
Summit West CSA	<u>3,640</u>
Total depreciation expense – business-type activities	<u>\$1,728,823</u>

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 6. PAYABLES

Payables at June 30, 2004 are as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Accrued Interest</u>	<u>Total Payables</u>
<i><u>Governmental activities:</u></i>				
General Fund	\$11,854,622	\$4,711,254	\$ - .	\$16,565,876
Redevelopment Agency	202,288	35,915	- .	238,203
Nonmajor governmental funds	2,238,835	19,803	- .	2,258,638
Internal service funds	<u>943,078</u>	<u>860,815</u>	<u>6,788</u>	<u>1,810,681</u>
Total governmental activities	<u>\$15,238,823</u>	<u>\$5,627,787</u>	<u>\$6,788</u>	<u>\$20,873,398</u>
		<u>Vendors</u>	<u>Accrued Interest</u>	<u>Total Payables</u>
<i><u>Business-type activities:</u></i>				
County Disposal Sites CSA		\$ 960,637	\$42,597	\$1,003,234
Nonmajor enterprise funds		<u>175,181</u>	<u>11,888</u>	<u>187,069</u>
Total business-type activities		<u>\$1,135,818</u>	<u>\$54,485</u>	<u>\$1,190,303</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.

Tax and revenue anticipation notes payable debt activity for the year ended June 30, 2004 was as follows:

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Balance July 1, 2003</u>	<u>Addition</u>	<u>Deletion</u>	<u>Accrued Interest</u>	<u>Balance June 30, 2004</u>
2003	3.0%	\$30,897,500	\$ - .	\$30,897,500	\$ - .	\$ - .
2004	2.0%	<u>- .</u>	<u>38,000,000</u>	<u>- .</u>	<u>757,889</u>	<u>38,757,889</u>
Total		<u>\$30,897,500</u>	<u>\$38,000,000</u>	<u>\$30,897,500</u>	<u>\$757,889</u>	<u>\$38,757,889</u>

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

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.

	Stated Interest Rate	Present Value of Remaining Payments as of <u>June 30, 2004</u>
Governmental fund activities:		
Health Services – Equipment & Furniture	5.81-8.78%	\$ 98,290
Human Resources – Computers & Furniture	5.74%	295,677
Warehouse – Equipment	6.79%	5,907
Service Center – Vehicles	3.48-7%	218,691
Central Duplicating – Xerox machine	7.5%	<u>52,296</u>
Total capital lease obligations		<u>\$670,861</u>

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

	Governmental <u>Activities</u>
Equipment, computers, furniture, and vehicles	<u>\$2,081,941</u>
Total assets under capital lease	2,081,941
Less: Accumulated amortization	<u>1,390,266</u>
Net Value	<u>\$ 691,675</u>

As of June 30, 2004, capital lease annual amortization is as follows:

<u>Year ending June 30,</u>	Governmental <u>Activities</u>
2005	\$367,087
2006	302,485
2007	43,854
2008	<u>11,629</u>
Total requirements	725,055
Less: Interest	<u>54,194</u>
Present value of remaining payments	<u>\$670,861</u>

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 9. LONG-TERM LIABILITIES

Long-term liabilities at June 30, 2004 included the following:

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2004
<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	\$ 18,120,000
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	8/1/03-8/01/22	4.00-5.15%	\$50,000-\$605,000	4,380,000	3,775,000
Term Certificates	8/1/23-8/01/32	5.25%	\$100,000-\$155,000	1,260,000	1,260,000
Unamortized bond premium				126,230	122,022
<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 Services Buildings)					
Serial Bonds	8/1/02-8/1/26	2.10-4.625%	\$200,000-\$760,000	9,675,000	8,370,000
Term Bonds	2/1/27-8/1/31	4.75%	\$405,000-\$485,000	2,225,000	2,225,000
<i>Lease Revenue Refunding Bonds</i>					
1995 Series A Issue (defeased 1988 & 1990A Certificates of Participation and financed construction and improvements to the Santa Cruz County Water Street and Rountree Lane Detention facilities)					
Serial Bonds	8/1/96-8/1/13	4.25-5.50%	\$445,000-\$3,080,000	18,270,000	6,785,000
Term Bonds	2/1/14-8/1/20	5.50%	\$695,000-\$1,035,000	6,015,000	6,015,000
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	912,576
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	63,767
<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	2,125,000
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	655,000

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 9. LONG-TERM LIABILITIES - Continued

Type of indebtedness (purpose)	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2004</u>
<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	\$ 23,000,000
Unamortized bond premium				<u>27,378</u>	<u>27,378</u>
Total Public Financing Authority debt				<u>97,882,302</u>	<u>79,428,806</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>1,382,106</u>
<i>Local Assessment Bonds</i>					
1990 Issue Bostwick Lane Street Improvement (financed construction & infrastructure improvements)					
	9/1/90-9/1/04	6.40-8.00%	\$15,000-\$40,000	<u>345,000</u>	<u>40,000</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	4,155,000
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	16,340,000
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	6,235,000
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
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	48,435,000
Unamortized bond discount				(194,382)	(194,382)
Total Redevelopment Agency Bonds				<u>114,310,618</u>	<u>110,815,618</u>
<i>Redevelopment Agency CERTS Loans Payable (financing for the Community Swim Center)</i>					
1996 CERTS Loan	8/1/96-8/1/06	4.25-5.00%	\$99,000-352,000	<u>2,231,380</u>	<u>679,120</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	2,238,141
Unamortized bond discount				(42,217)	(30,155)
Total Governmental Activities				<u>\$221,806,345</u>	<u>\$194,553,636</u>

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 9. LONG-TERM LIABILITIES - Continued

Type of indebtedness (purpose)	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2004</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	\$ 84,232
Enterprise fund-County Disposal Sites CSA					
Santa Cruz County Public Financing Authority					
Loans payable	8/1/88-8/1/06	5.50-8.375%	\$145,000-\$380,000	7,328,287	1,782,472
Unamortized discount				(72,495)	(14,257)
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	155,077
California Technology, Trade & Commerce Agency					
	2/28/95-7/1/05	2.75%	\$3,550-4,817	310,691	240,706
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>125,322</u>
Total Business-type Activities				<u>\$8,103,030</u>	<u>\$2,373,552</u>
<u>Component Unit-Santa Cruz County Sanitation District (SCCSD)</u>					
1977 Revenue Bonds (financed acquisition and construction of sewer facilities)					
	5/1/77-9/1/16	5.70-8.00%	\$25,000-\$470,000	\$ 6,000,000	\$ 4,005,000
1994 Issue Limited Obligation Improvement Bonds Freedom Boulevard Sewer Assessment District (financed construction of sewer facility)					
Serial Bonds	9/2/96-9/2/14	5.00-7.40%	\$30,000-\$90,000	976,154	700,000
Term Bonds	9/2/15-9/2/18	7.50%	\$95,000-\$120,000	425,000	425,000
1994 Issue Subordinated Certificates of Participation (financed the SCCSD's share of the improvements to the City of Santa Cruz sewer treatment facility)					
	9/1/94-9/1/19	3.00-6.20%	\$110,000-\$1,060,000	14,620,000	5,905,000
Loans Payable-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	19,430,498
Unamortized discount				(99,620)	(72,762)
Total Component Unit				<u>\$46,296,366</u>	<u>\$30,392,736</u>

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 9. LONG-TERM LIABILITIES - Continued

The following is a summary of long-term liabilities transactions for the year ended June 30, 2004:

	Restated Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Amounts due within one year	Amounts due beyond one year
<u>Governmental Activities</u>						
Governmental Funds						
PFA-1996 Refunding COP	\$ 22,520,000	\$ -	\$ 500,000	\$ 22,020,000	\$ 510,000	\$ 21,510,000
PFA-2002 Refunding						
Certificates of Participation	5,640,000	-	605,000	5,035,000	635,000	4,400,000
Unamortized bond premium	<u>126,230</u>	<u>-</u>	<u>4,208</u>	<u>122,022</u>	<u>4,208</u>	<u>117,814</u>
Subtotal	<u>5,766,230</u>	<u>-</u>	<u>609,208</u>	<u>5,157,022</u>	<u>639,208</u>	<u>4,517,814</u>
PFA-2001B Lease						
Revenue Bonds	11,300,000	-	705,000	10,595,000	720,000	9,875,000
PFA-1995A Lease Revenue						
Refunding Bonds	13,950,000	-	1,150,000	12,800,000	1,210,000	11,590,000
PFA-2002A Lease Revenue						
Refunding Bonds	2,443,042	-	242,403	2,200,639	109,319	2,091,320
Unamortized bond premium	<u>65,966</u>	<u>-</u>	<u>2,199</u>	<u>63,767</u>	<u>2,199</u>	<u>61,568</u>
Subtotal	<u>2,509,008</u>	<u>-</u>	<u>244,602</u>	<u>2,264,406</u>	<u>111,518</u>	<u>2,152,888</u>
PFA-1995B Revenue Bonds						
PFA-1999 Local Agency Revenue Bonds	720,000	-	65,000	655,000	70,000	585,000
PFA-2004 Certificates of						
Participation	-	23,000,000	-	23,000,000	585,000	22,415,000
Unamortized bond premium	<u>-</u>	<u>27,378</u>	<u>-</u>	<u>27,378</u>	<u>913</u>	<u>26,465</u>
Subtotal	<u>-</u>	<u>23,027,378</u>	<u>-</u>	<u>23,027,378</u>	<u>585,913</u>	<u>22,441,465</u>
CA Health Facilities						
Local Assessment Bonds	1,521,732	-	139,626	1,382,106	149,851	1,232,255
Redev Agency-Bonds						
Unamortized bond discount	75,000	-	35,000	40,000	40,000	-
Subtotal	109,050,000	48,435,000	46,475,000	111,010,000	2,675,000	108,335,000
Unamortized bond discount	<u>-</u>	<u>(194,382)</u>	<u>-</u>	<u>(194,382)</u>	<u>(6,479)</u>	<u>(187,903)</u>
Subtotal	<u>109,050,000</u>	<u>48,240,618</u>	<u>46,475,000</u>	<u>110,815,618</u>	<u>2,668,521</u>	<u>108,147,097</u>
Redev Agency-Loans Pay						
Compensated Absences	986,242	-	307,122	679,120	326,703	352,417
Capital Leases	15,737,929	15,073,572	14,570,699	16,240,802	12,606,915	3,633,887
Subtotal	<u>453,901</u>	<u>109,042</u>	<u>163,069</u>	<u>399,874</u>	<u>183,734</u>	<u>216,140</u>
Total Governmental Funds	<u>187,740,042</u>	<u>86,450,610</u>	<u>65,204,326</u>	<u>208,986,326</u>	<u>20,077,363</u>	<u>188,908,963</u>
Internal Service Funds						
Loan Payable	2,722,692	-	484,551	2,238,141	526,874	1,711,267
Unamortized discount	<u>(36,186)</u>	<u>-</u>	<u>(6,031)</u>	<u>(30,155)</u>	<u>(6,031)</u>	<u>(24,124)</u>
Subtotal	<u>2,686,506</u>	<u>-</u>	<u>478,520</u>	<u>2,207,986</u>	<u>520,843</u>	<u>1,687,143</u>
Estimated Claims	18,615,430	31,542,454	31,365,978	18,791,906	13,530,172	5,261,734
Compensated Absences	3,140,269	2,974,013	2,810,483	3,303,799	2,566,344	737,455
Capital Leases	<u>473,973</u>	<u>-</u>	<u>202,986</u>	<u>270,987</u>	<u>150,060</u>	<u>120,927</u>
Total Internal Service Funds	<u>24,916,178</u>	<u>34,516,467</u>	<u>34,857,967</u>	<u>24,574,678</u>	<u>16,767,419</u>	<u>7,807,259</u>
Total Governmental Activities	<u>\$212,656,220</u>	<u>\$120,967,077</u>	<u>\$100,062,293</u>	<u>\$233,561,004</u>	<u>\$36,844,782</u>	<u>\$196,716,222</u>

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 9. LONG-TERM LIABILITIES - Continued

	Restated Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Amounts due within one year	Amounts due beyond one year
<u>Business-type Activities</u>						
Enterprise Funds						
Loans Payable						
Sand Dollar Beach	\$ 99,232	\$ -	\$ 15,000	\$ 84,232	\$ 15,232	\$ 69,000
County Disposal Sites	2,326,771	-	544,299	1,782,472	533,511	1,248,961
Unamortized discount	(19,211)	-	(4,954)	(14,257)	(4,954)	(9,303)
Subtotal	<u>2,307,560</u>	<u>-</u>	<u>539,345</u>	<u>1,768,215</u>	<u>528,557</u>	<u>1,239,658</u>
Davenport Sanitation Distr	543,040	-	21,935	521,105	22,513	498,592
Total Loans Payable	<u>2,949,832</u>	<u>-</u>	<u>576,280</u>	<u>2,373,552</u>	<u>566,302</u>	<u>1,807,250</u>
Postclosure Liability						
County Disposal Sites	3,218,894	303,786	-	3,522,680	-	3,522,680
Total Business-type Activities	<u>\$6,168,726</u>	<u>\$303,786</u>	<u>\$576,280</u>	<u>\$5,896,232</u>	<u>\$566,302</u>	<u>\$5,329,930</u>
<u>Component Unit-Santa Cruz County Sanitation District</u>						
Revenue Bonds	\$ 4,180,000	\$ -	\$ 175,000	\$ 4,005,000	\$ 185,000	\$ 3,820,000
Ltd Oblig Improv Bonds	1,165,000	-	40,000	1,125,000	45,000	1,080,000
COP	6,060,000	-	155,000	5,905,000	160,000	5,745,000
Loans Payable	20,461,741	-	1,031,243	19,430,498	1,060,118	18,370,380
Unamortized discount	(78,054)	-	(5,292)	(72,762)	-	(72,762)
Total Component Unit	<u>\$31,788,687</u>	<u>\$ -</u>	<u>\$1,395,951</u>	<u>\$30,392,736</u>	<u>\$1,450,118</u>	<u>\$28,942,618</u>

The restatement to beginning balance of the governmental activities - internal service fund - Public Works and business-type activities - County Disposal Sites CSA were to reflect the loans payable gross amount and discount which was previously reported at a net amount.

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, 2004, 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.

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 9. LONG-TERM LIABILITIES - Continued

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.

Governmental Activities

At June 30, 2004, annual debt service requirements of governmental activities to maturity are as follows:

Public Financing Authority

<u>Year ending June 30,</u>	<u>Lease Revenue Refunding Bonds</u>		<u>Refunding Certificates of Participation</u>		<u>Lease Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 1,319,319	\$ 746,949	\$ 1,145,000	\$ 1,396,908	\$ 720,000	\$ 413,324
2006	1,394,072	683,118	1,205,000	1,346,505	740,000	394,154
2007	561,449	637,711	1,265,000	1,292,993	760,000	373,334
2008	583,825	611,235	1,320,000	1,236,103	535,000	354,078
2009	606,202	583,203	670,000	1,190,253	550,000	336,439
2010-2014	3,396,688	2,423,485	3,940,000	5,383,850	1,070,000	1,539,459
2015-2019	4,501,688	1,378,278	5,135,000	4,174,434	1,305,000	1,298,044
2020-2024	2,637,396	214,633	6,645,000	2,558,768	1,585,000	971,360
2025-2029	-	-	5,150,000	627,873	1,935,000	567,766
2030-2033	-	-	580,000	62,738	1,395,000	101,294
Total requirements	<u>\$15,000,639</u>	<u>\$7,278,612</u>	<u>\$27,055,000</u>	<u>\$19,270,425</u>	<u>\$10,595,000</u>	<u>\$6,349,252</u>

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 9. LONG-TERM LIABILITIES - Continued

<u>Year ending June 30.</u>	<u>Certificates of Participation</u>		<u>Revenue Bonds</u>		<u>Local Agency Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 585,000	\$ 889,316	\$ 255,000	\$170,075	\$ 70,000	\$ 32,313
2006	525,000	951,156	270,000	155,503	65,000	28,973
2007	860,000	939,344	285,000	139,749	75,000	25,473
2008	890,000	916,769	300,000	122,705	85,000	21,473
2009	920,000	890,069	320,000	104,255	40,000	18,328
2010-2014	5,125,000	3,929,638	1,480,000	198,563	125,000	71,031
2015-2019	6,250,000	2,764,600	-	-	160,000	32,443
2020-2024	<u>7,845,000</u>	<u>1,181,813</u>	<u>-</u>	<u>-</u>	<u>35,000</u>	<u>963</u>
Total requirements	<u>\$23,000,000</u>	<u>\$12,462,705</u>	<u>\$2,910,000</u>	<u>\$890,850</u>	<u>\$655,000</u>	<u>\$230,997</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.

California Health Facilities Financing Authority (CHFFA)

<u>Year ending June 30.</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 149,851	\$ 94,720
2006	161,513	83,531
2007	173,714	71,497
2008	186,840	58,553
2009	200,951	44,632
2010-2012	<u>509,237</u>	<u>43,946</u>
Total requirements	<u>\$1,382,106</u>	<u>\$396,879</u>

CHFFA debt retirements and related interest payments are paid from General Fund revenues.

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 9. LONG-TERM LIABILITIES - Continued

Local Assessment Bonds
Bostwick Lane Street Improvement Project

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	<u>\$40,000</u>	<u>\$1,600</u>
Total requirements	<u>\$40,000</u>	<u>\$1,600</u>

In accordance with the Improvement Bond Act of 1915, the County is obligated to provide funds for delinquent assessments. The County has established redemption funds to facilitate bond payments for these purposes. However, these bonds do not constitute an indebtedness of the County, and are payable solely from special taxes collected from property owners within the improvement district.

Redevelopment Agency

<u>Year ending June 30,</u>	<u>Tax Allocation Bonds</u>		<u>Loans payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 2,675,000	\$ 5,399,139	\$326,703	\$25,625
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	-	-
2010-2014	17,035,000	23,256,664	-	-
2015-2019	21,125,000	19,030,186	-	-
2020-2024	27,990,000	13,098,657	-	-
2025-2029	21,630,000	5,740,494	-	-
2030-2034	<u>8,945,000</u>	<u>560,603</u>	<u>-</u>	<u>-</u>
Total requirements	<u>\$111,010,000</u>	<u>\$87,801,378</u>	<u>\$679,120</u>	<u>\$34,435</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 Basic Financial Statements
Year Ended June 30, 2004

NOTE 9. LONG-TERM LIABILITIES - Continued

Internal Service

At June 30, 2004, annual debt service requirements of the internal service fund's loans payable to maturity are as follows:

<u>Year ending June 30,</u>	<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 526,874	\$ 59,068
2006	546,307	44,976
2007	560,741	29,610
2008	330,175	16,419
2009	<u>274,044</u>	<u>5,609</u>
Total requirements	<u>\$2,238,141</u>	<u>\$155,682</u>

Business-type Activities

At June 30, 2004, annual debt service requirements of business-type activities to maturity are as follows:

<u>Year ending June 30,</u>	<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 571,015	\$ 85,399
2006	619,719	57,678
2007	365,890	36,137
2008	403,740	21,731
2009	24,989	11,567
2010-2014	135,152	47,553
2015-2019	153,942	28,685
2020-2024	<u>113,362</u>	<u>8,378</u>
Total requirements	<u>\$2,387,809</u>	<u>\$297,128</u>

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

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 9. LONG-TERM LIABILITIES - Continued

Component Unit

At June 30, 2004, annual debt service requirements of the Santa Cruz County Sanitation District to maturity are as follows:

<u>Year ending June 30,</u>	<u>Revenue Bonds</u>		<u>Limited Obligation Improvement Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 185,000	\$ 222,265	\$ 45,000	\$ 80,683
2006	200,000	211,485	50,000	77,475
2007	220,000	199,725	50,000	74,050
2008	235,000	186,985	55,000	70,400
2009	255,000	173,138	60,000	66,345
2010-2014	1,605,000	614,318	350,000	260,880
2015-2019	<u>1,305,000</u>	<u>115,567</u>	<u>515,000</u>	<u>102,142</u>
Total requirements	<u>\$4,005,000</u>	<u>\$1,723,483</u>	<u>\$1,125,000</u>	<u>\$731,975</u>

<u>Year ending June 30,</u>	<u>Certificates of Participation</u>		<u>Loans payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 160,000	\$ 347,500	\$ 1,060,118	\$ 516,844
2006	170,000	338,340	1,089,801	486,399
2007	180,000	328,450	1,120,316	455,101
2008	190,000	317,810	1,151,684	422,927
2009	200,000	306,400	1,183,932	389,853
2010-2014	1,850,000	1,257,600	6,435,868	1,419,804
2015-2019	2,670,000	570,350	7,388,779	442,435
2020-2024	<u>485,000</u>	<u>15,035</u>	<u>-</u>	<u>-</u>
Total requirements	<u>\$5,905,000</u>	<u>\$3,481,485</u>	<u>\$19,430,498</u>	<u>\$4,133,363</u>

The 1977 Revenue Bond retirements and related interest payments are paid from sewer service charges revenues. Revenue is pledged first to secure revenue bond debt service with the remaining amount available for other Sanitation District purposes.

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 9. LONG-TERM LIABILITIES - Continued

The 1994 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.

The Certificates of Participation and 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.

New Debt Issue

On June 29, 2004, the County of Santa Cruz Public Financing Authority issued Certificates of Participation, Series 2004 in the amount of \$23,000,000 with interest rates ranging from 2.25% to 5.00%. The net proceeds were used to pay amounts due for the settlement of lawsuits arising from damage to property caused by flooding of the Pajaro River in 1995.

Current Refunding

On August 12, 2003, the Santa Cruz County Redevelopment Agency issued 2003 Tax Allocation Refunding Bonds in the amount of \$48,435,000 with interest rate ranging from 2% to 5% to currently refund \$37,285,000 of Revenue (Tax Allocation) Bond 1993 Series A with interest rate ranging from 5.1% to 5.3% and \$8,220,000 of 1993 Revenue (Tax Allocation) Bond 1993 Series B with interest ranging from 5.7% to 6.2%. The net proceeds were deposited in an irrevocable escrow account with a trustee to provide for the payment of the refunded debt.

As a result of the current refunding, the Santa Cruz County Redevelopment Agency reduced its total debt service requirements by \$3,758,241 and obtained an economic gain of \$2,930,000.

Legal Debt Limit

The County's legal annual debt service limit as of June 30, 2004, is approximately \$313,826,168. 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.

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 9. LONG-TERM LIABILITIES - Continued

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 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, 2004, a liability for closure and postclosure maintenance in the amount of \$3,522,680 is reflected in the County Disposal Sites Enterprise Fund based upon landfill capacity used to date. As of June 30, 2004, Ben Lomond landfill was filled to 100% capacity, and the County estimates that the Buena Vista landfill is filled to 45.4% 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 \$4,499,269 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2004. 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.

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 10. LANDFILL CLOSURE AND POSTCLOSURE COSTS - Continued

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, 2004, cash of \$3,467,615 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 landfills 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, 2004, the amount of defeased debt outstanding is \$240,000.

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 12. DEFICIT NET ASSETS

Individual proprietary fund deficit net assets at June 30, 2004 are as follows:

Internal Service Funds	
Central Duplicating	\$ 318,860
Self-Insurance – Workers’ Compensation	13,399,453
Self-Insurance – State Unemployment Insurance	5,722

The Central Duplicating fund had deficit net assets of \$318,860 that resulted from current year losses.

The Workers’ Compensation fund had deficit net assets of \$13,399,453 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 State Unemployment Insurance fund had deficit net assets of \$5,722 related to claims for unemployment. This deficit is expected to be recovered in fiscal year 2004-2005.

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.

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 13. DEFINED BENEFIT PENSION PLAN - Continued

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. The County is also required to contribute at an actuarially determined rate. The 2004 fiscal year contributions as a percentage of annual covered payroll were 3.279% for miscellaneous employees, 5.698% for safety employees, and 0% 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 \$17,534,312, \$11,454,141, and \$10,062,533, respectively. These were equal to the annually required contribution. The current year's required contribution was determined as part of the June 30, 2001 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, 2001 (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>
6/30/02	\$10,063	100%	-
6/30/03	11,454	100%	-
6/30/04	17,534	100%	-

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

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:

- 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, 2004, approximately 421 retirees were eligible to receive such benefits. County contributions for fiscal year 2003-2004 were \$1,048,924. 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, 2004, the Plan's assets, at market value, of \$56,880,595 are not recorded in the County's financial statements.

NOTE 16. COMMITMENTS

As of June 30, 2004, 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 \$2,783,786 and \$5,755,430, respectively.

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 17. CONTINGENCIES

A. Litigation

There are no pending litigations for the County.

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, 2004, 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 risks 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.

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 18. SELF-INSURANCE - Continued

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, 2004, 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, 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, 2004 and 2003 for all self-insurance Internal Service Funds combined is as follows:

	<u>2004</u>	<u>2003</u>
Unpaid claims and claim adjustment expenses, beginning of the fiscal year	\$18,615,430	\$18,615,430
Incurred claims and claim adjustment expenses	31,542,454	14,648,271
Claim payments	(<u>31,365,978</u>)	(<u>8,919,289</u>)
Unpaid claims and claim adjustment expenses, end of the fiscal year	<u>\$18,791,906</u>	<u>\$18,615,430</u>

During the year, \$22,200,000 of settlement were made for the lawsuits arising from damage to property caused by flooding of the Pajaro River in 1995. This was funded by the new debt issued by the County of Santa Cruz Public Financing Authority of \$23,000,000 in Certificates of Participation.

At June 30, 2004, the self-insurance funds held a total of \$9,515,120 in cash for the payment of these claims.

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 18. SELF-INSURANCE - Continued

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, 2004, the estimated future liabilities were \$16,732,281. This was determined by adding the future liability amount to an estimate for incurred but 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, 2004, the County had an estimated future liability of \$84,733 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.

Liability and Property

The County is fully self-insured with no excess insurance coverage under the County's general insurance program. At June 30, 2004, the County had estimated future liabilities totaling \$1,881,142 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, 2004, estimated future liabilities were \$93,750.

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

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, 2004:

Governmental Activities – Infrastructure, net

The prior period adjustment of \$28,236,650 reflects the restatement to include infrastructure costs and depreciation for the fiscal years ending June 30, 2002 and 2003.

Business-type Activities - Major Enterprise Fund – County Disposal Sites CSA

The prior period adjustment of (\$550,041) reflects the correction of the principal recorded for the loans payable.

Business-type Activities-Nonmajor Enterprise Funds:

Boulder Creek CSA 7	(\$ 164,582)
Rolling Woods CSA 10	(32,427)
Freedom County Sanitation District	(1,810,906)
Davenport Sanitation District	(28,786)

The above prior period adjustments reflect the correction to the accumulated depreciation of capital assets for the above listed funds.

NOTE 20. BUDGET COMPARISON TO ACTUAL EXPENDITURE VARIANCE

The following funds had expenditures that exceeded appropriations:

Capital project	(\$2,469,862)
Geologic Hazard Abatement District	(21,596)

COUNTY OF SANTA CRUZ, CALIFORNIA
Notes to the Basic Financial Statements
Year Ended June 30, 2004

NOTE 21. RECLASSIFICATIONS AND RESTATEMENTS

During the year, several Intergovernmental Agency funds, reported under Fiduciary funds, were reclassified to the General Fund and Off Highway Road and Transportation, a Special Revenue fund. This had no effect on the results of current year activities since they were included in the Deferred Revenue.

The Proprietary funds' beginning long-term liabilities for County Disposal Sites CSA, an Enterprise fund, and Public Works, an Internal Service fund, were restated to reflect the loans payable gross amount and discount which was previously reported at a net amount.

NOTE 22. SUBSEQUENT EVENTS

On July 7, 2004, the County issued Tax and Revenue Anticipation Notes, Series A and Series B, at 3.00% and 3.50% rate with reoffering yield of 1.62% and 2.60% rate in the amount of \$39 million and \$22 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 6, 2005 and are collateralized by fiscal year 2004-2005 unrestricted revenues.

On August 6, 2004 a \$950,000 County of Santa Cruz Limited Obligation Refunding Improvement Bonds Reassessment and Refunding District of 2004 (Freedom Boulevard Sewer Assessment District) was issued with interest rates of 1.85%-5.25%, payable semiannually on March 2 and September 2 and principal payable every September 2, until 2018, the purpose of which was to refinance certain obligations for the Freedom Boulevard Sewer Assessment District, pay costs related to the issuance of the bonds, and make a deposit to a Reserve fund.

The County of Santa Cruz brought a legal action against E.A. Hathaway & Company, et al., and in a consolidated court action the County has settled for a total sum of \$7,250,000. This is currently being funded in a trust escrow account (certificate of deposit) which, at the date of the report, has a balance of \$7,172,700 and will be transferred to the County by mid-January.