

City of
Santa Cruz
Redevelopment
Agency

Santa Cruz, California

*Basic Financial Statements and
Independent Auditors' Report*

For the seven months ended January 31, 2012

City of Santa Cruz Redevelopment Agency
Basic Financial Statements
For the seven months ended January 31, 2012
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INDEPENDENT AUDITORS' REPORT

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

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

We would like to draw the reader's attention to Note 9 - "California Redevelopment Agency Dissolution". The note provides information on two bills passed, AB 1X 26 and AB 1X 27 which dissolve redevelopment agencies as of January 31, 2012 based on the California Supreme Court ruling dated December 29, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2013, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing,



To the Members of the Board of Directors
City of Santa Cruz Redevelopment Agency

and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements as a whole. Combining balance sheet and statement of revenues, expenditures and changes in fund balances are presented for purposes of additional analysis and are not a required part of the financial statements. These are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The Agency has not presented a management's discussion and analysis or budgetary comparison schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Lance, Soll & Lughard, LLP

Brea, California
February 12, 2013

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

	Primary Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 11,878,731
Restricted cash and cash equivalents	17,872,427
Accounts receivable	575,162
Interest receivable	90,565
Taxes receivable	56,277
Notes receivable, net - due within one year	29,770
Total current assets	30,502,932
Noncurrent assets:	
Restricted investments with fiscal agents	20,760,251
Notes receivable, net	8,884,051
Advances to City	708,623
Deferred charges	444,017
Capital assets:	
Land	11,601,673
Land improvements	66,637
Buildings	2,066,912
Machinery and equipment	110,026
Lease improvements	240,267
Software	10,965
Construction in progress	7,848,993
Less accumulated depreciation	(791,083)
Total capital assets (net of accumulated depreciation)	21,154,390
Total noncurrent assets	51,951,332
Total assets	82,454,264
LIABILITIES	
Current liabilities:	
Accounts payable	434,370
Interest payable	789,893
Deposits	8,568
Bonds, notes, loans, and leases payable - due within one year	1,700,000
Total current liabilities	2,932,831
Noncurrent liabilities:	
Bonds, notes, loans, and leases payable - due in more than one year	37,555,215
Total noncurrent liabilities	37,555,215
Total liabilities	40,488,046
NET ASSETS	
Invested in capital assets, net of related debt	21,154,390
Restricted for:	
Low/Moderate Income Housing	20,269,733
Debt service	6,591,467
Unrestricted	(6,049,372)
Total net assets	\$ 41,966,218

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

Functions/Programs	Expenses	Program Revenues			Total	Governmental Activities Net (Expenses) Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Primary government:						
Community and economic development	\$ 4,902,220	\$ 145,916	\$ 160,115	\$ 1,275,914	\$ 1,581,945	\$ (3,320,275)
Interest on long-term debt	1,415,017	-	-	-	-	(1,415,017)
Total primary government	\$ 6,317,237	\$ 145,916	\$ 160,115	\$ 1,275,914	\$ 1,581,945	(4,735,292)

General revenues:

Property taxes (tax increment)	6,469,481
Unrestricted investment earnings	234,933
Total general revenues	6,704,414
Change in net assets	1,969,122
Net assets - beginning of year	39,997,096
Net assets - end of year	\$ 41,966,218

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

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City of Santa Cruz Redevelopment Agency
Balance Sheet
Governmental Funds
January 31, 2012

	Major Funds				
	Low/Moderate Income Housing River/Mall Special Revenue Fund	River/Mall Debt Service Fund	River/Mall Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 3,940,991	\$ 1,359,811	\$ 5,159,081	\$ 1,418,848	\$ 11,878,731
Accounts receivable	8,111	-	567,051	-	575,162
Interest receivable	21,579	8,512	52,703	7,771	90,565
Taxes receivable	10,633	42,532	-	3,112	56,277
Restricted assets:					
Cash and cash equivalents	403,329	713,842	15,802,191	953,065	17,872,427
Investments with fiscal agents	6,896,505	2,114,663	11,749,083	-	20,760,251
Notes receivable, net	8,408,975	398,673	106,173	-	8,913,821
Advances to City	500,000	208,623	-	-	708,623
Total assets	\$ 20,190,123	\$ 4,846,656	\$ 33,436,282	\$ 2,382,796	\$ 60,855,857
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 22,662	\$ 66,980	\$ 280,659	\$ 64,069	\$ 434,370
Deposits	2,984	-	5,584	-	8,568
Deferred Revenue-unavailable	254,030	1,225	488,200	-	743,455
Total liabilities	279,676	68,205	774,443	64,069	1,186,393
Fund Balances:					
Non-spendable:					
Non-current receivables	8,142,158	397,448	106,173	-	8,645,779
Non-current advances	500,000	208,623	-	-	708,623
Restricted:					
Low /moderate income housing	11,268,289	-	-	359,286	11,627,575
Debt service	-	4,172,380	-	1,813,016	5,985,396
Assigned:					
Capital projects	-	-	32,555,666	146,425	32,702,091
Total fund balances	19,910,447	4,778,451	32,661,839	2,318,727	59,669,464
Total liabilities and fund balances	\$ 20,190,123	\$ 4,846,656	\$ 33,436,282	\$ 2,382,796	\$ 60,855,857

City of Santa Cruz Redevelopment Agency
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
January 31, 2012

Total Fund Balances - Total Governmental Funds \$ 59,669,464

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

Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. The capital assets were adjusted as follows:

Non-depreciable	19,450,666
Depreciable, net	<u>1,703,724</u>
Total capital assets	21,154,390

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet.	(789,893)
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Other revenues are not available to pay for current-period expenditures and therefore are deferred in the funds.	743,455
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Long-term liabilities, consisting of bonds, notes, loans and leases payable, were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.

Bonds, notes, loans and leases payable - due within one year	(1,700,000)
Bonds, notes, loans and leases payable - due in more than one year	<u>(37,555,215)</u>
Total long-term liabilities	(39,255,215)

Certain transactions related to debt issuance and refunding are reported as expenditures and other financing sources/uses in the governmental funds. For the statement of net assets, the net amount of these transactions is capitalized as deferred charges, and will be amortized as an adjustment to interest expense over the remaining life of the debt.

<u>444,017</u>

Net Assets of Governmental Activities \$ 41,966,218

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

	Major Funds				
	Low/Moderate Income Housing River/Mall Special Revenue Fund	River/Mall Debt Service Fund	River/Mall Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Tax increment	\$ 1,190,736	\$ 4,762,946	\$ -	\$ 515,799	\$ 6,469,481
Investment income	82,213	(22,117)	270,135	5,482	335,713
Other revenues	30,583	160,115	1,350,940	-	1,541,638
Total revenues	1,303,532	4,900,944	1,621,075	521,281	8,346,832
EXPENDITURES:					
Current:					
Personnel services	-	-	914,906	-	914,906
Services, supplies and other charges	371,531	-	1,008,248	14,331	1,394,110
Pass-through to other agencies	-	1,659,807	-	201,163	1,860,970
Owner Participation Agreements	40,282	492,462	-	11,058	543,802
Capital outlay	-	-	366,900	-	366,900
Debt service:					
Principal	-	905,182	-	252,951	1,158,133
Interest and fiscal charges	-	940,848	-	276,098	1,216,946
Total expenditures	411,813	3,998,299	2,290,054	755,601	7,455,767
REVENUES OVER (UNDER) EXPENDITURES	891,719	902,645	(668,979)	(234,320)	891,065
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	1,300,000	573,993	1,873,993
Transfers out	(513,993)	(1,300,000)	-	(60,000)	(1,873,993)
Total other financing sources (uses)	(513,993)	(1,300,000)	1,300,000	513,993	-
Net change in fund balances	377,726	(397,355)	631,021	279,673	891,065
FUND BALANCES:					
Beginning of the year	19,532,721	5,175,806	32,030,818	2,039,054	58,778,399
End of seven months	\$ 19,910,447	\$ 4,778,451	\$ 32,661,839	\$ 2,318,727	\$ 59,669,464

City of Santa Cruz Redevelopment Agency

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

Net Change in Fund Balances - Total Governmental Funds \$ 891,065

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

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These costs were capitalized.	366,900
Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but did not require the use of current financial resources. Therefore, depreciation expense was not reported as an expenditure in the governmental funds.	(59,669)
Repayment of long-term debt principal was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets.	1,032,385
Certain discounts and premiums on long-term debt were reported as expenditures and financing uses in the governmental funds, but are capitalized in the Government-Wide Statement of Net Assets, and will be amortized over the remaining life of the debt.	(3,015)
Revenues that did not meet the criteria for accrual were recorded as deferred revenues in the governmental funds. In the Government-Wide Financial Statements, these amounts were recorded as revenues. This amount represents the change in deferred revenue from the prior year.	(60,473)
Certain costs related to issuing new debt and refunding existing debt were reported as expenditures and financing uses in the governmental funds, but are capitalized in the Government-Wide Statement of Net Assets, and will be amortized over the remaining life of the debt.	(15,795)
Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but did not require the use of current financial resources. Therefore, interest expense was not reported as an expenditure in governmental funds. This is the amount representing the the change in accrued interest from the prior year.	(182,276)
Change in Net Assets of Governmental Activities	<u>\$ 1,969,122</u>

NOTES TO BASIC FINANCIAL STATEMENTS

City of Santa Cruz Redevelopment Agency
Notes to Basic Financial Statements
For the seven months ended January 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Santa Cruz Redevelopment Agency (Agency) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

A. Reporting Entity

The Agency was created by the City of Santa Cruz Council Resolution No. NS-2065, adopted on January 10, 1956. The Agency was established pursuant to the Community Redevelopment Law of the California Health and Safety Code. The Agency is broadly empowered to engage in the general economic revitalization and redevelopment of the City of Santa Cruz (City). The Agency represents an additional financing source for the City to redevelop property in areas determined to be in a declining condition. The Agency had adopted two redevelopment plans known as the North Mall Redevelopment Project (Mall) and the San Lorenzo River Shoreline Redevelopment Project (River). On November 13, 1990, the City passed ordinances 90-40, and 90-41 amending the redevelopment plan, (Amended Plan) to merge the San Lorenzo River Project Area, and the North Mall Project Area (River/Mall). A principal goal of this Amended Plan is to promote the full and complete recovery of the merged project area from the physical and economic hardships created by the Loma Prieta Earthquake of October 17, 1989. These purposes are authorized under emergency legislation, Senate Bill 39X, effective July 18, 1990. The Amended Plan for the River/Mall Project provides for a series of activities, which can be undertaken to bring about earthquake recovery and correct and eliminate blighting conditions and environmental deficiencies.

On October 23, 1990, the City passed ordinance 90-37 establishing a redevelopment plan for Eastside Project Area (Eastside). The purpose of the project area is to provide public and commercial improvements in order to attract business to the eastside area of Santa Cruz.

The Agency functions as an independent entity and its policies are determined by the City Council of the City acting in a separate capacity as members of the Agency's Board of Directors pursuant to Section 33200 of the Community Redevelopment Law. All staff work is performed by the officials and the staff of the City or by outside consultants.

B. Basis of Accounting and Measurement Focus

The accounts of the Agency are organized and operated on the basis of funds, each of which is defined as a separate fiscal and accounting entity with a self-balancing set of accounts. These funds are established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Government-Wide Financial Statements

The Agency's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities for the Agency.

City of Santa Cruz Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the seven months ended January 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Government-Wide Financial Statements, Continued

These basic financial statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the Agency’s assets and liabilities, including capital assets and related infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the Agency in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities, which are presented as internal balances and eliminated in the total primary government column. The following interfund activities have been eliminated:

- Due to/from other funds
- Advances to/from other funds
- Transfers in/out

Governmental Fund Financial Statements

The accounts of the Agency are organized and operated on the basis of funds, each of which is defined as a separate fiscal and accounting entity with a self-balancing set of accounts. These funds are established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following are the types of funds and account groups used:

Governmental Fund Types

Special Revenue Funds - To account for the 20% set-aside for low and moderate income housing which is legally restricted to be expended for those specified purposes.

Debt Service Funds - To account for the accumulation of resources for and the payment of general long-term debt principal and interest.

Capital Projects Funds - To account for financial resources to be used for acquisition or construction of capital facilities and administration.

City of Santa Cruz Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the seven months ended January 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balance as presented in these statements to the net assets presented in the government-wide financial statements. The Agency has presented all major funds that met the applicable criteria.

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

Revenues are recorded when received in cash, except those revenues subject to accrual (generally 60 days after the period end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are property taxes, federal and state grants, and interest. Expenditures are recognized in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

C. Use of Restricted and Unrestricted Net Assets

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

D. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated. The Agency’s policy has set the capitalization threshold for reporting machinery and equipment at \$5,000 and buildings at \$10,000. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

City of Santa Cruz Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the seven months ended January 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Capital Assets, Continued

Land improvements	20 Years
Buildings	15-50 Years
Machinery and equipment	5-20 Years
Lease improvements	20-25 Years
Software	5 Years

The Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. The Agency did not have any infrastructure capital assets at January 31, 2012.

E. Interest Payable

In the government-wide financial statements, interest payable of long-term debt is recognized as the liability is incurred for governmental fund types.

F. Long-Term Debt

Government-Wide Financial Statements

Long-term debt and other financed obligations are reported as liabilities in the appropriate funds.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges.

Fund Financial Statements

The fund financial statements do not present long-term debt but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

G. Net Assets

Government-Wide Financial Statements

In the government-wide financial statements, net assets are classified in the following categories:

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

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

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

City of Santa Cruz Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the seven months ended January 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Fund Balances

Fund Financial Statements

GASB Statement No. 54 defines the components of fund balance and classifies it into five categories. Nonspendable fund balance is amounts that are legally or contractually required to be maintained intact, such as the principal of an endowment. Restricted fund balance is amounts that are subject to externally enforceable restrictions, such as those imposed by creditors, grantors or laws. Committed fund balance is amounts whose use is constrained by limitations that the government imposes upon itself by the highest level of decision making body. Assigned fund balance is amounts whose intended use is established by the governing body or its specified delegate. Unassigned fund balance is the excess of total fund balance over the other four categories combined. Prior to the implementation of GASB Statement No. 54, encumbrances were reported in the financial statements as a reservation of fund balance. Encumbrances are now reported as assigned fund balance if they are not already included in nonspendable, restricted or committed fund balance.

I. Property Taxes

Assessed property values are determined annually by the County Assessor as of March 1, and become a lien on real property at July 1. Taxes are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. The County bills and collects property taxes and remits them to the City under the State-authorized method of apportioning taxes whereby all local agencies, including cities, receive from the county their respective shares of the amount of ad valorem taxes collected. Property tax revenues are recognized when levied, provided the measurement and availability criteria have been met.

Due to the dissolution of the Agency, for the seven months ended January 31, 2012, the Agency only received tax increment related to the first levy.

2. CASH AND INVESTMENTS

The Agency had the following cash and investments at January 31, 2012:

Cash and Investments	\$ 11,878,731
Restricted Cash and Cash Equivalents	<u>38,632,678</u>
Total	<u><u>\$ 50,511,409</u></u>

The Agency's funds are pooled with the City's cash and investments in order to generate optimum interest income. The information required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, related to authorized investments, credit risk, etc., is available in the basic financial statements of the City.

City of Santa Cruz Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the seven months ended January 31, 2012

2. CASH AND INVESTMENTS, Continued

Investments Authorized by the City's Investment Policy

The investments made by the City treasurer are limited to those allowable under State statutes as incorporated into the City's Investment Policy, dated July 12, 2011, which is more conservative than that allowed by the State statute.

The scope of the investment policy includes all activities of the City and the following reporting entities:

- City of Santa Cruz
- City of Santa Cruz Redevelopment Agency
- Santa Cruz Public Improvement Financing Corporation
- Santa Cruz Public Financing Authority

Under provisions of this policy, the City is authorized to invest in the following types of investments:

- Money market accounts deposited with a nationally or state-chartered bank.
- Bonds issued by the City. Purchases of this type shall not exceed five years to maturity.
- U.S. Treasury bills, notes, bonds, or certificates of indebtedness, or those securities backed by the full faith and credit of the U.S. Government with maturities not to exceed five years.
- Obligations, participations, or other instruments of, or issued by, a Federal agency or a United States government-sponsored enterprise with maturities not to exceed five years.
- Bankers' acceptances with a term not to exceed 180 days' maturity or 40% of the City's portfolio.
- Nonnegotiable and nontransferable certificates of deposit issued by the following types of financial institutions which have branch office locations within Santa Cruz County: a nationally or state-chartered bank, state or federal credit union, or a state-licensed branch of a foreign bank. Purchases may not exceed 30% of the City's portfolio with no more than 5% of the portfolio deposited with a single issuer.
- State of California Local Agency Investment Fund as long as the total amount of City and Agency combined funds invested does not exceed the limit set by LAIF.
- Shares of beneficial interest issued by diversified management companies investing in authorized securities and obligations (e.g., money market mutual funds). Purchases shall not exceed 20% of the City's portfolio with no more than 10% of the portfolio in a single mutual fund.
- Repurchase agreements with primary dealers of the Federal Reserve with specific terms and conditions. The market value of securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities, and the value shall be adjusted no less than quarterly. Securities that can be pledged for collateral consist only of investments permitted within this policy with a maximum maturity of five years. Purchases shall not exceed 92 days to maturity and 20% of the portfolio.
- Internal financing pool established for the purpose of providing loans to City departments or funds for significant one-time purchases. Investments in the pool shall not exceed the lesser of \$10 million or 10% of the City's portfolio.

Bond proceeds held by fiscal agents to be used only for specific capital outlay, payments of certain long-term debt and maintaining required reserves are invested in accordance with the requirements and

City of Santa Cruz Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the seven months ended January 31, 2012

2. CASH AND INVESTMENTS, Continued

restrictions of the City's investment policy unless provided for otherwise by the City Council or Redevelopment Agency Board and as permitted by specific State statutes, applicable City ordinance or resolution, and bond indenture requirements.

Investment in State Investment Pool

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

Structured Notes: debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities: generally mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables.

As of January 31, 2012, the City had \$49,535,116 invested in LAIF accounts, which had invested 3.160% of the pool investments in structured notes and asset-backed securities as compared to 5.006% at June 30, 2011. The City's share of structured notes and asset-backed securities due to its holdings in LAIF amounted to approximately 0.947% of investments at January 31, 2012.

Interest Rate Risk

In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to two and one-half (2 ½) years or less. The City is in compliance with this provision of the investment policy with a weighted average maturity of 429 days at January 31, 2012.

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

Investments in callable bonds are investments that, although having clearly defined maturities, allow for the issuer to redeem or call such bonds earlier than their respective maturity dates. The investor must then replace the called bonds with investments that may have lower yield than the original bonds. As a result, the fair value of the callable bonds is highly sensitive to changes in interest rates. As of January 31, 2012, the City held \$39,883,500 in callable securities, which amounted to 24.12% of investments at January 31, 2012. The investment policy limits the purchase of callable U.S. Agency instruments to discreet calls and those that pay 100% of the principal at the redemption date. In addition, purchases of callable U.S. Agency instruments are not to exceed 30% of the value of the portfolio. The City is in compliance with these provisions of the investment policy.

City of Santa Cruz Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the seven months ended January 31, 2012

2. CASH AND INVESTMENTS, Continued

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City manages credit risk by evaluating and pre-qualifying banks and primary dealers and by investing in securities with top ratings issued by nationally recognized statistical rating organizations. The City's investment policy requires that the management company of mutual funds must have attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations. Although the investment in the Dreyfus California AMT-Free Muni Fund is not rated, and therefore, not in compliance with the City policy, it was authorized by City Council and City Officials as a necessary investment to preserve the tax-exempt status of the related bond proceeds.

Concentration of Credit Risk

The City's investment policy states that not more than 25% of the portfolio shall be invested in any one entity or any one instrument to protect the City from concentration of credit risk, with the following exceptions: U.S. Treasury Obligations and the external investment pool (LAIF). In addition, purchases of mutual funds must not exceed 20% of the value of the portfolio. Purchases in a single mutual fund may not exceed 10% of the value of the portfolio. The City is in compliance with these provisions of the investment policy.

3. REDEVELOPMENT AGENCY NOTES RECEIVABLE

The outstanding notes receivable, net of allowance for uncollectable accounts as of January 31, 2012, consisted of the following:

	Balance June 30, 2011	Additions	Retirements	Balance January 31, 2012
Housing Loans:				
South County Housing Corp	\$ 850,000	\$ -	\$ -	\$ 850,000
First Time homebuyer loans	15,000	-	-	15,000
Mercy Housing loans	3,699,571	-	-	3,699,571
Tannery Artists Lofts Ltd	2,111,829	33,782	-	2,145,611
Mission Gardens LLP	490,743	8,050	-	498,793
Liebrandt Rental Rehab Loan	270,584	-	-	270,584
Less Allowance for Uncollectibles	(270,584)	-	-	(270,584)
PUSSER Affordable Housing Covenant	65,964	-	-	65,964
Less Allowance for Uncollectibles	(65,964)	-	-	(65,964)
Park Pacific LLC	227,906	4,882	-	232,788
Less Allowance for Uncollectibles	-	-	(232,788)	(232,788)
AHTF-Tannery Artists Lofts Ltd	1,200,000	-	-	1,200,000
Subtotal :	8,595,049	46,714	(232,788)	8,408,975
Capital Projects Loans:				
Tannery Artspace LC	-	398,673	-	398,673
Del Mar Theatre Equipment Loan	128,210	-	(22,037)	106,173
North Bay Ford OPA	98,334	-	-	98,334
Less Allowance for Uncollectibles	(98,334)	-	-	(98,334)
Zero Motorcycles, Inc.	60,000	-	-	60,000
Less Allowance for Uncollectibles	(60,000)	-	-	(60,000)
Subtotal :	128,210	398,673	(22,037)	504,846
Total	\$ 8,723,259	\$ 445,387	\$ (254,825)	\$ 8,913,821

City of Santa Cruz Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the seven months ended January 31, 2012

3. REDEVELOPMENT AGENCY NOTES RECEIVABLE, Continued

Housing Loans

The Special Revenue Low/Mod Income Housing Fund notes receivable consisted of \$8,408,975 in long term receivables. Descriptions of the individual notes receivables are described below.

South County Housing Corp

The South County Housing Corporation received a loan of \$850,000 in fiscal year 2008 to finance, in part, the acquisition, rehabilitation, and operation of eleven units of Single Room Occupancy rental housing and construction of 2 additional rental units, a manager's unit, and a community center in the City. The balance of the non-interest bearing note will be repaid in 55 years or when the Project is sold or refinanced.

First Time Homebuyer Loans

The balance of \$15,000 for First Time Homebuyer Loans represents one remaining note outstanding for the Agency's loan program.

Mercy Housing Loan

The Mercy Housing loans financed construction of affordable housing projects on Sycamore Street and in the Beach Flats area. All the Mercy Housing notes totaling \$3,699,571 are non-interest bearing and are secured by a deed of trust.

Tannery Artists Lofts Ltd

In 2008, the Agency entered into a Consolidated Loan and Grant agreement with the Tannery Artists Lofts Limited Partnership, the developer of 100 units of affordable housing at the Agency owned 8.3 acre site at 1040 River Street known as the Tannery Arts Center. The total loan amount authorized was \$1,981,000. The loan accrues interest at the rate of 3% per annum. The principal and all the accrued interest will be payable no later than 55 years from the date of closing of borrower's permanent financing for the project. At January 31, 2012, \$1,930,374 in principal and \$215,237 in deferred interest was outstanding.

Mission Gardens LLP

In fiscal year 2009, the Agency entered into a loan agreement with Mission Gardens LLP to partially fund the acquisition and rehabilitation of 50 units of housing. In consideration of the loan, the units will be covered by affordability covenants for 55 years. The loan accrues interest at the rate of 3% per annum. Payments of interest from residual receipts may begin in 2012. The principal including outstanding accrued interest is due and payable upon sale of the units at the term of the loan in 2064. At January 31, 2012, \$460,000 in principal and \$38,793 in deferred interest was outstanding.

City of Santa Cruz Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the seven months ended January 31, 2012

3. REDEVELOPMENT AGENCY NOTES RECEIVABLE, Continued

Liebrandt Rental Rehab Loan

In 2000, the Agency entered into a thirty (30) year loan agreement for \$222,000 with Pat Liles for the rehabilitation of a seven residential unit rental property located at 505 Liebrandt Avenue. Subsequently in 2000, the loan was amended to provide an additional \$38,000 in order to complete additional work resulting from the discovery of previously unknown structural damage and substandard building components and systems. In 2001, the loan was amended a second time for an additional \$10,843 to replace portions of the existing plumbing system not originally included in the project bringing the total loan amount to \$270,843.00. The interest rate is 3% simple interest only. The loan was given to bring the property back to decent, safe and sanitary standards and to improve the project quality to the point that it enhances the surrounding neighborhood. The loan agreement specifies that the seven rental units shall be restricted in rent so as to be affordable to persons and families of very low, low and moderate incomes. After fifteen (15) years, if there is no default or failure to cure by Borrower, one half of the loan and accrued interest shall be converted to a grant from Lender to Borrower. The remaining portion of the Loan and accrued interest shall be reduced each year on a straight line pro rata basis through the maturity date.

PUSSER Affordable Housing Covenant

Oct 20, 1998, the Redevelopment Agency entered into a loan agreement with Gordon and Teresa Pusser for \$33,000 for the development of five residential rental units rented to persons and households of low and moderate income at an affordable rent. The loan reimbursed borrower for the payment of fees to the City of Santa Cruz in connection with the development of the residential portion of the live/work units. Interest on the loan is 7% per annum, simple interest only which shall accrue from the date of execution of the Agreement. No payment is due and payable as long as the borrower is in compliance with the Affordability Agreement for the property. If the borrower breaches any of the covenants of the agreement prior to the 15th anniversary of the recordation of the Affordability Agreement (Feb. 24, 1999), the entire loan and all accrued interest shall be immediately due and payable in full. If applicable, from the date of the breach, the principal shall earn an additional 3% per annum (for a total interest rate of 10%) until paid in full.

In 2000, the Agency entered into a fifteen (15) year loan agreement for \$33,000 with Pusser, Gordon and Teresa (Gordon and Teresa Pusser Living Trust) for the purpose of development of four (4) residential units located at 501 Swift Street. All units were rented to persons and households of low and moderate income at an affordable rate. The loan carries a 7.85% interest rate. No payment is due provided the borrower does not breach any covenants of the agreement. If the borrower breaches any covenants of the agreement prior to the fifteen (15) year anniversary of the recording of the agreement, the entire principal and interest are due immediately. The principal earns an additional 3% interest from the date of breach until the principal is repaid. At the conclusion of the loan period fifteen (15) years from the date of recordation of the affordability agreement against the project site, the loan shall convert to a grant to be forgiven.

City of Santa Cruz Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the seven months ended January 31, 2012

3. REDEVELOPMENT AGENCY NOTES RECEIVABLE, Continued

Park Pacific LLC

During fiscal year 2011, the Agency executed an OPA and loan agreement with Park Pacific LLC. In exchange for the three year loan of \$220,000 with an interest rate of 3.75%, the developer was to incorporate no fewer than twelve affordable housing units for persons of low income. The developer has not met the performance schedule and benchmarks; therefore the loan is in default. At January 31, 2012 \$220,000 in principal and \$12,788 in deferred interest was outstanding. An allowance equal to the loan principal and accrued interest was created during this period in case the loan proves to be uncollectible. The Agency is conducting an asset search on both Park Pacific LLC and on the primary investor.

AHTF-Tannery Artists Lofts Ltd

In 2010, the Agency executed a loan agreement for \$1.2M to the Tannery Artists Lofts Ltd for the 100 unit affordable housing project cited below. The loan is interest free except in the case of default at which time the loan begins to accrue interest at the lower of 10% or the highest rate permitted by law. The loan term is for 55 years with the entire balance due no later than December 31, 2064.

Capital Projects Fund Loans

The total of Capital Projects notes receivable consisted of \$504,846 in long term receivables. Descriptions of the individual notes receivables are described below.

Tannery Artspace LLC

During the past fiscal period, the Agency funded a loan commitment to Artspace Tannery LLC for development and leasing costs related to the Digital Media Center project on the Tannery Arts Center campus. This loan is part of the overall Agency requirement to develop the property in accordance with the federal and state grant funding that was awarded in prior fiscal years. The loan bears an interest rate of 3% simple interest and is repayable in semi-annual payments over a thirty year period. The principal outstanding at January 31, 2012 is \$397,448 and the accrued interest is \$1,225.

Del Mar Theatre Equipment Loan

During FY 2010, the Agency made a loan from the Merged Project Area Del Mar Theatre Capital Projects fund to the Nickelodeon Theatres, Inc., the operator of the Agency owned Del Mar Theatre. The loan financed the purchase of audio-visual equipment upgrades. The loan bears an interest rate of 1.5% and is repayable in quarterly installments over a term of five years. The note matures July 1, 2015. The balance outstanding at January 31, 2012 is \$106,173.

North Bay Ford OPA

In 2000, the Agency entered into a loan agreement for \$98,334.00 with Winterhalder, Edward & Elward (North Bay Ford) for a portion of the cost to purchase the property on which the dealership currently resides. The loan is interest free except in the case of default at which time the loan and all accrued interest

City of Santa Cruz Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the seven months ended January 31, 2012

3. REDEVELOPMENT AGENCY NOTES RECEIVABLE, Continued

will become immediately due and payable. In such an event, the Maker shall repay a prorated amount of the principal and accrued interest. The prorated amount of the principal shall be determined by a fraction, the numerator of which shall be determined by the number of years from the date of the event of default to the end of the fifteen (15) year period and the denominator of which shall be fifteen (15) years. Repayment of the principal and interest due under this Note shall be forgiven in full so long as Maker continues to use, devote and maintain the Site and each part thereof only for the retail sale of vehicles generating not less than \$100,000 in annual sales tax to the City for fifteen (15) years.

Zero Motorcycles, Inc.

The Agency executed a participation agreement with Zero Motorcycles, Inc. (Zero) as part of a package of financing involving both the California Energy Commission Alternative and Renewable Fuel and Vehicle Program and the Monterey Bay Unified Air Pollution Control District. In return for a forgivable loan of \$60,000, the company will redevelop property located within the City for the purposes of constructing a new facility for an electric powertrain development program and the Zero Motorcycles Flagship dealership and showroom, at which all sales for California and other U.S. States, not sold via other motor vehicle dealers will originate. The loan will be forgiven in varied amounts over a ten year period.

4. CAPITAL ASSETS

At January 31, 2012, the Agency's capital assets consisted of the following:

	Balance			Balance
	June 30, 2011	Additions	Deletions	January 31, 2012
Capital assets not being depreciated:				
Land	\$ 11,601,673	\$ -	\$ -	\$ 11,601,673
Construction in process	7,482,093	366,900	-	7,848,993
Total capital assets not being depreciated	19,083,766	366,900	-	19,450,666
Capital assets being depreciated:				
Land improvements	66,637	-	-	66,637
Buildings	2,066,912	-	-	2,066,912
Machinery and equipment	110,026	-	-	110,026
Lease improvements	240,267	-	-	240,267
Software	10,965	-	-	10,965
Total capital assets being depreciated	2,494,807	-	-	2,494,807
Less accumulated depreciation for:				
Land improvements	(26,932)	(1,944)	-	(28,876)
Buildings	(580,458)	(44,790)	-	(625,248)
Machinery and equipment	(11,081)	(6,072)	-	(17,153)
Lease improvements	(101,978)	(6,863)	-	(108,841)
Software	(10,965)	-	-	(10,965)
Total accumulated depreciation	(731,414)	(59,669)	-	(791,083)
Total capital assets being depreciated, net	1,763,393	(59,669)	-	1,703,724
Total governmental activities	\$ 20,847,159	\$ 307,231	\$ -	\$ 21,154,390

Depreciation expense for the period ended January 31, 2012 was \$59,669.

City of Santa Cruz Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the seven months ended January 31, 2012

5. LONG TERM DEBT

Long-term debt consisted of the following at January 31, 2012:

	Balance			Balance January 31, 2012	Classification	
	June 30, 2011	Additions	Retirements		Amounts	Amount
					Due Within One Year	Due in More Than One Year
2004 Tax allocation bonds	\$ 4,485,000	\$ -	\$ (140,000)	\$ 4,345,000	\$ 145,000	\$ 4,200,000
2011-A Housing TABS	8,250,000	-	(220,000)	8,030,000	410,000	7,620,000
2011-B Taxable TABS	20,130,000	-	(430,000)	19,700,000	805,000	18,895,000
2011-C Tax Exempt TABS	7,370,000	-	(185,000)	7,185,000	340,000	6,845,000
Other long-term liabilities	57,385	-	(57,385)	-	-	-
Total	\$ 40,292,385	\$ -	\$ (1,032,385)	39,260,000	\$ 1,700,000	37,560,000
			Unamortized bond premium	12,996		12,996
			Unamortized deferred amounts on refunding	(17,781)		(17,781)
			Total Long-Term Debt	\$ 39,255,215		\$ 37,555,215

Tax Allocation Bonds – In October 2004, the Agency issued \$5,245,000 in tax allocation bonds. The proceeds were used, together with other funds, to redeem, on December 1, 2004, all of the Agency’s outstanding 1996 Merged Earthquake Recovery and Reconstruction Project Area Tax Allocation Refunding Bonds, in the amount of \$2,505,000, and to raise additional funds for programs, projects and activities related to the Redevelopment Project. Annual payments of \$120,000 to \$320,000 will be made through October, 2031. Interest ranges from 2.50% to 4.625%. The 2004 bonds are secured by a pledge and a first lien on the tax increment revenues derived from the Redevelopment Project, net of certain amounts which are payable to other taxing agencies. The balance outstanding at January 31, 2012 was \$4,345,000.

In March 2011, the Agency issued \$35,750,000 in tax allocation bonds through a private placement issue. The proceeds will be used for programs, projects, and activities related to the Merged Earthquake Recovery and Reconstruction Project Area. The bonds were issued in three series. Series A was in the amount of \$8,250,000 specifically for Housing projects. Annual payments of \$220,000 to \$880,000 will be made through October 2024. This series carries a fixed interest rate of 6.59%. Series B was in the amount of \$20,130,000. Annual payments of \$430,000 to \$1,985,000 will be made through October 2026. The fixed interest rate is 6.65%. Series C, to be used for eligible tax-exempt initiatives, was in the amount of \$7,370,000. Annual payments of \$185,000 to \$650,000 will be made through October 2026. The series has a fixed interest rate of 4.79%. The 2011 bonds are secured by a pledge on the tax increment revenues derived from the Redevelopment Project, net of certain amounts payable to other taxing agencies and parties. The balance outstanding at January 31, 2012 was \$34,915,000.

City of Santa Cruz Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the seven months ended January 31, 2012

5. LONG TERM DEBT, Continued

The annual debt service requirements for the tax allocation bonds outstanding at January 31, 2012, were as follows:

For the Seven Months Ending January 31,	Principal	Interest	Total
2013	\$ 1,700,000	\$ 2,369,680	\$ 4,069,680
2014	1,800,000	2,267,949	4,067,949
2015	1,905,000	2,159,837	4,064,837
2016	2,020,000	2,044,811	4,064,811
2017	2,145,000	1,922,672	4,067,672
2018-2022	12,855,000	7,487,559	20,342,559
2023-2027	15,375,000	3,094,491	18,469,491
2028-2031	1,460,000	208,752	1,668,752
Total	\$ 39,260,000	\$ 21,555,751	\$ 60,815,751

Other Long-Term Liabilities - The Agency was obligated under two separate Owner Participation Agreements (OPA) for various portions of the \$1,250,000 Chestnut Street Special Assessment District Debt. The Chestnut Street Special Assessment District Debt was retired during this period. The total outstanding of Other Long-Term Liabilities as of January 31, 2012 was zero.

Conduit Debt -

During the fiscal year 2008, the Agency issued multifamily housing revenue bonds to provide funding for loans made to Tannery Artists Lofts Limited Partnership (a California Limited Partnership). The revenue bonds were used to finance the Borrower's construction and development of a 100-unit multifamily housing rental facility to be located within the City limits. The housing facilities are to be occupied by persons of low and very low income, to the extent required by federal tax law.

The bonds were issued under a Master Agency Agreement, dated August 1, 2007 between the Agency, and Washington Mutual Bank. For the Tannery Artists Lofts, the Agency issued 2007 Series A-1 bonds in the amount of \$4,195,000, which mature March 1, 2045. The balance at January 31, 2012 is \$4,094,465. For the remaining portion of the loan relating to the 100-unit multifamily housing rental facility, the Agency issued 2007 Series A-2 bonds in the amount of \$24,010,000. This series was paid in full as of fiscal year 2011.

The bonds and interest are limited obligations of the Agency, payable solely from the "trust estate," which is specifically assigned and pledged to such purposes to the extent provided in the Official Statements. The trust estate includes the Agency's interest in the loans made to the developer, including rights to receive payments on the loans, and rights to certain bond proceeds and related revenues. The Official Statements contain more information regarding the trust estate.

During the fiscal year 2002-2003, the Agency issued variable rate demand multifamily housing revenue bonds to provide funding for loans made to Santa Cruz Shaffer Road Investors L.P., and 1010 Pacific Investors L.P. (both California limited partnerships). The revenue bonds were used to finance a portion of the costs of building a 206-unit multifamily residential development and for the rehabilitation and

City of Santa Cruz Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the seven months ended January 31, 2012

5. LONG TERM DEBT, Continued

equipping of a 113-unit multifamily residential development within the City limits. The housing facilities are to be occupied by persons of low and very low income, to the extent required by federal tax law.

The bonds were issued under a Trust Indenture, dated July 1, 2002, between the Agency, and Wells Fargo Bank, National Association, as trustee. For the Shaffer Road Apartments, the Agency issued 2002 Series A bonds in the amount of \$29,925,000 and 2002 Series A-T bonds in the amount of \$985,000. The 2002 Series A-T bonds were called in full in fiscal year 2011. For the 1010 Pacific Avenue Apartments, 2002 Series B bonds in the amount of \$21,650,000 were issued. As of January 31, 2012, the total amounts outstanding for all the 2002 Bonds were as follows: \$29,925,000 for Series A; \$0 for Series A-T; and \$21,650,000 for Series B. The remaining bonds mature on August 15, 2035.

The bonds and interest are limited obligations of the Agency, payable solely from the “trust estate” which is specifically assigned and pledged for such purposes to the extent provided in the Official Statements. The trust estate includes the Agency’s interest in the loans made to the developer, including rights to receive payments on the loans, and rights to certain bond proceeds and related revenues. The Official Statements contain more information regarding the trust estate. The City is in no way obligated to repay the debt in the event of default and the debt is not recorded in the accompanying financial statements.

Pledged Revenues

For the Tax Allocation Bonds, principal and interest are payable solely from tax revenues and from amounts in certain accounts held by the trustee under and pursuant to the indenture. Debt service for the seven months ended January 31, 2012, consisted of \$975,000 in principal and \$1,213,092 in interest for a total of \$2,188,092. Revenue pledged for the payment of current year debt service was \$6,469,481. Remaining debt service payments through final maturity of the Bonds in October 2031 are estimated to be \$39,260,000 in principal and \$21,555,751 in interest for a total debt service obligation of \$60,815,751 as listed above.

6. INTERFUND TRANSACTIONS

The Agency had the following inter-fund transfers as of January 31, 2012:

		Transfers In		
		Capital Projects Fund River/Mall	Non-Major Funds	Total
Transfers Out	<i>Special Revenue Fund:</i>			
	Low/Moderate Income Housing River/Mall	\$ -	\$ 513,993	\$ 513,993 a
	<i>Debt Service Fund:</i>			
	River/Mall	1,300,000	-	1,300,000 b
	<i>Non-Major Funds</i>	-	60,000	60,000 c
	Total	\$ 1,300,000	\$ 573,993	\$ 1,873,993

City of Santa Cruz Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the seven months ended January 31, 2012

6. INTERFUND TRANSACTIONS, Continued

Transfers between funds were made to:

- a) Fund debt service payments and deficit cash
- b) Repay the administration loan from the City of Santa Cruz
- c) Repay the project loan from the City of Santa Cruz

7. COMMITMENTS AND CONTINGENCIES

A. Lawsuits

The Agency is not aware of any matters of litigation that have arisen in the normal course of conducting Agency business.

B. Commitments

The Agency acted as a financing source for the City, and all capital improvements and professional services in the redevelopment areas were maintained and owned by the City. Therefore, capital improvements and professional services financed through the Agency's tax increments and bond financing are maintained on the books of the City. Despite the dissolution legislation implemented with California Supreme Court decision in December of 2011 presented in Note 10 below, the Agency still had outstanding grant and contractual obligations as of January 31, 2012.

Commitments and contracts for projects and capital assets:

AECOM Technical Services	\$ 15,481
BKF Engineers, Hwy 1/9	149,859
Cary & Co, Inc, Kron House Rehab, Tannery Arts Center	21,708
Community Action Board, Emergency Rent Assistance Program	89,795
County of Santa Cruz, Downtown Outreach Services	37,500
Coyote Industrial, Del Mar Cleaning, Downtown Blight Removal	3,780
CRW Industries, Kron House Rehabilitation Tannery Arts Center	941,091
For the Future Housing, 110 Lindberg Affordable Housing	2,200,000
Graffiti Protective Inc, Graffiti Abatement	18,562
Hope Services, Downtown Training Program	27,140
Housing Authority of Santa Cruz County, Rental Security Deposit Assistance	45,361
HP Inspections, Kron House Rehab Tannery Arts Center	7,900
John Daly, Cedar Street Façade Improvement	12,368
Kimley Horn, Downtown Trolley Study	15,473
Kimley Horn, Lower Pacific Ave Parking Study	82,362
Labor Consultants-Wage Monitoring, Kron House Rehab Tannery Arts Center	16,800
Meltdown Glass Art, MBNMSEC Public Art	57,050
Santa Cruz Trolley Consortium, Trolley Repairs	16,950
Santa Cruz Trolley Consortium, MBUAPCD Grant	76,000
TRC Engineers, Kron House Rehabilitation Tannery Arts Center	8,169
Type Factory, Downtown Directory Sign	7,715
Wowhaus, MBNMSEC Public Art	18,000
Zero Motorcycles, MBUAPCD Grant	17,791
Total professional services	\$ 3,886,855

City of Santa Cruz Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the seven months ended January 31, 2012

8. INSURANCE

The Agency is covered under the City of Santa Cruz's insurance policies. Therefore, the limitation and self-insured retentions applicable to the City of Santa Cruz also apply to its Redevelopment Agency. Additional information as to coverage and self-insured retentions can be obtained by contacting the City.

9. CALIFORNIA REDEVELOPMENT AGENCY DISSOLUTION

On July 18, 2011, the California Redevelopment Association ("CRA") and the League of California Cities ("League") filed a petition for writ of mandate with the California Supreme Court, requesting the Court to declare unconstitutional two bills that were passed as part of the 2011-12 State Budget, AB 1X 26 and 27 (*California Redevelopment Association v. Matosantos*). AB 1X 26 dissolves redevelopment agencies effective October 1, 2011. AB 1X 27 gave redevelopment agencies an option to avoid dissolution if it commits to making defined payments for the benefit of the State, school districts and certain special districts. In 2011-12, these payments amounted to a state-wide total of \$1.7 billion. In 2012-13 and subsequent years, the payments totaled \$400 million, annually. Each city or county's share of these payments was determined based on its proportionate share of state-wide tax increment.

On August 17, 2011 the Supreme Court issued a stay of the implementation of AB 1X 26 and 27 which allowed a redevelopment agency to continue if it adopted an AB 1X 27 ordinance. However, because of the effect of the stay order, the authority for the Redevelopment Agency to engage in most activities was suspended.

The Supreme Court heard oral arguments on November 10, 2011 and on December 29, 2011 announced its decision in *California Redevelopment Association v. Matosantos*. The court upheld AB 1X 26 which dissolves redevelopment agencies, but invalidated in its entirety AB 1X 27 which allowed redevelopment agencies to continue as long as they made the required payments. AB 1X 26 established deadlines for the process of Redevelopment Agency dissolution and the handling of existing obligations. The full text of AB 1X 26 may be obtained from the California legislative information website maintained by the Legislative Counsel of the State of California at: <http://www.leginfo.ca.gov/bilinfo.html>.

As of January 31, 2012 the Redevelopment Agency has been dissolved and the City of Santa Cruz has elected to become the Successor Agency. The Successor Agency will be responsible for winding down the remaining activities of the dissolved Redevelopment Agency.

10. SUBSEQUENT EVENTS

On April 20, 2012, pursuant to Health and Safety Code Section 34167.5, the California State Controller issued an order to cities, counties, and agencies, directly or indirectly receiving assets from a redevelopment agency after January 1, 2011, to reverse the transfer and return assets to successor agency. The California State Controller will specifically review and audit cities, counties, and public agencies to ensure that all applicable asset transfers have been reversed. Any reversals of transfers are not reflected in the Agency's financial statements as of January 31, 2012. Upon the Controller's review, any assets, if applicable, would be transferred to the Successor Agency in accordance with the order.

City of Santa Cruz Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the seven months ended January 31, 2012

10. SUBSEQUENT EVENTS, Continued

Assembly Bill 1484 established a requirement for the successor agency to remit to the County Auditor-Controller three payments as determined by the Auditor-Controller which consist of a payment to be made in July 2012 for taxing entities' share of December 2011 property tax distribution to Redevelopment Agency/Successor Agency, a payment to be made in November 2012 related to Low-Moderate Income Housing Fund Due Diligence Review for unencumbered cash, and a payment to be made in April 2013 related to the other Redevelopment Funds Due Diligence Review for unencumbered cash. As of the date of the report the payment in July 2012 was made in the amount of \$4,500,759. In addition, the Low-Moderate Income Housing Due Diligence Review resulted in an amount due of \$80,403, which has been confirmed by the Department of Finance, and the other Redevelopment Funds Due Diligence Review resulted in an amount due of \$0, which has not been confirmed by the Department of Finance.

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SUPPLEMENTARY INFORMATION

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NON-MAJOR GOVERNMENTAL FUNDS

City of Santa Cruz Redevelopment Agency
Combining Balance Sheet
Non-Major Governmental Funds
January 31, 2012

	Low/Moderate Income Housing Eastside Special Revenue Fund	Low/Moderate Income Housing River/Mall Debt Service Fund	Eastside Debt Service Fund	Eastside Capital Projects Fund	Total Other Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 358,097	\$ -	\$ 914,631	\$ 146,120	\$ 1,418,848
Interest receivable	567	5,406	1,493	305	7,771
Taxes receivable	622	-	2,490	-	3,112
Restricted assets:					
Cash and cash equivalents	-	953,065	-	-	953,065
Total assets	\$ 359,286	\$ 958,471	\$ 918,614	\$ 146,425	\$ 2,382,796
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ 64,069	\$ -	\$ 64,069
Total liabilities	-	-	64,069	-	64,069
Fund Balances:					
Restricted:					
Low / moderate income housing	359,286	-	-	-	359,286
Debt service	-	958,471	854,545	-	1,813,016
Assigned:					
Capital projects	-	-	-	146,425	146,425
Total fund balances	359,286	958,471	854,545	146,425	2,318,727
Total liabilities and fund balances	\$ 359,286	\$ 958,471	\$ 918,614	\$ 146,425	\$ 2,382,796

City of Santa Cruz Redevelopment Agency
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the seven months ended January 31, 2012

	Low/Moderate Income Housing Eastside Special Revenue Fund	Low/Moderate Income Housing River/Mall Debt Service Fund	Eastside Debt Service Fund	Eastside Capital Projects Fund	Total Other Governmental Funds
REVENUES:					
Tax increment	\$ 103,160	\$ -	\$ 412,639	\$ -	\$ 515,799
Investment income	(3,904)	1,134	6,682	1,570	5,482
Total revenues	99,256	1,134	419,321	1,570	521,281
EXPENDITURES:					
Current:					
Services, supplies and other charges	9,683	-	-	4,648	14,331
Pass-through to other agencies	-	-	201,163	-	201,163
Owner Participation Agreements	-	-	11,058	-	11,058
Debt service:					
Principal	-	237,906	15,045	-	252,951
Interest and fiscal charges	-	276,098	-	-	276,098
Total expenditures	9,683	514,004	227,266	4,648	755,601
REVENUES OVER (UNDER) EXPENDITURES	89,573	(512,870)	192,055	(3,078)	(234,320)
OTHER FINANCING SOURCES (USES):					
Operating transfers in	-	513,993	-	60,000	573,993
Operating transfers out	-	-	(60,000)	-	(60,000)
Total other financing sources (uses)	-	513,993	(60,000)	60,000	513,993
Net change in fund balances	89,573	1,123	132,055	56,922	279,673
FUND BALANCES:					
Beginning of year	269,713	957,348	722,490	89,503	2,039,054
End of year	\$ 359,286	\$ 958,471	\$ 854,545	\$ 146,425	\$ 2,318,727

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