



C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES**

The California Department of Finance and the Successor Agency of the Scotts Valley
Redevelopment Agency, Scotts Valley, California:

We have performed the agreed-upon procedures enumerated in Attachment A, which was agreed to by the California Department of Finance and the Successor Agency of the Scotts Valley Redevelopment Agency ("Successor Agency"), solely to comply with statutory requirements pursuant to Health and Safety Code section 34179.5(c). Management of the successor agency is responsible for the accounting records pertaining to statutory compliance pursuant to Health and Safety Code section 34179.5(c). This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The scope of this engagement was limited to performing the agreed-upon procedures as set forth in Attachment A as they were applicable to the Low and Moderate Income Housing Funds of the former redevelopment agency, the Successor Agency and the Successor Housing Agency (the City of Scotts Valley). If the procedure was not applicable, we have indicated as such in Attachment A.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion as to the appropriateness of the results summarized in Attachment A. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the California Department of Finance and the Successor Agency and is not intended to be, and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

C.G. Uhlenberg LLP

Redwood City, California
September 24, 2012

ATTACHMENT A
INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON
PROCEDURES DATED SEPTEMBER 24, 2012
SUCCESSOR AGENCY OF THE SCOTTS VALLEY REDEVELOPMENT AGENCY

All Procedures were only applied against the Low and Moderate Income Housing Funds of the former redevelopment agency, the Successor Agency of the Scotts Valley Redevelopment Agency ("Successor Agency") and the Successor Housing Agency (the City of Scotts Valley), as applicable.

Procedure 1: Obtain from the Successor Agency a listing of all assets that were transferred from the former redevelopment agency to the Successor Agency on February 1, 2012. Agree the amounts on this listing to account balances established in the accounting records of the Successor Agency. Identify in the Agreed-Upon Procedures (AUP) report the amount of the assets transferred to the Successor Agency as of that date.

Result of Procedure 1: No exceptions were found as a result of applying the procedure against the former Low and Moderate Income Housing Fund (LMIHF) asset listing. According to the listing prepared by Successor Agency, \$8,686,577 of non-cash assets of the former LMIHF was transferred from the former redevelopment agency to the Successor Housing Agency (the City of Scotts Valley). According to the listing prepared by the Successor Agency, \$2,268,050 of cash of the former LMIHF was transferred from the former redevelopment agency to the Successor Agency.

Procedure 2: If the State Controller's Office has completed its review of transfers required under both Sections 34167.5 and 34178.8 and issued its report regarding such review, attach a copy of that report as an exhibit to the AUP report. If this has not yet occurred, perform the following procedures:

A. Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from the former redevelopment agency to the city, county, or city and county that formed the redevelopment agency for the period from January 1, 2011 through January 31, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements. Provide this listing as an attachment to the AUP report.

B. Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from the Successor Agency to the city, county, or city and county that formed the redevelopment agency for the period from February 1, 2012 through June 30, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements. Provide this listing as an attachment to the AUP report.

C. For each transfer, obtain the legal document that formed the basis for the enforceable obligation that required any transfer. Note in the AUP report the absence of any such legal document or the absence of language in the document that required the transfer.

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Results of Procedure 2: Attachment 1, prepared by the Successor Agency, has been included. For the transfer described, the purchase of land from the City of Scotts Valley for \$725,000, there is no legal document that formed the basis for the enforceable obligation that required the transfer.

Procedure 3: If the State Controller's Office has completed its review of transfers required under both Sections 34167.5 and 34178.8 and issued its report regarding such review, attach a copy of that report as an exhibit to the AUP report. If this has not yet occurred, perform the following procedures:

A. Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) [from the former redevelopment agency to any other public agency or to private parties for the period from January 1, 2011 through January 31, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements. Provide this listing as an attachment to the AUP report.

B. Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) [from the Successor Agency to any other public agency or private parties for the period from February 1, 2012 through June 30, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements. Provide this listing as an attachment to the AUP report.

C. For each transfer, obtain the legal document that formed the basis for the enforceable obligation that required any transfer. Note in the AUP report the absence of any such legal document or the absence of language in the document that required the transfer.

Citation:

Results of Procedure 3: Attachment 2, prepared by the Successor Agency, has been included. There was one exception to the procedure to obtain the legal document that formed the basis for the enforceable obligation. For the payment to the Security Deposit Program (Transfer # 2 on Attachment 2), there is no legal document that formed the basis for the enforceable obligation that required the transfer.

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Procedure 4: Perform the following procedures:

- A. Obtain from the Successor Agency a summary of the financial transactions of the Redevelopment Agency and the Successor Agency in the format set forth in the attached schedule for the fiscal periods indicated in the schedule. For purposes of this summary, the financial transactions should be presented using the modified accrual basis of accounting. End of year balances for capital assets (in total) and long-term liabilities (in total) should be presented at the bottom of this summary schedule for information purposes.
- B. Ascertain that for each period presented the total of revenues, expenditures, and transfers accounts fully for the changes in equity from the previous fiscal period.
- C. Compare amounts in the schedule relevant to the fiscal year ended June 30, 2010 to the state controller's report filed for the Redevelopment Agency for that period.
- D. Compare amounts in the schedule for the other fiscal periods presented to account balances in the accounting records or other supporting schedules. Describe in the report the type of support provided for each fiscal period.

Results of Procedure 4: Procedure 4 is not applicable.

Procedure 5: Obtain from the Successor Agency a listing of all assets of the Low and Moderate Income Housing Fund as of June 30, 2012 for the report that is due October 1, 2012 and a listing of all assets of all other funds of the Successor Agency as of June 30, 2012 (excluding the previously reported assets of the Low and Moderate Income Housing Fund) for the report that is due December 15, 2012. When this procedure is applied to the Low and Moderate Income Housing Fund, the schedule attached as an exhibit will include only those assets of the Low and Moderate Income Housing Fund that were held by the Successor Agency as of June 30, 2012 and will exclude all assets held by the entity that assumed the housing function previously performed by the former redevelopment agency. Agree the assets so listed to recorded balances reflected in the accounting records of the Successor Agency. The listings should be attached as an exhibit to the appropriate AUP report.

Results of Procedure 5: Attachment 3, prepared by the Successor Agency, has been included. No exceptions were found as a result of applying the procedure.

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Procedure 6: Obtain from the Successor Agency a listing of asset balances held on June 30, 2012 that is restricted for the following purposes:

A. Unspent bond proceeds:

- i. Obtain the Successor Agency's computation of the restricted balances (e.g., total proceeds less eligible project expenditures, amounts set aside for debt service payments, etc.)
- ii. Trace individual components of this computation to related account balances in the accounting records, or to other supporting documentation (specify in the AUP report a description of such documentation).
- iii. Obtain from the Successor Agency a copy of the legal document that sets forth the restriction pertaining to these balances. Note in the AUP report the absence of language restricting the use of the balances that were identified by the Successor Agency as restricted.

B. Grant proceeds and program income that are restricted by third parties:

- i. Obtain the Successor Agency's computation of the restricted balances (e.g., total proceeds less eligible project expenditures).
- ii. Trace individual components of this computation to related account balances in the accounting records, or to other supporting documentation (specify in the AUP report a description of such documentation).
- iii. Obtain from the Successor Agency a copy of the grant agreement that sets forth the restriction pertaining to these balances. Note in the AUP report the absence of language restricting the use of the balances that were identified by the Successor Agency as restricted.

C. Other assets considered to be legally restricted:

- i. Obtain the Successor Agency's computation of the restricted balances (e.g., total proceeds less eligible project expenditures).
- ii. Trace individual components of this computation to related account balances in the accounting records, or to other supporting documentation (specify in the AUP report a description of such documentation).
- iii. Obtain from the Successor Agency a copy of the legal document that sets forth the restriction pertaining to these balances. Note in the AUP report the absence of language restricting the use of the balances that were identified by Successor the Agency as restricted.

D. Attach the above mentioned Successor Agency prepared schedule(s) as an exhibit to the AUP report. For each restriction identified on these schedules, indicate in the report the period of time for which the restrictions are in effect. If the restrictions are in effect until the related assets are expended for their intended purpose, this should be indicated in the report.

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Results of Procedure 6: Procedure 6 is not applicable.

Procedure 7: Perform the following procedures:

A. Obtain from the Successor Agency a listing of assets as of June 30, 2012 that are not liquid or otherwise available for distribution (such as capital assets, land held for resale, long-term receivables, etc.) and ascertain if the values are listed at either purchase cost (based on book value reflected in the accounting records of the Successor Agency) or market value as recently estimated by the Successor Agency.

B. If the assets listed at 7(A) are listed at purchase cost, trace the amounts to a previously audited financial statement (or to the accounting records of the Successor Agency) and note any differences.

C. For any differences noted in 7(B), inspect evidence of disposal of the asset and ascertain that the proceeds were deposited into the Successor Agency trust fund. If the differences are due to additions (this generally is not expected to occur), inspect the supporting documentation and note the circumstances.

D. If the assets listed at 7(A) are listed at recently estimated market value, inspect the evidence (if any) supporting the value and note the methodology used. If no evidence is available to support the value and/or methodology, note the lack of evidence.

Results of Procedure 7: Procedure 7 is not applicable.

Procedure 8: Perform the following procedures:

A. If the Successor Agency believes that asset balances need to be retained to satisfy enforceable obligations, obtain from the Successor Agency an itemized schedule of asset balances (resources) as of June 30, 2012 that are dedicated or restricted for the funding of enforceable obligations and perform the following procedures. The schedule should identify the amount dedicated or restricted, the nature of the dedication or restriction, the specific enforceable obligation to which the dedication or restriction relates, and the language in the legal document that is associated with the enforceable obligation that specifies the dedication of existing asset balances toward payment of that obligation.

i. Compare all information on the schedule to the legal documents that form the basis for the dedication or restriction of the resource balance in question.

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- ii. Compare all current balances to the amounts reported in the accounting records of the Successor Agency or to an alternative computation.
- iii. Compare the specified enforceable obligations to those that were included in the final Recognized Obligation Payment Schedule approved by the California Department of Finance.
- iv. Attach as an exhibit to the report the listing obtained from the Successor Agency. Identify in the report any listed balances for which the Successor Agency was unable to provide appropriate restricting language in the legal document associated with the enforceable obligation.

B. If the Successor Agency believes that future revenues together with balances dedicated or restricted to an enforceable obligation are insufficient to fund future obligation payments and thus retention of current balances is required, obtain from the Successor Agency a schedule of approved enforceable obligations that includes a projection of the annual spending requirements to satisfy each obligation and a projection of the annual revenues available to fund those requirements and perform the following procedures:

- i. Compare the enforceable obligations to those that were approved by the California Department of Finance. Procedures to accomplish this may include reviewing the letter from the California Department of Finance approving the Recognized Enforceable Obligation Payment Schedules for the six month period from January 1, 2012 through June 30, 2012 and for the six month period July 1, 2012 through December 31, 2012.
- ii. Compare the forecasted annual spending requirements to the legal document supporting each enforceable obligation.
 - a. Obtain from the Successor Agency its assumptions relating to the forecasted annual spending requirements and disclose in the report major assumptions associated with the projections.
- iii. For the forecasted annual revenues:
 - a. Obtain from the Successor Agency its assumptions for the forecasted annual revenues and disclose in the report major assumptions associated with the projections.

C. If the Successor Agency believes that projected property tax revenues and other general purpose revenues to be received by the Successor Agency are insufficient to pay bond debt service payments (considering both the timing and amount of the related cash flows), obtain from the Successor Agency a schedule demonstrating this insufficiency and apply the following procedures to the information reflected in that schedule.

- i. Compare the timing and amounts of bond debt service payments to the related bond debt service schedules in the bond agreement.
- ii. Obtain the assumptions for the forecasted property tax revenues and disclose major assumptions associated with the projections.
- iii. Obtain the assumptions for the forecasted other general purpose revenues and disclose major assumptions associated with the projections.

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D. If procedures A, B, or C were performed, calculate the amount of current unrestricted balances necessary for retention in order to meet the enforceable obligations by performing the following procedures.

- i. Combine the amount of identified current dedicated or restricted balances and the amount of forecasted annual revenues to arrive at the amount of total resources available to fund enforceable obligations.
- ii. Reduce the amount of total resources available by the amount forecasted for the annual spending requirements. A negative result indicates the amount of current unrestricted balances that needs to be retained.
- iii. Include the calculation in the AUP report.

Results of Procedure 8: Procedure 8 is not applicable.

Procedure 9: If the Successor Agency believes that cash balances as of June 30, 2012 need to be retained to satisfy obligations on the Recognized Obligation Payment Schedule (ROPS) for the period of July 1, 2012 through June 30, 2013, obtain a copy of the final ROPS for the period of July 1, 2012 through December 31, 2012 and a copy of the final ROPS for the period January 1, 2013 through June 30, 2013. For each obligation listed on the ROPS, the Successor Agency should add columns identifying (1) any dollar amounts of existing cash that are needed to satisfy that obligation and (2) the Successor Agency's explanation as to why the Successor Agency believes that such balances are needed to satisfy the obligation. Include this schedule as an attachment to the AUP report.

Results of Procedure 9: Attachment 4, prepared by the Successor Agency, has been included.

Procedure 10: Include (or present) a schedule detailing the computation of the Balance Available for Allocation to Affected Taxing Entities. Amounts included in the calculation should agree to the results of the procedures performed in each section above. The schedule should also include a deduction to recognize amounts already paid to the County Auditor-Controller on July 12, 2012 as directed by the California Department of Finance. The amount of this deduction presented should be agreed to evidence of payment. The attached example summary schedule may be considered for this purpose. Separate schedules should be completed for the Low and Moderate Income Housing Fund and for all other funds combined (excluding the Low and Moderate Income Housing Fund).

Results of Procedure 10: Attachment 5, prepared by the Successor Agency, has been included.

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No exceptions were found as a result of applying the procedure.

Procedure 11: Obtain a representation letter from Successor Agency management acknowledging their responsibility for the data provided to the practitioner and the data presented in the report or in any attachments to the report. Included in the representations should be an acknowledgment that management is not aware of any transfers (as defined by Section 34179.5) from either the former redevelopment agency or the Successor Agency to other parties for the period from January 1, 2011 through June 30, 2012 that have not been properly identified in the AUP report and its related exhibits. Management's refusal to sign the representation letter should be noted in the AUP report as required by attestation standards.

Results of Procedure 11: No exceptions were found as a result of applying this procedure:

Successor Agency of the Scotts Valley Redevelopment Agency
Procedure 2 - Low Moderate Income Housing Funds Transfers to the City of Scotts Valley

<u>Transfer</u>	<u>Amount</u>	<u>Purpose of Transfer</u>	<u>Legal Description</u>
Procedure 2A - January 1, 2011 to January 31, 2012			
1 Land Purchase - From the City of Scotts Valley	\$ (725,000.00)	Purchase of land for affordable housing.	The decision to purchase land held by the City to the Redevelopment Agency was approved by the City Council on February 16, 2011. There is no legal document that required the transfer.
Procedure 2B - February 1, 2012 to June 30, 2012			
No transfers during this time period			

Successor Agency of the Scotts Valley Redevelopment Agency

Procedure 3 - Low Moderate Income Housing Funds Transfers to Any Other Public Agency or to Private Parties

<u>Transfer</u>	<u>Amount</u>	<u>Purpose of Transfer</u>	<u>Legal Description</u>
Procedure 3A - January 1, 2011 to January 31, 2012			
1 Habitat for Humanity Loan - ROPS	\$ (300,000.00)	Assist with affordable housing project.	Agreement for Redevelopment Assistance is dated July 29, 2010. Loan Agreement is dated October 11, 2011
2 Security Deposit Program	\$ (8,170.00)	Provide Security Deposit Assistance	The Security Deposit Program is described in the Affordable Housing Action Plan of the Scotts Valley Redevelopment Agency Updated 07/27/10. There is no legal document that required the transfer. Management has stated that at the time the payments were made (between January 1, 2011 to June 30, 2011) providing these amounts was part of the Low and Moderate Income Housing Fund operations.
3 Rent Guarantees - ROPS	\$ (124,460.42)	Low Income Rent Subsidies	Affordable Housing Agreement June 7, 2000 Signed with the developer Henco, LLC; Affordable Housing Agreement October 20, 1999, First Amendment November 4, 2005, Second Amendment 7/18/2007 signed with various owners of the property; Affordable Housing Agreement July 20, 2005 signed with Rob Markell -- See Attachment A for additional explanation (1k)
4 SERAF Loan - ROPS	\$ (305,791.00)	Required by law.	Demand Letter from the California Department of Finance dated November 12, 2010
5 Habitat for Humanity Loan - ROPS	\$ (300,000.00)	Assist with affordable housing project.	Loan Agreement Dated March 2, 2011
Procedure 3B - February 1, 2012 to June 30, 2012			
No transfers during this time period.			

Successor Agency of the Scotts Valley Redevelopment Agency
Procedure 5 - Low Moderate Income Housing Funds List of all assets

<u>Name of the asset</u>	<u>Ending Balance</u>
Balance as of June 30, 2012	
Pooled Cash	\$ 2,402,519.11

Successor Agency of the Scotts Valley Redevelopment Agency

Procedure 9 - Schedule of June 30, 2012 Cash Balance Needed to Satisfy ROPS Obligations

Low and Moderate Income Housing Funds

Name of Redevelopment Agency: Scotts Valley Redevelopment Agency

Project Name / Debt Obligation	Payee	Description	ROPS	Pay with
			July 2012 to Dec 2012 Total	Low / Mod Retained Cash
1) 2006 Tax Allocation Bonds	Bank of New York	Bonds issue to fund non-housing projects	\$ 270,447.50	\$ (270,447.50)
2) 2009 Lease Rev Bonds Series A	Bank of New York	Bonds issue to fund non-housing projects	\$ 150,013.75	(150,013.75)
3) 2009 Lease Rev Bonds Series B	Bank of New York	Bonds issue to fund non-housing projects	\$ 131,229.38	(131,229.38)
4) 2003 Certificate of Participation	Bank of New York	Bonds issue to fund non-housing projects	\$ 23,051.00	(23,051.00)
5) 1997 Note Payable	Scotts Valley Water District	Note issue to fund non-housing projects		
6) Loan Agreement	City of Scotts Valley	City Loan entered into on 8/7/80		
7) Reimbursement Agreement	City of Scotts Valley	Lease Payments	\$ 150,013.75	(150,013.75)
8) Loan Agreement	City of Scotts Valley	Loan from Wastewater Enterprise Fund		
9) Loan	SV Successor Housing Agency	Repayment of SERAF Loan	\$ 155,101.00	(153,180.50)
10) Loan	SV Successor Housing Agency	Repayment of ERAF Loan		
11) Services Contract	SV Chamber of Commerce	Marketing Services		
12) Rental Assistance Agreement	Acorn Court Apartments	Affordable Housing Rent Subsidy	\$ 19,773.90	
13) Rental Assistance Agreement	Bay Tree, LLC	Affordable Housing Rent Subsidy	\$ 21,722.28	
14) Rental Assistance Agreement	Rod Markell	Affordable Housing Rent Subsidy	\$ 11,844.00	
15) Services Contract	Logan & Powell	Case # CIV467230	\$ 30,000.00	
16) Administrative Allowance	City of Scotts Valley	Administrative Allowance	\$ 125,000.00	
17)				
18) 2009 Lease Rev Bonds Series A	Bank of New York	Bonds issue to fund non-housing projects	\$ (150,013.75)	150,013.75
Total			<u>\$ 938,182.81</u>	<u>\$ (727,922.13)</u>

Successor Agency explanation for the use of the cash balances are needed to satisfy the obligation:

Actual cash on hand for the Successor Agency, excluding the former Low/Moderate Income Housing Fund cash, at June 30, 2012 was \$210,261. The difference between this amount of cash on hand and the amount required by the July 2012 to December 2012 ROPS is a shortfall of \$727,922. The general reason for this cash shortfall is due to the amount of tax distribution on June 1, 2012, for the July 2012 to December 2012 ROPS that was held back by the County for an erroneously perceived overpayment of the December 2011 tax increment.

Successor Agency of the Scotts Valley Redevelopment Agency
Procedure 10 - Balance Available for Allocation to Affected Taxing Entities
Low and Moderate Income Housing Funds

SUMMARY OF BALANCES AVAILABLE FOR ALLOCATION TO AFFECTED TAXING ENTITIES

Total amount of assets held by the successor agency as of June 30, 2012 (procedure 5)	\$	2,402,519
Add the amount of any assets transferred to the city or other parties for which an enforceable obligation with a third party requiring such transfer and obligating the use of the transferred assets did not exist (procedures 2 and 3)		-
Less assets legally restricted for uses specified by debt covenants, grant restrictions, or restrictions imposed by other governments (procedure 6)		-
Less assets that are not cash or cash equivalents (e.g., physical assets) - (procedure 7)		-
Less balances that are legally restricted for the funding of an enforceable obligation (net of projected annual revenues available to fund those obligations) - (procedure 8)		-
Less balances needed to satisfy ROPS for the 2012-13 fiscal year (procedure 9)		(727,922) (Attachment 4)
Less the amount of payments made on July 12, 2012 to the County Auditor-Controller as directed by the California Department of Finance		<u>(748,601)</u>
Amount to be remitted to county for disbursement to taxing entities	\$	<u>925,996</u>

Note that separate computations are required for the Low and Moderate Income Housing Fund held by the Successor Agency and for all other funds held by the Successor Agency.

NOTES: For each line shown above, an exhibit should be attached showing the composition of the summarized amount.

If the review finds that there are insufficient funds available to provide the full amount due, the cause of the insufficiency should be demonstrated in a separate schedule.