# Santa Cruz County Redevelopment Successor Agency

Santa Cruz, California

*Basic Financial Statements*
*and Independent Auditors' Reports*

*As of June 30, 2012 and for the five month period*
*February 1, 2012 through June 30, 2012*

# Santa Cruz County Redevelopment Successor Agency
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## As of June 30, 2012 and for the Period of February 1, 2012 through June 30, 2012

MARCUM
ACCOUNTANTS ▲ ADVISORS

**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the activities of the Santa Cruz County Redevelopment Successor Agency (the "Successor Agency") as of and for the five months ended June 30, 2012, which comprise the Successor Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Successor Agency's management. Our responsibility is to express an opinion 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Successor Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position the Successor Agency as of June 30, 2012, and the respective changes in financial position for the five months ended June 30, 2012 in conformity with accounting principles generally accepted in the United States of America.

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

As explained further in Note 13 to the basic financial statements, the California State Legislature enacted Assembly Bill X1 26 (the "Bill") dissolving the County's redevelopment agency as of January 31, 2012. In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund). The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) to the Santa Cruz County Redevelopment Successor Agency is reported in the private-purpose trust fund as an extraordinary loss in the amount of $174,032,971.

Also as explained further in Note 13, due to the dissolution of the redevelopment agencies, it is necessary to read this report in conjunction with that of the Santa Cruz County Redevelopment Agency basic financial statements for the seven months ended January 31, 2012, in order to gain a full understanding of the fiscal year (twelve month period ended June 30, 2012).

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropirate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this omission.

Marcum LLP

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

# BASIC FINANCIAL STATEMENTS

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# Santa Cruz County Redevelopment Successor Agency
## Statement of Fiduciary Net Assets
## June 30, 2012

| | Governmental Activities |
|---|---|
| **ASSETS** | |
| Current Assets: | |
| Cash and investments | $ 15,168,191 |
| Restricted cash with fiscal agent | 47,570 |
| **Total current assets** | 15,215,761 |
| Noncurrent Assets: | |
| Restricted cash with fiscal agent | 12,908,697 |
| Deferred bond issuance costs | 3,824,455 |
| Depreciable, net | 15,087 |
| **Total capital assets** | 15,087 |
| **Total noncurrent assets** | 16,748,239 |
| **Total assests** | 31,964,000 |
| **LIABILITIES** | |
| Current Liabilities: | |
| Accounts payable - claims | 190,263 |
| Accounts payable - payroll | 2,655 |
| Interest payable | 4,703,499 |
| Compensated absences - due within one year | 43,665 |
| Long-term debt - due within one year | 4,925,519 |
| Net assets - beginning | |
| **Total current liabilities** | 9,865,601 |
| Net assets - ending | |
| Long-Term Liabilities: | |
| Compensated absences - due in more than one year | 8,631 |
| Long-term debt - due in more than one year | 238,984,424 |
| **Total long-term liabilities** | 238,993,055 |
| **Total liabilities** | 248,858,656 |
| **NET ASSETS** | |
| Invested in capital assets, net of related debt | 15,087 |
| Restricted for: | |
| Capital projects | 2,159,105 |
| Low and moderate income housing projects | 810,217 |
| Debt service | 20,608,629 |
| Unrestricted | (240,487,694) |
| **Total net assets (deficit)** | $ (216,894,656) |

See accompanying Notes to Basic Financial Statements.

# Santa Cruz County Redevelopment Successor Agency
## Statement of Activities and Changes in Ficuciary Net Assets
## For the five months ended June 30, 2012

| Functions/Programs | Expenses | Program Revenues | Net (Expense) Revenue and Changes in Net Assets Governmental Activities |
|---|---|---|---|
| **Primary government:** | | | |
| Public ways and facilities | $ 1,831,853 | $ - | $ (1,831,853) |
| Interest and fiscal charges on long-term debt (unallocated) | 5,980,534 | - | (5,980,534) |
| **Total governmental activities** | $ 7,812,387 | $ - | (7,812,387) |
| **General Revenues:** | | | |
| Incremental property taxes | | | 8,317,878 |
| Interest Earnings: | | | |
| Unrestricted | | | 17,354 |
| Restricted | | | 612 |
| Other Revenue: | | | |
| Miscellaneous | | | 2,262,264 |
| **Total general revenues** | | | 10,598,108 |
| Contributions to other agencies | | | (45,701,406) |
| Extraordinary Loss on Dissolution of Redevelopment Agency | | | (174,032,971) |
| **Change in net assets** | | | (216,894,656) |
| **Net assets - beginning** | | | - |
| **Net assets - ending** | | | $ (216,894,656) |

See accompanying Notes to Basic Financial Statements.

**NOTES TO BASIC FINANCIAL STATEMENTS**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the County of Santa Cruz Redevelopment Successor Agency (Successor Agency), a fiduciary fund, have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applies to private purpose trust funds. Private purpose trust funds report resources of other trust arrangements in which principal and income benefit individuals, private organizations, or other governments. Private purpose trust funds are reported using the economic resources measurement focus and the accrual basis of accounting. This fund is used to report the assets, liabilities, and activities of the Santa Cruz County Redevelopment Successor Agency. 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 Successor Agency's accounting policies are described below.

### *A. Reporting Entity*

The County was incorporated in 1850 under the provisions of Article II, Section 3 of the California State Constitution and is a general law county. The Redevelopment Agency was activated by the Board of Supervisors with the adoption of Ordinance No. 3736 on April 1, 1986. The Board of Supervisors established the Live Oak/Soquel Community Improvement Project on May 12, 1987, by Ordinance No. 3836, pursuant to the California Community Redevelopment Law. The Redevelopment Agency was dissolved per Assembly Bill X1 26 on January 31, 2012. On January 10, 2012, per Resolution No. 5-012, the County of Santa Cruz elected to assume the duties of the Santa Cruz County Redevelopment Successor Agency.

The Successor Agency is governed by the County Board of Supervisors serving in a separate capacity as the governing board of the Successor Agency. The Successor Agency is tasked with winding down the activities of the former redevelopment agency, including paying off debt and disposing of property of the former redevelopment agency.

Per the document, Accounting and Financial Reporting for Dissolution of California Redevelopment Agencies, issued May 2012 by the California Committee on Municipal Accounting (a joint committee comprised of representatives of the League of California Cities and the California Society of Certified Public Accountants), redevelopment successor agencies should be reported as a fiduciary fund (private-purpose trust fund) of the host city or county.

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

The basic financial statements include the Statement of Fiduciary Net Assets and the Statement of Activities and Changes in Fiduciary Net Assets.

The basic financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Fiduciary Net Assets. The Statement of Activities and Changes in Fiduciary Net Assets presents increases (revenues) and (decreases) in total Fiduciary 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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

All 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 Fiduciary Net Assets have been eliminated. The following interfund activities have been eliminated:

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

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

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

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

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

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

### *E. Interfund Transactions*

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

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

### *F. Capital Assets*

**Government-Wide Financial Statements**

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

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

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

The Successor Agency had no infrastructure assets at June 30, 2012.

### *G. Long-Term Liabilities*

**Government-Wide Financial Statements**

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

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

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

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

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Successor Agency's policy is to apply restricted net assets first. The Successor Agency considers restricted fund balances to be spent first when both restricted and unrestricted resources are available for use.

### *I. Property Taxes*

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

Incremental property tax revenues represent excess taxes levied in the former redevelopment project area over that amount levied in the base year (the inception year of the former redevelopment project area). Starting January 2012, pursuant to Assembly Bill X1 26 and Assembly Bill 1484, the Successor Agency must prepare Recognized Obligation Payment Schedules (ROPS), listing enforceable obligations of the Successor Agency, for each six month period. The County allocates to the Successor Agency only the portion of incremental property tax revenues the Successor Agency claims as necessary to pay the estimated installment payments on enforceable obligations on the ROPS for each six month period. For the five month period ended June 30, 2012, the amount of property taxes received was $8,371,878.

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

### *J. Use of Estimates*

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

## 2. CASH AND INVESTMENTS

### *A. Summary of Deposit and Investment Balances*

Cash and investments consisted of the following at June 30, 2012:

| | Restricted | Unrestricted | Total |
|---|---|---|---|
| Pooled cash and investments held by the County of Santa Cruz | $ - | $ 15,168,191 | $ 15,168,191 |
| Cash with fiscal agent | 12,956,267 | - | 12,956,267 |
| Total | $ 12,956,267 | $ 15,168,191 | $ 28,124,458 |

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

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

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

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

## 2. CASH AND INVESTMENTS, Continued

### *C. Investments*

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

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

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

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

### *D. Interest Rate Risk*

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

## 2. CASH AND INVESTMENTS, Continued

### *E. Concentration of Credit Risk*

At June 30, 2012, in accordance with State law and the County's Investment Policy, the County did not have 5% or more of its net investment in commercial paper, corporate bonds or medium term notes of a single organization, nor did it have 10% or more of its net investment in any one money market mutual fund. Investments in obligations of the U.S. government, U.S. government agencies, or government-sponsored enterprises are exempt from these limitations.

### *F. Custodial Credit Risk*

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

### *G. Local Agency Investment Fund*

The County is a participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The County's investments with LAIF at June 30, 2012, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities:

> *Structured Notes:* debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options.
>
> *Asset-Backed Securities:* generally mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2012, the County invested in LAIF, which had invested 0.51% of the pool investment funds in Structured Notes and Asset-Backed Securities. As of June 30, 2012, the LAIF fair value factor of 1.001219643 was used to calculate the fair values of the investments in LAIF.

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

### *H. Cash Held with Fiscal Agent*

Cash and investments with fiscal agents in the amount of $12,908,697 included certain amounts which are held by fiscal agents to be used for payment of long term debt. These funds have been invested as permitted by applicable County ordinance and resolutions.

## 3. LAND HELD FOR RESALE

At January 31, 2012, the Santa Cruz County Redevelopment Agency had assets of $235,029 in Land Held for Resale. That asset was acquired with Low and Moderate Income Housing Funds. On February 1, 2012, all assets of the former Redevelopment Agency, including housing assets, transferred to the Successor Agency. Housing assets, excluding cash balances, were further transferred from the Successor Agency to the County of Santa Cruz, as the housing successor entity, as of February 1, 2012.

At June 30, 2012, the Successor Agency had no Land Held for Resale.

## 4. LOANS RECEIVABLE

At January 31, 2012, the Santa Cruz County Redevelopment Agency had assets of $43,220,784 in Loans Receivable for Low and Moderate Income Housing. On February 1, 2012, all assets of the former Redevelopment Agency, including housing assets, transferred to the Agency. Housing assets, excluding cash balances, were further transferred from the Agency to the County of Santa Cruz, as the housing successor entity, as of February 1, 2012.

At June 30, 2012, the Successor Agency had no Loans Receivable.

## 5. CAPITAL ASSETS

Capital assets of the Successor Agency at June 30, 2012 are presented in the table below.

| | Balance June 30, 2011 | Transfers In | Deletions | Balance June 30, 2012 |
|---|---|---|---|---|
| Depreciable assets: | | | | |
| Buildings and improvement | - | 35,204 | - | 35,204 |
| Machinery and equipment | - | 76,941 | - | 76,941 |
| Total depreciable assets: | - | 112,145 | - | 112,145 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvement | - | (25,325) | (489) | (25,814) |
| Machinery and equipment | - | (70,511) | (733) | (71,244) |
| Total accumulated depreciation: | - | (95,836) | (1,222) | (97,058) |
| Total depreciable assets, net: | - | 16,309 | (1,222) | 15,087 |
| **Total Capital Assets** | $ - | $ 16,309 | $ (1,222) | $ 15,087 |

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

| | |
|---|---|
| **Governmental activities:** | |
| Public ways and facilities | |
| Total depreciation expense - governmental activities | $ 1,222 |

## 6. RELATED PARTY TRANSACTIONS

County personnel provide management, accounting, and legal services to the Successor Agency. Total charges for such services in the 5 month period ended June 30, 2012 were approximately $14,858, and are included in total expenses.

## 7. LONG-TERM DEBT

Activity in long-term debt at June 30, 2012, was as follows:

| Description | Original Issue Amount | Beginning Balance June 30, 2011 | Transfers In | Retirements | Ending Balance June 30, 2012 | Amounts Due Within One Year | Amounts Due In More Than One Year |
|---|---|---|---|---|---|---|---|
| Tax Allocation Bonds | | | | | | | |
| 2000 Subordinate | 17,855,000 | - | 11,120,000 | - | 11,120,000 | 785,000 | 10,335,000 |
| Subordinate 2000 | | | | | | | |
| Series A | 27,415,000 | - | 25,685,000 | - | 25,685,000 | 220,000 | 25,465,000 |
| 2003 Refunding | 48,435,000 | - | 33,780,000 | - | 33,780,000 | 2,095,000 | 31,685,000 |
| Unamortized bond discount | (194,382) | - | (117,438) | 4,050 | (113,388) | (9,719) | (103,669) |
| 2005 Series A | 47,860,000 | - | 47,860,000 | - | 47,860,000 | - | 47,860,000 |
| Unamortized bond premium | 468,371 | - | 381,202 | (6,505) | 374,697 | 15,612 | 359,085 |
| 2005 Taxable Series B | 21,000,000 | - | 19,440,000 | - | 19,440,000 | 265,000 | 19,175,000 |
| Unamortized bond discount | (45,159) | - | (36,755) | 627 | (36,128) | (1,505) | (34,623) |
| 2007 Refunding | 10,755,000 | - | 10,280,000 | - | 10,280,000 | 90,000 | 10,190,000 |
| 2007 Refunding Series A | 7,370,000 | - | 5,785,000 | - | 5,785,000 | 425,000 | 5,360,000 |
| Unamortized bond premium | 224,669 | - | 161,314 | (6,241) | 155,073 | 14,978 | 140,095 |
| 2009 Series A | 55,970,000 | - | 55,200,000 | - | 55,200,000 | 410,000 | 54,790,000 |
| Unamortized bond discount | (180,815) | - | (160,982) | 2,790 | (158,192) | (6,697) | (151,495) |
| 2010 Taxable Series | 18,500,000 | - | 18,500,000 | - | 18,500,000 | 150,000 | 18,350,000 |
| Unamortized bond discount | (462,750) | - | (451,953) | 7,713 | (444,240) | (18,510) | (425,730) |
| 2011 Series A | 11,315,000 | - | 11,315,000 | - | 11,315,000 | 430,000 | 10,885,000 |
| Unamortized bond discount | (247,945) | - | (238,905) | 6,457 | (232,448) | (15,497) | (216,951) |
| 2011 Series B | 5,595,000 | - | 5,595,000 | - | 5,595,000 | 85,000 | 5,510,000 |
| Unamortized bond discount | (203,574) | - | (198,824) | 3,393 | (195,431) | (8,143) | (187,288) |
| Total Tax Allocation Bonds | | - | 243,897,659 | 12,284 | 243,909,943 | 4,925,519 | 238,984,424 |
| Compensated absences | | - | 51,223 | 1,073 | 52,296 | 43,665 | 8,631 |
| Total Governmental Activities | | $ - | $ 243,948,882 | $ 13,357 | $ 243,962,239 | $ 4,969,184 | $ 238,993,055 |

*2000 Subordinate Tax Allocation Refunding Bonds*

In August, 2000, the former Redevelopment Agency issued the 2000 Subordinate Tax Allocation Refunding Bonds (Live Oak/Soquel Community Improvement Project Area) in the original amount of $17,855,000. Interest from 4.25% to 5.25% is paid semi-annually and principal payments are made at September 1st. Payments are secured by the pledge of tax revenues. As of June 30, 2012, the total principal balance was $11,120,000. Principal and interest paid for the current period were $280,733.

*2000 Series A Subordinate Tax Allocation Bonds*

In December, 2000, the former Redevelopment Agency issued Subordinate Tax Allocation Bonds, 2000 Series A (Live Oak/Soquel Community Improvement Project Area) in the original amount of $27,415,000. Interest from 5.0% to 5.375% is paid semi-annually and principal payments are made at September 1st. Payments are secured by the pledge of tax revenues. As of June 30, 2012, the total principal balance was $25,685,000. Principal and interest paid for the current period were $679,794.

## 7. LONG-TERM DEBT, Continued

*2003 Tax Allocation Refunding Bonds*

On August 28, 2003, the former Redevelopment Agency issued 2003 Tax Allocation Refunding Bonds (Live Oak/Soquel Community Improvement Project Area) in the original amount of $48,435,000. Interest from 2.00% to 5.00% is paid semi-annually and principal payments are made at September 1st. Payments are secured by the pledge of tax revenues. As of June 30, 2012, the total principal balance was $33,780,000 and the unamortized bond discount was $113,388. Principal and interest paid for the current period were $765,906.

*2005 Series A Subordinate Tax Allocation Bonds*

On November 17, 2005, the former Redevelopment Agency issued Subordinate Tax Allocation Bonds, 2005 Series A (Live Oak/Soquel Community Improvement Project Area) in the original amount of $47,860,000. Interest from 4.5% to 5.0% is paid semi-annually and principal payments are made at September 1st. Payments are secured by the pledge of tax revenues. As of June 30, 2012, the total principal balance was $47,860,000 and the unamortized bond premium was $374,697. Principal and interest paid for the current period were $1,173,328.

*2005 Series B Subordinate Tax Allocation Bonds*

On November 17, 2005, the former Redevelopment Agency issued Subordinate Tax Allocation Bonds, 2005 Taxable Series B (Live Oak/Soquel Community Improvement Project Area) in the original amount of $21,000,000. Interest from 5.0% to 5.650% is paid semi-annually and principal payments are made at September 1st. Payments are secured by the pledge of tax revenues. As of June 30, 2012, the total principal balance was $19,440,000 and the unamortized bond discount was $36,128. Principal and interest paid for the current period were $543,673.

*2007 Taxable Subordinate Tax Allocation Refunding Bonds*

On May 8, 2007, the former Redevelopment Agency issued Subordinate Tax Allocation Refunding Bonds, 2007 Taxable (Live Oak/Soquel Community Improvement Project Area) in the original amount of $10,755,000. Interest from 5.208% to 5.495% is paid semi-annually and principal payments are made at September 1st. Payments are secured by the pledge of tax revenues. As of June 30, 2012, the total principal balance was $10,280,000. Principal and interest paid for the current period were $281,577.

*2007 Series A Tax Allocation Refunding Bonds*

On November 7, 2007, the former Redevelopment Agency issued Tax Allocation Refunding Bonds, 2007 Series A (Live Oak/Soquel Community Improvement Project Area) in the original amount of $7,370,000. Interest from 4.00% to 5.25% is paid semi-annually and principal payments are made at September 1st. Payments are secured by the pledge of tax revenues. As of June 30, 2012, the total principal balance was $5,785,000 and the unamortized bond premium was $155,073. Principal and interest paid for the current period were $122,044.

## 7. LONG-TERM DEBT, Continued

*2009 Series A Tax Allocation Bonds*

On February 12, 2009, the former Redevelopment Agency issued Tax Allocation Bonds, 2009 Series A (Live Oak/Soquel Community Improvement Project Area) in the original amount of $55,970,000. Interest from 3.25% to 7.00% is paid semi-annually and principal payments are made at September 1st. Payments are secured by the pledge of tax revenues. As of June 30, 2012, the total principal balance was $55,200,000 and the unamortized bond discount was $158,192. Principal and interest paid for the current period were $1,868,204.

*2010 Taxable Housing Tax Allocation Bonds*

On July 22, 2010, the former Redevelopment Agency issued Tax Allocation Bonds, 2010 Taxable Housing Tax Allocation Bonds (Live Oak/Soquel Community Improvement Project Area) in the original amount of $18,500,000. Interest from 2.95% to 7.40% is paid semi-annually and principal payments are made at September 1st. Payments are secured by the pledge of tax revenues. As of June 30, 2012, the total principal balance was $18,500,000 and the unamortized bond discount was $444,240. Principal and interest paid for the current period were $659,203.

*2011 Series A Taxable Tax Allocation Bonds*

On March 9, 2011, the former Redevelopment Agency issued Tax Allocation Bonds, 2011 Series A Taxable Tax Allocation Bonds in the original amount of $11,315,000. Interest from 3.10% to 9.00% is paid semi-annually and principal payments are made at September 1st. Payments are secured by the pledge of tax revenues. As of June 30, 2012, the total principal balance was $11,315,000 and the unamortized bond discount was $232,448. Principal and interest paid for the current period were $439,909.

*2011 Series B Taxable Housing Tax Allocation Bonds*

On March 9, 2011, the former Redevelopment Agency issued Tax Allocation Bonds, 2011 Series B Taxable Housing Tax Allocation Bonds in the original amount of $5,595,000. Interest from 3.10% to 9.25% is paid semi-annually and principal payments are made at September 1st. Payments are secured by the pledge of tax revenues. As of June 30, 2012, the total principal balance was $5,595,000 and the unamortized bond discount was $195,431. Principal and interest paid for the current period were $240,881.

## 7. LONG-TERM DEBT, Continued

The debt service requirement to maturity for all debts combined, including interest, is as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2013 | 4,955,000 | 14,009,805 | 18,964,805 |
| 2014 | 5,150,000 | 13,799,365 | 18,949,365 |
| 2015 | 5,365,000 | 13,569,386 | 18,934,386 |
| 2016 | 5,610,000 | 13,318,170 | 18,928,170 |
| 2017 | 5,870,000 | 13,043,046 | 18,913,046 |
| 2018-2022 | 34,125,000 | 60,275,947 | 94,400,947 |
| 2023-2027 | 44,110,000 | 49,469,756 | 93,579,756 |
| 2028-2032 | 60,805,000 | 34,180,656 | 94,985,656 |
| 2033-2037 | 78,570,000 | 12,810,298 | 91,380,298 |
| Total | 244,560,000 | $ 224,476,429 | $ 469,036,429 |
| Unamortized Premiums | 529,772 | | |
| Unamortized Discounts | (1,179,829) | | |
| Total | $ 243,909,943 | | |

*Pledges of future revenues*

The Successor Agency has pledged to the repayment of the 2000 Subordinate Refunding Bonds, the 2000 Series A Subordinate Bonds, the 2003 Refunding Bonds, the 2005 Series A Bonds, the 2005 Series B Subordinate Bonds, the 2007 Taxable Subordinate Refunding Bonds, the 2007 Series A Refunding Bonds, the 2009 Series A Bonds, the 2010 Taxable Housing Bonds, the 2011 Series A Taxable Bonds, and the 2011 Series B Taxable Housing Bonds (the "Bonds") Tax Revenues of the Successor Agency's Live Oak/Soquel Community Improvement Project Area pursuant to the various applicable Indentures of Trust, through the final maturity of the Bonds on March 1, 2037, or early retirement of the Bonds, whichever occurs first. Tax Revenues consist of tax increment revenues allocated to the Successor Agency with respect to the Live Oak/Soquel Community Improvement Project Area pursuant to Section 34183 of the California Health & Safety Code. Annual principal and interest payments on the bonds are expected to require 93 percent of tax revenues. The total principal and interest remaining to be paid on the Bonds is $469,036,429.

At June 30, 2012, the total tax revenues for the current period were $8,388,548, and the total debt service payment was $7,055,250. During the 5 month period ended June 30, 2012, bond debt service payments required 84.27% of the total tax increment revenues. The ratio of tax revenues to the bonds debt service payments due during the 5 month period ended June 30, 2012 was 1.19 (119%).

## 7. LONG-TERM DEBT, Continued

*Compensated Absences*

Compensated absences are not accrued in governmental funds. At June 30, 2012, Successor Agency liabilities included approximately $30,990 vacation pay, $8,723 sick pay and $8,866 in other employee leave, for a total of $48,579. These amounts do not exceed normal year's accumulation. The compensated absences total has been increased by 7.65% for an adjusted total of $52,296. Adequate amounts are appropriated annually to pay these obligations out of available financial resources.

GASB Statement No. 16, which became effective for the 1993-94 fiscal year, requires the Successor Agency to accrue the current portion of the liability. The Successor Agency's current portion of the liability is $43,665.

## 8. RISK MANAGEMENT

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

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

## 9. ARBITRAGE REBATE PAYABLE

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

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

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

## 9. ARBITRAGE REBATE PAYABLE, Continued

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

Future computations of the rebate requirement for the tax allocation bonds and new bond issues will be calculated by a consulting firm as the Successor Agency management considers appropriate. Successor Agency management, as of June 30, 2012, believes there are no arbitrage rebate liabilities.

## 10. COMMITMENTS AND CONTINGENCIES

### *A. Lawsuits*

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

### *B. Commitments*

The following is a list of commitments at June 30, 2012:

| | | |
|---|---|---|
| LION Program | $ | 26,277 |
| The Farm Park | | 17,144 |
| East Cliff Beach Improvements | | 606,548 |
| Twin Lakes Beach Improvements | | 10,104 |
| East Cliff Stabilization Project | | 44,229 |
| Live Oak Resource Center | | 13,271 |
| St. Stephens Affordable Housing | | 331,284 |
| **Total** | $ | 1,048,857 |

As of June 30, 2012, in the opinion of Successor Agency management, there were no additional outstanding matters that would have a significant effect on the financial position of the funds of the Successor Agency.

## 11. RESTRICTED NET ASSETS

Restricted net assets are net assets whose use is subject to constraints that are either (1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation. At June 30, 2012, the Successor Agency had $810,217 restricted for low income housing, and $2,159,105 restricted for capital projects, either restricted by bond covenants or restricted by enabling legislation for the Recognized Obligation Payment Schedule.

## 12. SUCCESSOR AGENCY TRUST FOR ASSETS OF THE FORMER REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill X1 26 (the Bill) that provides for the dissolution of all redevelopment agencies in the State of California. The Bill provides that upon dissolution of a redevelopment agency, the county that created it can agree to serve as the successor agency to hold the assets until they are distributed to other taxing entities. On January 10, 2012, per Resolution No. 5-2012, the County of Santa Cruz elected to assume the duties of the Santa Cruz County Redevelopment Successor Agency.

After enactment of the Bill, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

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

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

### 12. SUCCESSOR AGENCY TRUST FOR ASSETS OF THE FORMER REDEVELOPMENT AGENCY, Continued

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

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

## 12. SUCCESSOR AGENCY TRUST FOR ASSETS OF THE FORMER REDEVELOPMENT AGENCY, Continued

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

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

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

## 13. Supplemental Educational Revenue Augmentation Fund

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

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

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

We have audited the basic financial statements of the Santa Cruz County Redevelopment Successor Agency (the "Successor Agency") as of and for the five months ended June 30, 2012, and have issued our report thereon dated December 21, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

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

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

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



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**Compliance and Other Matters**

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

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

Marcum LLP

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