SANTA CRUZ COUNTY
REDEVELOPMENT SUCCESSOR AGENCY

BASIC FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORTS

FOR THE YEAR ENDED
JUNE 30, 2014

SANTA CRUZ COUNTY
REDEVELOPMENT SUCCESSOR AGENCY
JUNE 30, 2014

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Santa Cruz County Redevelopment Successor Agency (the Agency) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 these financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency, as of June 30, 2014, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Successor Agency and do not purport to, and do not, present fairly the financial position of the County of Santa Cruz as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis (MD&A) 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 appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2014, on our consideration of the County of Santa Cruz, California's internal control over financial reporting relating to the Agency 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* in considering the County of Santa Cruz, California's internal control over financial reporting and compliance relating to the Agency.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 1, 2014

BASIC FINANCIAL STATEMENTS

SANTA CRUZ COUNTY
REDEVELOPMENT SUCCESSOR AGENCY
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

	2014
ASSETS	
Current Assets	
Cash and investments	$ 13,455,690
Total Current Assets	13,455,690
Noncurrent Assets:	
Restricted cash with fiscal agent	11,681,324
Prepaid insurance	1,459,861
Capital assets, net	9,206,646
Total Noncurrent Assets	22,347,831
Total Assets	35,803,521
LIABILITIES	
Current Liabilities:	
Accounts payable - claims	58,720
Interest payable	4,577,047
Notes payable - due within one year	757,665
Long-term debt - due within one year	4,361,229
Total Current Liabilities	9,754,661
Long-Term Liabilities:	
Notes payable - due in more than one year	1,487,929
Long-term debt - due in more than one year	229,083,173
Total Long-Term Liabilities	230,571,102
Total Liabilities	240,325,763
DEFERRED INFLOWS OF RESOURCES	
Deferred tax increment revenue	7,713,457
Gain on refunding of debt	99,323
Total Deferred Inflows of Resources	7,812,780
NET POSITION	
Net invested in capital assets:	5,547,386
Restricted for:	
Capital projects	207,005
Low and moderate income housing projects	108,492
Debt service	16,953,837
Unrestricted	(235,151,742)
Total Net Position	$ (212,335,022)

See accompanying notes to the basic financial statements.

SANTA CRUZ COUNTY
REDEVELOPMENT SUCCESSOR AGENCY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	2014
Additions:	
Incremental property taxes	$ 19,097,878
Interest earnings	101,394
Other additions:	
Contributions from other agencies	48,019
Other revenue	67,696
Total Additions	19,314,987
Deductions:	
Payments in accordance with enforceable obligations	22,065,979
Total Deductions	22,065,979
Change in Net Position	(2,750,992)
Net Position - Beginning, as previously stated	(207,095,983)
Change in accounting principle	(2,488,047)
Net Position - Beginning, as restated	(209,584,030)
Net Position - Ending	$ (212,335,022)

See accompanying notes to the basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the County of Santa Cruz Redevelopment Successor Agency (the Agency), a fiduciary fund, have been prepared in conformity with accounting principles generally accepted in the United States of America as they apply 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, deferred outflows of resources, liabilities, deferred inflows of resources, net position and activities of the 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 Agency's accounting policies are described below.

A. Reporting Entity

The County of Santa Cruz (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. 5-2012, the County of Santa Cruz elected to assume the duties of the Santa Cruz County Redevelopment Successor Agency.

The Agency is governed by the County Board of Supervisors serving in a separate capacity as the governing board of the Agency.

B. Basis of Accounting and Measurement Focus

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenditures. Agency resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The Agency's Government-Wide Financial Statements include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. These statements present summaries of Governmental Activities for the Agency.

The Government-Wide Financial Statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position are included in the accompanying Statement of Fiduciary Net Position. The Statement of Changes in Fiduciary Net Position presents changes in net position. 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 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 Position have been eliminated. The following interfund activities have been eliminated:

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

NOTE 1 – <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

C. Cash, Cash Equivalents, and Investments

The 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 County treasury in various interest-bearing securities and disclosed as part of the 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.

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures (*Amendment of GASB Statement No. 3), certain disclosure requirements, if applicable, for Deposits and Investment Risks are specified in the following areas:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentrations of Credit Risk
- Foreign Currency Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

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***.***

E. Interfund Transactions

Activities 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."

F. Capital Assets

Government-Wide Financial Statements

The Agency's assets are capitalized at historical cost or estimated historical cost. The 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 Agency had no infrastructure assets at June 30, 2014.

G. Deferred Outflows and Inflows of Resources

The Agency recognizes deferred outflows of resources and deferred inflows of resources as prescribed by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. They are distinguished from assets and liabilities, and are defined as "a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period."

H. 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 are 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 expensed as incurred.

I. Compensated Absences

For the Agency, compensated absences are recorded as incurred and the related expenses and liabilities are reported.

J. Fiduciary Net Position and Fund Balances

In the Government-Wide Financial Statements, fiduciary net position is classified in the following categories:

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

Unrestricted Net Position – This amount is net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

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

K. Property Taxes

All property taxes are levied, collected, and allocated by the County to the various taxing entities including the 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 Agency and are recognized in the fiscal year for which the taxes have been levied and apportioned to the Agency's accounts by the County. The County bills and collects property taxes and remits them to the 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 Agency must prepare Recognized Obligation Payment Schedules (ROPS), listing enforceable obligations of the Agency, for each six month period. The County allocates to the Agency only the portion of incremental property tax revenues the Agency claims as necessary to pay the estimated installment payments on enforceable obligations on the ROPS for each six month period.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Use of Estimates

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

M. Effect of New Governmental Accounting Standard Board Pronouncements

During the fiscal year ending June 30, 2014, the Agency implemented the following standards:

GASB Statement No. 66 – *Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62.* There was no effect on the Agency's accounting or financial reporting as a result of implementing this standard.

GASB Statement No. 67 – *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25.* There was no effect on the Agency's accounting or financial reporting as a result of implementing this standard.

GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. There was no effect on the Agency's accounting or financial reporting as a result of implementing this standard.

N. Future Governmental Accounting Standards Board Pronouncements

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information. The requirements of this statement are effective for the financial statements for periods beginning after June 15, 2014. The Agency is assessing, but has not yet determined the effects of the implementation of this statement on its financial statements.

GASB Statement No. 69 – *Government Combinations and Disposals of Government Operations* provides specific accounting and financial reporting guidance for combinations in the governmental environment. This statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2013. The Agency is assessing, but has not yet determined the effects of the implementation of this statement on its financial statements.

GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date* amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. This Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB Statement No. 68 in the accrual basis financial statements of employers and nonemployer contributing entities. The provisions of this Statement should be applied simultaneously with the provisions of GASB Statement No. 68 and therefore are effective for financial periods beginning after June 15, 2014. The Agency is assessing, but has not yet determined the effects of the implementation of this statement on its financial statements.

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Deposit and Investment Balances

Cash and investments consisted of the following at June 30, 2014:

	Restricted	Unrestricted	Total
Pooled cash and investments held by the County of Santa Cruz	$ -	$ 13,455,690	$ 13,455,690
Cash with fiscal agent	11,681,324	-	11,681,324
Total	$ 11,681,324	$ 13,455,690	$ 25,137,014

B. Cash Held with the Santa Cruz County Treasury

The 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.

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	10%	None
U.S. Treasury obligations	5 years	100%	None
U.S. Governmental Agency obligations	5 years	100%	25%
Banker's acceptances	180 days	40%	10%
Commercial paper	270 days	25%	10%
Negotiable certificates of deposits	5 years	30%	10%
Bank deposits	5 years	10%	10%
Repurchase agreements	1 year	100%	10%
Medium-term notes	5 years	30%	10%
Mutual funds/money market mutual fund	N/A	20%	None
Local Agency Investment Fund (LAIF)	N/A	50 million	None
Joint Powers Authority investment funds	N/A	25%	None

NOTE 2 – CASH AND INVESTMENTS (Continued)

C. Investments (Continued)

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are 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.

E. Concentration of Credit Risk

At June 30, 2014, 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, 2014, included a portion of the pooled 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, 2014, the County invested in LAIF, which had invested 0.21% of the pooled investment funds in Structured Notes and Asset-Backed Securities. As of June 30, 2014, the LAIF fair value factor of 1.00029875 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 $11,681,324 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.

NOTE 3 – CAPITAL ASSETS

Capital assets of the Agency for the year ended June 30, 2014 are presented in the table below.

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Non-depreciable assets:				
Land	$ 9,197,425	$ -	$ -	$ 9,197,425
Total non-depreciable assets	9,197,425	-	-	9,197,425
Depreciable assets:				
Buildings and improvement	35,204	-	-	35,204
Machinery and equipment	74,450	-	(7,894)	66,556
Total depreciable assets	109,654	-	(7,894)	101,760
Less: accumulated depreciation for:				
Buildings and improvement	(26,988)	(1,174)	-	(28,162)
Machinery and equipment	(70,512)	(1,759)	7,894	(64,377)
Total accumilated depreciation	(97,500)	(2,933)	7,894	(92,539)
Total depreciable assets, net	12,154	(2,933)	-	9,221
Total capital assets, net	$ 9,209,579	$ (2,933)	$ -	$ 9,206,646

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

Governmental activities:	
Public ways and facilities	
Total depreciation expense - governmental activities	$ 2,933

NOTE 4 – RELATED PARTY TRANSACTIONS

County personnel provide management, accounting, and legal services to the Agency. Total charges for such services for the fiscal year ended June 30, 2014 were approximately $146,870.

NOTE 5 – LONG-TERM DEBT

Activity in long-term debt for the year ended June 30, 2014, was as follows:

Description	Original Issue Amount	Beginning Balance July 1, 2013	Additions	Retirements	Ending Balance June 30, 2014	Amounts Due Within One Year	Amounts Due In More Than One Year
Tax Allocation Bonds							
2000 Subordinate	$ 17,855,000	$ 10,335,000	$ -	$ (10,335,000)	$ -	$ -	$ -
Subordinate 2000 Series A	27,415,000	25,465,000	-	(4,575,000)	20,890,000	-	20,890,000
2003 Refunding	48,435,000	31,685,000	-	(31,685,000)	-	-	-
Unamortized bond discount	(194,382)	(103,669)	-	103,669	-	-	-
2005 Series A	47,860,000	47,860,000	-	-	47,860,000	-	47,860,000
Unamortized bond premium	468,371	359,085	-	(15,612)	343,473	15,612	327,861
2005 Taxable Series B	21,000,000	19,175,000	-	(275,000)	18,900,000	290,000	18,610,000
Unamortized bond discount	(45,159)	(34,623)	-	1,505	(33,118)	(1,505)	(31,613)
2007 Refunding	10,755,000	10,190,000	-	(95,000)	10,095,000	95,000	10,000,000
2007 Refunding Series A	7,370,000	5,360,000	-	(440,000)	4,920,000	460,000	4,460,000
Unamortized bond premium	224,669	140,095	-	(14,978)	125,117	14,978	110,139
2009 Series A	55,970,000	54,790,000	-	(420,000)	54,370,000	435,000	53,935,000
Unamortized bond discount	(180,815)	(151,495)	-	6,697	(144,798)	(6,697)	(138,101)
2010 Taxable Series	18,500,000	18,350,000	-	(160,000)	18,190,000	165,000	18,025,000
Unamortized bond discount	(462,750)	(425,729)	-	18,510	(407,219)	(18,510)	(388,709)
2011 Series A	11,315,000	10,885,000	-	(440,000)	10,445,000	460,000	9,985,000
Unamortized bond discount	(247,945)	(216,952)	-	15,496	(201,456)	(15,497)	(185,959)
2011 Series B	5,595,000	5,510,000	-	(85,000)	5,425,000	90,000	5,335,000
Unamortized bond discount	(203,574)	(187,288)	-	8,143	(179,145)	(8,143)	(171,002)
2014 Refunding	38,880,000	-	38,880,000	-	38,880,000	2,800,000	36,080,000
Unamortized bond premium	4,140,092	-	4,140,092	(173,544)	3,966,548	(414,009)	4,380,557
Total Tax Allocation Bonds		238,984,424	43,020,092	(48,560,114)	233,444,402	4,361,229	229,083,173
Loans Payable - SERAF		2,245,594	-	-	2,245,594	757,665	1,487,929
Compensated Absences		55,769	-	(55,769)	-	-	-
Total Governmental Activities		$ 241,285,787	$ 43,020,092	$ (48,615,883)	$ 235,689,996	$ 5,118,894	$ 230,571,102

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 $17,885,000. 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, 2014, the total principal balance was $0.

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, 2014, the total principal balance was $20,890,000. Principal and interest paid for the current period was $5,917,000, including $4,345,000 principal defeased as part of the 2014 Tax Allocation Refunding Bond.

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, 2014, the total principal balance was $0 and the unamortized bond discount was $0.

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, 2014, the total principal balance was $47,860,000 and the unamortized bond premium was $343,473. Principal and interest paid for the current period was $2,346,656.

NOTE 5 – LONG-TERM DEBT (Continued)

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, 2014, the total principal balance was $18,900,000 and the unamortized bond discount was $33,118. Principal and interest paid for the current period was $1,342,220.

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, 2014, the total principal balance was $10,095,000. Principal and interest paid for the current period was $650,989.

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, 2014, the total principal balance was $4,920,000 and the unamortized bond premium was $125,117. Principal and interest paid for the current period was $658,288.

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, 2014, the total principal balance was $54,370,000 and the unamortized bond discount was $144,798. Principal and interest paid for the current period was $4,129,948.

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, 2014, the total principal balance was $18,190,000 and the unamortized bond discount was $407,219. Principal and interest paid for the current period was $1,471,206.

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, 2014, the total principal balance was $10,445,000 and the unamortized bond discount was $201,456. Principal and interest paid for the current period was $1,297,644.

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, 2014, the total principal balance was $5,425,000 and the unamortized bond discount was $179,145. Principal and interest paid for the current period was $562,418.

NOTE 5 – LONG-TERM DEBT (Continued)

2014 Tax Allocation Refunding Bonds

On January 28, 2014, the Redevelopment Successor Agency issued 2014 Tax Allocation Refunding Bonds in the original amount of $38,880,000. Interest from 3.00% 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 a result, the 2000 Subordinate Tax Allocation Refunding Bonds and the 2003 Refunding Tax Allocation Bonds were defeased as of June 30, 2014. As of June 30, 2014, the total principal balance was $38,880,000 and the unamortized bond premium was $3,966,548. Principal and interest paid for the current period was $0.

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

Year Ending June 30,	Principal	Interest	Total
2015	$ 4,795,000	$ 13,478,186	$ 18,273,186
2016	5,290,000	13,125,660	18,415,660
2017	5,480,000	12,899,845	18,379,845
2018	5,730,000	12,621,794	18,351,794
2019	6,040,000	12,311,320	18,351,320
2020 - 2024	35,615,000	56,115,613	91,730,613
2025 - 2029	49,530,000	43,965,538	93,495,538
2030 - 2034	68,920,000	26,430,403	95,350,403
2035 - 2037	48,575,000	4,745,889	53,320,889
Total	229,975,000	$ 195,694,248	$ 425,669,248
Unamortized Discounts	(965,736)		
Unamortized Premiums	4,435,138		
Total	$ 233,444,402		

Pledges of Future Revenues

The Agency has pledged to the repayment of the 2000 Subordinate Refunding Bonds, the 2000 Series A Subordinate 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, the 2011 Series B Taxable Housing Bonds, and the 2014 Refunding Bonds (the “Bonds”) Tax Revenues of the 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 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 96.9% of tax revenues. The total principal and interest remaining to be paid on the Bonds is $425,669,248.

At June 30, 2014, the total tax revenues for the current period were $19,097,878, and the total debt service payment was $17,910,305. During the period ended June 30, 2014, bond debt service payments required 93.78% of the total tax increment revenues. The ratio of tax revenues to the bonds debt service payments due during the period ended June 30, 2014 was 1.0663 (106.63%).

NOTE 5 – LONG-TERM DEBT (Continued)

SERAF

On July 28, 2009, the State adopted AB 26 4x, which includes provisions that required the Agency to pay from the Tax Increment Revenue Fund to a Supplemental Education Revenue Augmentation Fund $2,245,594 on or before May 10, 2011. Pursuant to Health and Safety Code Section 33690(c)(1), the former Redevelopment Agency borrowed $2,245,594 from its Low and Moderate-Income Housing Fund at 0% interest to meet the obligation. With the subsequent dissolution of the former Redevelopment Agency, the SERAF loan became a liability of the Agency to the County, who assumed the housing responsibilities and assets as the housing successor entity. Pursuant to the State Department of Finance's interpretation of Health and Safety Code Sections 34176(e)(6)(B) and 34191.4(b)(2)(A), loan repayments can start in fiscal year 2014-15, and can be equal to one-half of the increase between the residual amount distributed to taxing entities in that fiscal year compared to the residual amount distributed to taxing entities in fiscal year 2012-13.

Compensated Absences

At June 30, 2014, there were no Agency liabilities for compensated absences, as the Agency no longer has any direct employees.

NOTE 6 – RISK MANAGEMENT

The 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 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 Agency.

County-wide information concerning risks, insurance policy limits, deductible and designation for the year ended June 30, 2014, may be found in the notes of the County's basic financial statements.

NOTE 7 – 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 2009 Series A Tax Allocation Bonds are subject to this requirement. The most recent Interim Arbitrage Rebate Analysis was completed March 26, 2014. There was no rebate due.

Future computations of the rebate requirement for the tax allocation bonds and new bond issues will be calculated by a consulting firm as Agency management considers appropriate. Agency management, as of June 30, 2014, believes there are no arbitrage rebate liabilities.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

A. Lawsuits

The Agency is presently involved in certain matters of litigation that have arisen in the normal course of conducting Agency business. Agency management believes, based upon consultation with the Agency Attorney, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the Agency. Additionally, Agency management believes that the 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, 2014:

The Farm Park	$	9,458
East Cliff Beach Improvements		10,812
Total	$	20,270

As of June 30, 2014, in the opinion of Agency management, there were no additional outstanding matters that would have a significant effect on the financial position of the funds of the Agency.

NOTE 9 – RESTRICTED NET POSITION

Restricted net position is net position 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, 2014, the Agency had $108,492 restricted for low income housing, which is restricted by enabling legislation.

NOTE 10 – CHANGE IN ACCOUNTING PRINCIPLE

Pursuant to GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the Agency no longer amortizes the cost of debt issuance as a deferred outflow of resources. These amounts should be expensed in the year they are incurred. The Agency made adjustments for these items as a cumulative effect of change in accounting principle in the current fiscal year. This resulted in Fiduciary Net Position for private purpose trust fund activities being reduced by $2,488,047.

NOTE 11 – DEFEASANCE OF BONDS

On January 28, 2014, the Agency issued 2014 Tax Allocation Refunding Bonds in the original amount of $38,880,000, with interest rates ranging from 3.00% to 5.00%. The proceeds of the bonds were used to (i) refinance certain outstanding obligations of the former County of Santa Cruz Redevelopment Agency, including $9,753,290 of the 2000 Subordinate Tax Allocation Refunding Bonds, $4,459,056 of the 2000 Subordinate Tax Allocation Bonds, Series A, maturing on or before September 1, 2022, and $30,186,715 of the 2003 Tax Allocation Refunding Bonds, (ii) purchase a debt service reserve account insurance policy for the Bonds, and (iii) provide for the costs of issuing the Bonds. The original issue premium in the amount of $4,140,092 is being amortized as a deferred debit over the remaining life of the current debt.

As a result of the refunding, the Agency decreased its total debt service requirements by $5,453,011, resulting in an economic gain of $3,332,054 and a deferred inflow – gain on refunding of debt of $103,669. The deferred inflow – gain on refunding debt is amortized over the life of the 2014 Refunding Bond. As of June 30, 2014, the balance was $99,323.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 1, 2014, the date the financial statements were available to be issued, noting nothing that needed to be disclosed.

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BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE 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
County of Santa Cruz, California

We have audited, in accordance with the 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, the financial statements of Santa Cruz County Redevelopment Successor Agency (the Agency), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated December 1, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered County of Santa Cruz's internal control over financial reporting (internal control) relating to the Agency to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of County of Santa Cruz's internal control relating to the Agency. Accordingly, we do not express an opinion on the effectiveness the County of Santa Cruz's internal control relating to the Agency.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County of Santa Cruz's internal control or on compliance relating to the Agency. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County of Santa Cruz's internal control and compliance relating to the Agency. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 1, 2014