Santa Cruz County Redevelopment Successor Agency

Santa Cruz, California

Basic Financial Statements
and Independent Auditors' Reports

For the year ended June 30, 2013

Santa Cruz County Redevelopment Successor Agency
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Santa Cruz County Redevelopment Successor Agency (the "Successor Agency") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Successor 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 the 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 auditors' 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 entity'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 entity'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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Successor Agency, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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, 2013, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2013 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* in considering the Successor Agency's internal control over financial reporting and compliance.

Other Matters

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

Irvine, California
December 18, 2013

BASIC FINANCIAL STATEMENTS

Santa Cruz County Redevelopment Successor Agency
Statement of Fiduciary Net Position
For the year ended June 30, 2013

	Agency Activities
ASSETS	
Current Assets:	
Cash and investments	$ 20,539,610
Total current assets	20,539,610
Noncurrent Assets:	
Restricted cash with fiscal agent	12,957,371
Capital assets, net	9,209,579
Total noncurrent assets	22,166,950
Total assests	42,706,560
DEFERRED OUTFLOWS OF RESOURCES	
Deferred bond issuance costs	3,610,855
Total deferred outflows of resources	3,610,855
LIABILITIES	
Current Liabilities:	
Accounts payable - claims	62,638
Accounts payable - payroll	2,748
Interest payable	4,636,371
Compensated absences - due within one year	14,211
Long-term debt - due within one year	5,120,519
Total current liabilities	9,836,487
Long-Term Liabilities:	
Compensated absences - due in more than one year	41,558
Long-term debt - due in more than one year	236,109,499
Total long-term liabilities	236,151,057
Total liabilities	245,987,544
DEFERRED INFLOWS OF RESOURCES	
Deferred tax increment revenue	7,425,854
Total deferred inflows of resources	7,425,854
NET POSITION	
Net investment in capital assets	9,209,579
Restricted for:	
Capital projects	7,404,920
Low and moderate income housing projects	82,497
Debt service	16,157,715
Unrestricted	(239,950,694)
Total net position	$ (207,095,983)

See accompanying Notes to Basic Financial Statements.

Santa Cruz County Redevelopment Successor Agency
Statement of Changes in Fiduciary Net Position
For the year ended June 30, 2013

		Agency Activities
Additions:		
Incremental property taxes	$	12,239,109
Interest Earnings:		
Unrestricted		(41,361)
Restricted		1,335
Other Additions:		
Contributions from other agencies		315,373
Other revenue		256,003
Total additions		12,770,459
Deductions:		
Payments in accordance with enforceable obligations		15,942,667
Contributions to other agencies		1,159,675
Total deductions		17,102,342
Change in net position before extraordinary item		(4,331,883)
Extraordinary Gain on Dissolution of Redevelopment Agency		16,376,150
Change in net position		12,044,267
Net position - beginning		(216,894,656)
Prior period adjustment		(2,245,594)
Net position - beginning, as restated		(219,140,250)
Net position - ending	$	(207,095,983)

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Santa Cruz County Redevelopment Successor Agency (Agency), a fiduciary fund, have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as it 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, deferred outflows of resources, liabilities, deferred inflows of resources, net position 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 Agency's accounting policies are described below.

A. Reporting Entity

The County of Santa Cruz (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 former 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 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Certain eliminations have been made as prescribed by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* 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

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.

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

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."

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, 2013.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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."

Included in the basic financial statements is $3,610,855 of deferred outflows of resources related to bond issuance costs that are being amortized over the remaining term of the long-term debt. The Agency also reports $7,425,854 of deferred inflows of resources related to tax increment revenue for which time requirements have not been met and will be recognized into revenue in the six month period ending December 31, 2013.

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, 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 outflows of resources.

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."

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. Fiduciary Net Position and Fund Balances, Continued

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.

L. 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. Included in deferred inflows of resources is incremental property tax revenues for the six month period ending December 31, 2013.

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.

M. 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, 2013:

	Restricted	Unrestricted	Total
Pooled cash and investments held by the County of Santa Cruz	$ -	$ 20,539,610	$ 20,539,610
Cash with fiscal agent	12,957,371	-	12,957,371
Total	$ 12,957,371	$ 20,539,610	$ 33,496,981

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.

2. CASH AND INVESTMENTS, Continued

C. Investments, Continued

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. Government Agency obligations	5 years	100%	25%
State of California obligations	5 years	10%	None
Banker's acceptances	180 days	40%	10%
Commercial paper	270 days	25%	10%
Negotiable certificates of deposit	5 years	30%	None
Non-negotiable certificates of deposit	180 days	10%	10%
Repurchase agreements	1 year	100%	10%
Medium-term notes	5 years	30%	10%
Mutual funds/money market mutual fund	N/A	20%	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 are stated at fair value. The fair value of investments generally changes with fluctuations of interest rates. When interest rates fall, the fair value of investments increases, and conversely when interest rates rise, the fair value of investments could fall below the original cost of the investments. A rise in interest rates in June 2013 resulted in a material decrease of $73,845 in the fair value of pool investments at June 30, 2013, which has been recorded in the financial statements.

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, 2013, 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.

2. CASH AND INVESTMENTS, Continued

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, 2013, 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, 2013, the County invested in LAIF, which had invested 0.33% of the pool investment funds in Structured Notes and Asset-Backed Securities. As of June 30, 2013, the LAIF fair value factor of 1.000273207 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 $12,957,371 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. CAPITAL ASSETS

Capital assets of the Agency for the year ended June 30, 2013 are presented in the table below.

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
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	76,941	-	(2,491)	74,450
Total depreciable assets:	112,145	-	(2,491)	109,654
Less accumulated depreciation for:				
Buildings and improvement	(25,814)	(1,174)	-	(26,988)
Machinery and equipment	(71,244)	(1,759)	2,491	(70,512)
Total accumulated depreciation:	(97,058)	(2,933)	2,491	(97,500)
Total depreciable assets, net:	15,087	(2,933)	-	12,154
Total Capital Assets	$ 15,087	$ 9,194,492	$ -	$ 9,209,579

During the year ended June 30, 2013, the County of Santa Cruz transferred properties originally purchased by the Redevelopment Agency, included in Land, to the Agency for its use in the amount of $9,197,425. See also Note 10.

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

Governmental activities:	
Public ways and facilities	
Total depreciation expense - governmental activities	$ 2,932

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, 2013 were $252,685.

5. LONG-TERM DEBT

Activity in long-term debt for the year ended June 30, 2013, was as follows:

Description	Original Issue Amount	Beginning Balance June 30, 2012	Prior Period Adjustment	Retirements	Ending Balance June 30, 2013	Amounts Due Within One Year	Amounts Due In More Than One Year
Tax Allocation Bonds							
2000 Subordinate	17,855,000	$ 11,120,000	-	$ (785,000)	$ 10,335,000	$ 825,000	$ 9,510,000
Subordinate 2000							
Series A	27,415,000	25,685,000	-	(220,000)	25,465,000	230,000	25,235,000
2003 Refunding	48,435,000	33,780,000	-	(2,095,000)	31,685,000	2,180,000	29,505,000
Unamortized bond discount	(194,382)	(113,388)	-	9,719	(103,669)	(9,719)	(93,950)
2005 Series A	47,860,000	47,860,000	-	-	47,860,000	-	47,860,000
Unamortized bond premium	468,371	374,697	-	(15,612)	359,085	15,612	343,473
2005 Taxable Series B	21,000,000	19,440,000	-	(265,000)	19,175,000	275,000	18,900,000
Unamortized bond discount	(45,159)	(36,128)	-	1,505	(34,623)	(1,505)	(33,118)
2007 Refunding	10,755,000	10,280,000	-	(90,000)	10,190,000	95,000	10,095,000
2007 Refunding Series A	7,370,000	5,785,000	-	(425,000)	5,360,000	440,000	4,920,000
Unamortized bond premium	224,669	155,073	-	(14,978)	140,095	14,978	125,117
2009 Series A	55,970,000	55,200,000	-	(410,000)	54,790,000	420,000	54,370,000
Unamortized bond discount	(180,815)	(158,192)	-	6,697	(151,495)	(6,697)	(144,798)
2010 Taxable Series	18,500,000	18,500,000	-	(150,000)	18,350,000	160,000	18,190,000
Unamortized bond discount	(462,750)	(444,239)	-	18,510	(425,729)	(18,510)	(407,219)
2011 Series A	11,315,000	11,315,000	-	(430,000)	10,885,000	440,000	10,445,000
Unamortized bond discount	(247,945)	(232,448)	-	15,496	(216,952)	(15,497)	(201,455)
2011 Series B	5,595,000	5,595,000	-	(85,000)	5,510,000	85,000	5,425,000
Unamortized bond discount	(203,574)	(195,431)	-	8,143	(187,288)	(8,143)	(179,145)
Total Tax Allocation Bonds		243,909,944	-	(4,925,520)	238,984,424	5,120,519	233,863,905
Loans Payable - SERAF		-	2,245,594	-	2,245,594	-	2,245,594
Compensated absences		52,296	-	3,473	55,769	14,211	41,558
Total Governmental Activities		$ 243,962,240	$ 2,245,594	$ (4,922,047)	$ 241,285,787	$ 5,134,730	$ 236,151,057

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, 2013, the total principal balance was $10,335,000. Principal and interest paid for the current period were $1,328,410.

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, 2013, the total principal balance was $25,465,000. Principal and interest paid for the current period were $1,573,813.

5. 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, 2013, the total principal balance was $31,685,000 and the unamortized bond discount was $103,669. Principal and interest paid for the current period were $3,586,221.

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, 2013, the total principal balance was $47,860,000 and the unamortized bond premium was $359,085. Principal and interest paid for the current period were $2,346,656.

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, 2013, the total principal balance was $19,175,000 and the unamortized bond discount was $34,623. Principal and interest paid for the current period were $1,345,720.

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, 2013, the total principal balance was $10,190,000. Principal and interest paid for the current period were $650,806.

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, 2013, the total principal balance was $5,360,000 and the unamortized bond premium was $140,095. Principal and interest paid for the current period were $660,588.

5. 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, 2013, the total principal balance was $54,790,000 and the unamortized bond discount was $151,495. Principal and interest paid for the current period were $4,137,798.

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, 2013, the total principal balance was $18,350,000 and the unamortized bond discount was $425,729. Principal and interest paid for the current period were $1,466,194.

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, 2013, the total principal balance was $10,885,000 and the unamortized bond discount was $216,952. Principal and interest paid for the current period were $1,303,156.

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, 2013, the total principal balance was $5,510,000 and the unamortized bond discount was $187,288. Principal and interest paid for the current period were $565,445.

5. 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
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	6,155,000	12,743,321	18,898,321
2019-2023	35,845,000	58,420,882	94,265,882
2024-2028	46,490,000	46,812,197	93,302,197
2029-2033	65,105,000	30,434,986	95,539,986
2034-2037	64,015,000	8,325,271	72,340,271
Total	239,605,000	$ 210,466,624	$ 450,071,624
Unamortized Premiums	499,180		
Unamortized Discounts	(1,119,756)		
Total	$ 238,984,424		

Pledges of Future Revenues

The 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 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 95 percent of tax revenues. The total principal and interest remaining to be paid on the Bonds is $450,071,624.

At June 30, 2013, the total tax revenues for the current period were $12,239,109, and the total debt service payment was $18,964,805. During the period ended June 30, 2013, bond debt service payments required 154.95% of the total tax increment revenues. The ratio of tax revenues to the bonds debt service payments due during the period ended June 30, 2013 was 0.6454 (64.54%). Since the dissolution of redevelopment agencies as of February 1, 2012, property tax revenues are now distributed to the Agency on January 2nd and June 1st of each fiscal year. The June 1st distribution funds enforceable obligations on the Recognized Obligation Payment Schedule for the following July-December in the following fiscal year. It was therefore deemed appropriate to defer the revenue of the June 1st distribution to the following fiscal year. As the June 1, 2012 distribution, received in the five month period ended June 30, 2012, was not deferred to fiscal year 2012-13, this creates the

5. LONG-TERM DEBT, Continued

appearance of a shortage in the current fiscal year. In actuality, the revenues from the June 1, 2012 distribution were used for the 2012-13 bond debt service payments.

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 of Santa Cruz, 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, 2013, Agency liabilities included $33,499 vacation pay, $11,852 sick pay and $10,418 in other employee leave, for a total of $55,769. These amounts do not exceed normal year's accumulation. Adequate amounts are appropriated annually to pay these obligations out of available financial resources.

GASB Statement No. 16, *Accounting for Compensated Absences*, which became effective for the 1993-94 fiscal year, requires the Agency to accrue a current portion of the liability. The Agency's current portion of the liability is $14,211.

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, 2013, may be found in the notes of the County's basic financial statements.

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 2007 Series A Tax Allocation Refunding Bonds are subject to this requirement. The most recent Interim Arbitrage Rebate Analysis was completed December 17, 2012. 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 Agency management considers appropriate. Agency management, as of June 30, 2013, believes there are no arbitrage rebate liabilities.

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, 2013:

The Farm Park	$ 9,458
East Cliff Beach Improvements	121,161
St. Stephens Affordable Housing	1,668
Total	$ 132,287

As of June 30, 2013, 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.

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, 2013, the Agency had $82,497 restricted for low income housing, which is restricted by enabling legislation.

10. EXTRAORDINARY GAIN/(LOSS) ON DISSOLUTION OF REDEVELOPMENT AGENCY

As of February 1, 2012 all redevelopment agencies in the State of California were dissolved and successor agencies were formed in accordance with Assembly Bill 1X26 (Bill). All assets and liabilities were transferred from the governmental funds of the former redevelopment agency to the private-purpose trust fund of the successor agency. As a result of the dissolution, an extraordinary gain of $174,032,791 was recognized by the County in the June 30, 2012 financial statements. A corresponding loss was recognized by the Redevelopment Successor Agency as of January 31, 2012.

The Bill directs the State Controller of the State of California to review the propriety of any transfer 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 the Bill.

In March 2011, prior to the dissolution, the Board had approved and the Santa Cruz County Redevelopment Agency had transferred all non-housing properties that were not encumbered by third-party enforceable obligations to the County. Pursuant to a state-wide order by the State Controller of the State of California regarding transfers of assets between the redevelopment agency and other public bodies that occurred after January 1, 2011, the County was ordered to transfer the non-housing properties not encumbered by third-party enforceable obligations back to the public body designated as the successor agency by the Bill.

In March 2011 and in June 2011, prior to the dissolution, the Board had approved and the Santa Cruz County Redevelopment Agency had transferred to the County various funds for specified projects of the Amended and Restated Cooperation Agreement. Most of the funds were encumbered by the County in valid third-party agreements before the passage of the Bill on June 28, 2011. Pursuant to the State Department of Finance's interpretation, funds that were not encumbered before June 28, 2011, were transferred back from the County to the Agency.

Amounts related to the dissolution of the former redevelopment agency that transferred from the County to the Agency as of June 30, 2013 are presented in the table below. They result in an extraordinary gain in the amount of $16,376,150 to the Agency.

Asset transferred from the County to the Agency in relation to the dissolution of the former redevelopment agency	
Cash and Investments	$ 7,178,725
Land	9,197,425
	$ 16,376,150

The transfer of funds and the non-housing properties from the County to the successor agency is reported as an extraordinary loss in the County's governmental-wide financial statements. The receipt of these assets and liabilities is reported in the Agency's private-purpose trust fund financial statements as an extraordinary gain.

10. EXTRAORDINARY GAIN/(LOSS) ON DISSOLUTION OF REDEVELOPMENT AGENCY, Continued

Because of the different measurement focus of the governmental funds (current financial resources measurement focus) and the measurement focus of the trust funds (economic resources measurement focus), the extraordinary loss recognized in the County's governmental funds is not the same amount as the extraordinary gain that is recognized in the Agency's fiduciary fund financial statements.

11. PRIOR PERIOD ADJUSTMENT

In the Government-Wide financial statements, the $2,245,594 SERAF loan owed by the Agency to the County of Santa Cruz was not included in long-term debt at June 30, 2012. The beginning net position held in trust of $(216,894,656), as originally reported, was restated to $(219,140,250) to include the SERAF loan of $2,245,594 at June 30, 2012.

	Net Position, as previously reported	Net Position, as restated	Prior Period Adjustment
Statement of Changes in Net Position			
Private Purpose Trust Funds			
Net position held in trust	$(216,894,656)	$(219,140,250)	$(2,245,594)

12. SUBSEQUENT EVENTS

On August 27, 2013, the Agency's Board approved the issuance of $41,755,000 2013 Tax Allocation Refunding bonds, to refinance the 2000 Subordinate Tax Allocation Refunding bonds, the Subordinate Tax Allocation bonds, 2000 Series A, maturing on or before September 1, 2022, and the 2003 Tax Allocation Refunding bonds. On September 17, 2013, the Agency's Oversight Board also approved the issuance. On September 23, 2013, the proposed issuance was submitted to the State Department of Finance for approval. They have 60 days to respond. On November 22, 2013, the State Department of Finance approved the proposed issuance.

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MARCUM
ACCOUNTANTS ▲ ADVISORS

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, 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 the Santa Cruz County Redevelopment Successor Agency (the "Successor Agency"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Successor Agency's basic financial statements, and have issued our report thereon dated December 18, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Successor Agency's internal control over financial reporting (internal control) 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 the Successor Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Successor Agency's internal control.

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 entity'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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Successor 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

Irvine, California
December 18, 2013