

**SANTA CRUZ COUNTY
REDEVELOPMENT SUCCESSOR AGENCY**

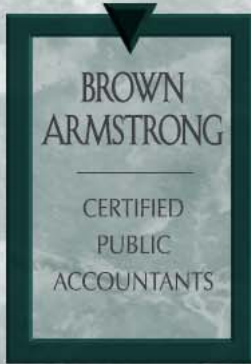
**BASIC FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORTS**

**FOR THE YEAR ENDED
JUNE 30, 2015**

**SANTA CRUZ COUNTY
REDEVELOPMENT SUCCESSOR AGENCY
JUNE 30, 2015**

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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, 2015, 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.

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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, 2015, 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 Agency and do not purport to, and do not, present fairly the financial position of the County of Santa Cruz as of June 30, 2015, 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 2, 2015, 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 2, 2015

BASIC FINANCIAL STATEMENTS

**SANTA CRUZ COUNTY
REDEVELOPMENT SUCCESSOR AGENCY
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015**

<u>ASSETS</u>	<u>2015</u>
Current Assets:	
Cash and investments	\$ 13,308,970
Total Current Assets	<u>13,308,970</u>
Noncurrent Assets:	
Restricted cash with fiscal agent	9,093,441
Prepaid insurance	1,742,122
Capital assets, net	<u>9,119,254</u>
Total Noncurrent Assets	<u>19,954,817</u>
Total Assets	<u>33,263,787</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Loss on refunding of debt	<u>341,167</u>
Total Deferred Outflows of Resources	<u>341,167</u>
 <u>LIABILITIES</u>	
Current Liabilities:	
Accounts payable - claims	2,649
Interest payable	3,650,235
Notes payable - due within one year	445,596
Long-term debt - due within one year	<u>6,939,502</u>
Total Current Liabilities	<u>11,037,982</u>
Long-Term Liabilities:	
Notes payable - due in more than one year	1,042,333
Long-term debt - due in more than one year	<u>222,233,650</u>
Total Long-Term Liabilities	<u>223,275,983</u>
Total Liabilities	234,313,965
 <u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred tax increment revenue	6,725,049
Gain on refunding of debt	<u>121,852</u>
Total Deferred Inflows of Resources	<u>6,846,901</u>
 <u>NET POSITION</u>	
Net investment in capital assets	5,557,681
Restricted for:	
Capital projects	20,244
Low and moderate income housing projects	50,111
Debt service	15,142,451
Unrestricted	<u>(228,326,399)</u>
Total Net Position	<u>\$ (207,555,912)</u>

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, 2015**

	2015
Additions:	
Incremental property taxes	\$ 20,242,185
Interest earnings	37,249
Other additions:	
Contributions from other agencies	96,224
Other revenue	155,636
Total Additions	20,531,294
Deductions:	
Payments in accordance with enforceable obligations	15,752,184
Total Deductions	15,752,184
Change in Net Position	4,779,110
Net Position - Beginning	(212,335,022)
Net Position - Ending	\$(207,555,912)

See accompanying notes to the basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

**SANTA CRUZ COUNTY
REDEVELOPMENT SUCCESSOR AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Santa Cruz County 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 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 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 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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

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, 2015.

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."

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Long-Term Liabilities

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 GASB Pronouncements

During the fiscal year ending June 30, 2015, the Agency implemented the following standards:

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The provisions of GASB Statement No. 68 are effective for financial statements beginning after June 15, 2014. The Agency has implemented the provisions of GASB Statement No. 68 in the current year. There was no effect on the Agency's accounting or financial reporting as a result of implementing this standard.

GASB Statement No. 69 – *Government Combinations and Disposals of Government Operations*. The provisions of GASB Statement No. 69 are effective for financial statements beginning after December 15, 2013. There was no effect on the Agency's accounting or financial reporting as a result of implementing this standard.

GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The provisions of this statement were applied simultaneously with the provisions of GASB Statement No. 68. There was no effect on the Agency's accounting or financial reporting as a result of implementing this standard.

N. Future GASB Pronouncements

GASB Statement No. 72 – *Fair Value Measurement and Application*. The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2015. The Agency has not fully judged the effect of the implementation of GASB Statement No. 72 as of the date of the basic financial statements.

GASB Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The provisions of this statement are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. The Agency has not fully judged the effect of the implementation of GASB Statement No. 73 as of the date of the basic financial statements.

GASB Statement No. 74 – *Financial Reporting for Postemployment Benefits Other than Pension Plans*. The provisions of this statement are effective for fiscal years beginning after June 15, 2016. The Agency has not fully judged the effect of the implementation of GASB Statement No. 74 as of the date of the basic financial statements.

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other than Pension Plans*. The provisions of this statement are effective for fiscal years beginning after June 15, 2017. The Agency has not fully judged the effect of the implementation of GASB Statement No. 75 as of the date of the basic financial statements.

GASB Statement No. 76 – *Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The provisions of this statement are effective for fiscal years beginning after June 15, 2015. The Agency has not fully judged the effect of the implementation of GASB Statement No. 76 as of the date of the basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. *Future Governmental Accounting Standards Board Pronouncements* (Continued)

GASB Statement No. 77 – *Tax Abatement Disclosures.* The requirements of this statement are effective for reporting periods beginning after December 15, 2015. The Agency has not fully judged the effect of the implementation of GASB Statement No. 77 as of the date of the basic financial statements.

NOTE 2 – CASH AND INVESTMENTS

A. *Summary of Deposit and Investment Balances*

Cash and investments consisted of the following at June 30, 2015:

	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Pooled cash and investments held by the County of Santa Cruz	\$ -	\$ 13,308,970	\$ 13,308,970
Cash with fiscal agent	9,093,441	-	9,093,441
Total	<u>\$ 9,093,441</u>	<u>\$ 13,308,970</u>	<u>\$ 22,402,411</u>

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 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 following table 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.

NOTE 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. Governmental Agency obligations	5 years	100%	25%
Bankers' 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 funds	N/A	20%	None
Local Agency Investment Fund (LAIF)	N/A	\$50 million	None
Joint Powers Authority investment funds	N/A	25%	None
Supranationals	5 years	30%	None

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, 2015, 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.

NOTE 2 – CASH AND INVESTMENTS (Continued)

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, 2015, 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, 2015, the County invested in LAIF, which had invested 0.13% of the pooled investment funds in Structured Notes and Asset-Backed Securities. As of June 30, 2015, the LAIF fair value factor of 1.000375979 was used to calculate the fair values of the investments in LAIF; however, a fair market value adjustment was considered immaterial. 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 \$9,093,441 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, 2015, are presented in the table below.

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Non-depreciable assets:				
Land	\$ 9,197,425	\$ 1,412,980	\$(1,497,019)	\$ 9,113,386
Construction in progress	-	15,961	(15,961)	-
Total non-depreciable assets	9,197,425	1,428,941	(1,512,980)	9,113,386
Depreciable assets:				
Buildings and improvement	35,204	285,773	(285,773)	35,204
Machinery and equipment	66,556	-	(66,556)	-
Total depreciable assets	101,760	285,773	(352,329)	35,204
Less: accumulated depreciation for:				
Buildings and improvement	(28,162)	(1,174)	-	(29,336)
Machinery and equipment	(64,377)	-	64,377	-
Total accumulated depreciation	(92,539)	(1,174)	64,377	(29,336)
Total depreciable assets, net	9,221	284,599	(287,952)	5,868
Total capital assets, net	\$ 9,206,646	\$ 1,713,540	\$ (1,800,932)	\$ 9,119,254

NOTE 3 – CAPITAL ASSETS (Continued)

The former Redevelopment Agency transferred various properties, including 522 Capitola Road Extension, APN 026-081-49, included in Buildings and Structures in the amount of \$285,773, to the County on March 8, 2011. The Oversight Board of the Agency subsequently approved and affirmed the transfers on June 27, 2012. During their audit of the Agency's asset transfers, the State Controller's Office recommended re-doing the transfers of the properties still in the County's possession, so that the properties could transfer from the Agency to the County. Pursuant to their recommendation, the County transferred 522 Capitola Road Extension, APN 026-081-49, in the amount of \$285,773 to the Agency on November 18, 2014. The Agency transferred 522 Capitola Road Extension, APN 026-081-49, in the amount of \$285,773 to the County on June 25, 2015.

The former Redevelopment Agency also transferred \$15,961 in Construction in Progress associated with the 7th and Brommer property, APN 026-261-13, along with the property itself, to the County on March 8, 2011. The property was transferred back from the County to the Agency during the year ended June 30, 2013, but the associated \$15,961 in Construction in Progress was transferred back to the Agency and added to the property value in Land during the year ended June 30, 2015.

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

Governmental activities:

Public ways and facilities	\$ 1,174
Total depreciation expense - governmental activities	<u>\$ 1,174</u>

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, 2015, were approximately \$626,296.

NOTE 5 – LONG-TERM DEBT

Activity in long-term debt for the year ended June 30, 2015, was as follows:

Description	Original Issue Amount	Beginning Balance July 1, 2014	Additions	Retirements	Ending Balance June 30, 2015	Amounts Due Within One Year	Amounts Due In More Than One Year
Tax Allocation Bonds							
2000 Series A Subordinate	\$ 27,415,000	\$ 20,890,000	\$ -	\$ (20,890,000)	\$ -	\$ -	\$ -
2005 Series A Subordinate	47,860,000	47,860,000	-	(47,860,000)	-	-	-
Unamortized bond premium	468,371	343,473	-	(343,473)	-	-	-
2005 Taxable Series B	21,000,000	18,900,000	-	(18,900,000)	-	-	-
Unamortized bond discount	(45,159)	(33,118)	-	33,118	-	-	-
2007 Refunding	10,755,000	10,095,000	-	(95,000)	10,000,000	100,000	9,900,000
2007 Series A Refunding	7,370,000	4,920,000	-	(460,000)	4,460,000	475,000	3,985,000
Unamortized bond premium	224,669	125,117	-	(14,978)	110,139	14,978	95,161
2009 Series A	55,970,000	54,370,000	-	(435,000)	53,935,000	465,000	53,470,000
Unamortized bond discount	(180,815)	(144,798)	-	6,697	(138,101)	(6,697)	(131,404)
2010 Taxable Series	18,500,000	18,190,000	-	(165,000)	18,025,000	175,000	17,850,000
Unamortized bond discount	(462,750)	(407,219)	-	18,510	(388,709)	(18,510)	(370,199)
2011 Series A Taxable	11,315,000	10,445,000	-	(460,000)	9,985,000	480,000	9,505,000
Unamortized bond discount	(247,945)	(201,456)	-	15,497	(185,959)	(15,497)	(170,462)
2011 Series B Taxable	5,595,000	5,425,000	-	(90,000)	5,335,000	95,000	5,240,000
Unamortized bond discount	(203,574)	(179,145)	-	8,143	(171,002)	(8,143)	(162,859)
2014 Refunding	38,880,000	38,880,000	-	(2,800,000)	36,080,000	3,195,000	32,885,000
Unamortized bond premium	4,140,092	3,966,548	-	(414,009)	3,552,539	414,009	3,138,530
2015 Series A Refunding	59,390,000	-	59,390,000	-	59,390,000	575,000	58,815,000
Unamortized bond premium	9,687,149	-	9,687,149	(65,024)	9,622,125	484,357	9,137,768
2015 Series B Refunding	19,860,000	-	19,860,000	-	19,860,000	530,000	19,330,000
Unamortized bond discount	(299,892)	-	(299,892)	2,012	(297,880)	(14,995)	(282,885)
Total Tax Allocation Bonds		233,444,402	88,637,257	(92,908,507)	229,173,152	6,939,502	222,233,650
Loans Payable - SERAF		2,245,594	-	(757,665)	1,487,929	445,596	1,042,333
Total Governmental Activities		\$ 235,689,996	\$ 88,637,257	\$ (93,666,172)	\$ 230,661,081	\$ 7,385,098	\$ 223,275,983

NOTE 5 – LONG-TERM DEBT (Continued)

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, 2015, the total principal balance was \$0. The total outstanding principal of \$20,890,000 was defeased as part of the issuance of the 2015 Refunding Bonds.

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, 2015, the total principal balance was \$0 and the unamortized bond premium was \$0. The total outstanding principal of \$47,860,000 was defeased as part of the issuance of the 2015 Refunding Bonds.

2005 Taxable Series B Tax Allocation Bonds

On November 17, 2005, the former Redevelopment Agency issued 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, 2015, the total principal balance was \$0 and the unamortized bond discount was \$0. The total outstanding principal of \$18,900,000 was defeased as part of the issuance of the 2015 Refunding Bonds.

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, 2015, the total principal balance was \$10,000,000. Principal and interest paid for the current period was \$646,041.

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, 2015, the total principal balance was \$4,460,000 and the unamortized bond premium was \$110,139. Principal and interest paid for the current period was \$660,288.

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, 2015, the total principal balance was \$53,935,000 and the unamortized bond discount was \$138,101. Principal and interest paid for the current period was \$4,125,485.

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, 2015, the total principal balance was \$18,025,000 and the unamortized bond discount was \$388,709. Principal and interest paid for the current period was \$1,469,940.

NOTE 5 – LONG-TERM DEBT (Continued)

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, 2015, the total principal balance was \$9,985,000 and the unamortized bond discount was \$185,959. Principal and interest paid for the current period was \$1,296,985.

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, 2015, the total principal balance was \$5,335,000 and the unamortized bond discount was \$171,002. Principal and interest paid for the current period was \$563,398.

2014 Tax Allocation Refunding Bonds

On January 28, 2014, the 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 of June 30, 2015, the total principal balance was \$36,080,000 and the unamortized bond premium was \$3,552,539. Principal and interest paid for the current period was \$4,713,448.

2015 Series A Tax Allocation Refunding Bonds

On May 12, 2015, the Agency issued 2015 Series A Tax Allocation Refunding Bonds in the original amount of \$59,390,000. 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, 2015, the total principal balance was \$59,390,000 and the unamortized bond premium was \$9,622,125. Principal and interest paid for the current period was \$0.

2015 Series B Taxable Tax Allocation Refunding Bonds

On May 12, 2015, the Agency issued 2015 Series B Taxable Tax Allocation Refunding Bonds in the original amount of \$19,860,000. Interest from 0.65% to 4.25% 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, 2015, the total principal balance was \$19,860,000 and the unamortized bond discount was \$297,880. Principal and interest paid for the current period was \$0.

NOTE 5 – LONG-TERM DEBT (Continued)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 6,090,000	\$ 11,576,211	\$ 17,666,211
2017	5,690,000	12,081,156	17,771,156
2018	5,925,000	11,814,486	17,739,486
2019	6,225,000	11,514,760	17,739,760
2020	6,530,000	11,193,357	17,723,357
2021 - 2025	37,555,000	50,273,247	87,828,247
2026 - 2030	48,870,000	38,090,526	86,960,526
2031 - 2035	68,925,000	20,906,241	89,831,241
2036 - 2037	31,260,000	2,089,515	33,349,515
Total	<u>217,070,000</u>	<u>\$ 169,539,499</u>	<u>\$ 386,609,499</u>
Unamortized Discounts	(1,181,651)		
Unamortized Premiums	<u>13,284,803</u>		
Total	<u>\$ 229,173,152</u>		

Pledges of Future Revenues

The Agency has pledged to the repayment of 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, the 2014 Refunding Bonds, the 2015 Series A Tax Allocation Refunding Bonds, and the 2015 Series B Taxable Tax Allocation 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 and Safety Code. Annual principal and interest payments on the Bonds are expected to require 86.81% of tax revenues. The total principal and interest remaining to be paid on the Bonds is \$386,609,499.

At June 30, 2015, the total tax revenues for the current period were \$20,242,185, and the total debt service payment was \$18,273,186. During the period ended June 30, 2015, bond debt service payments required 90.27% of the total tax increment revenues. The ratio of tax revenues to the bonds debt service payments due during the period ended June 30, 2015, was 1.1078 (110.78%).

Supplemental Education Revenue Augmentation Fund (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 the SERAF \$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 of \$757,665 started in fiscal year 2014-15, and were 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, 2015, 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, 2015, 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.

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, 2015, 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, 2015:

The Farm Park	\$ 6,054
East Cliff Beach Improvements	<u>6,388</u>
Total	<u>\$ 12,442</u>

As of June 30, 2015, 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, 2015, the Agency had \$50,111 restricted for low income housing, which is restricted by enabling legislation, \$20,244 restricted for capital projects, and \$15,142,451 restricted for debt service.

NOTE 10 – LAND HELD FOR RESALE

The former Santa Cruz County Redevelopment Agency implemented a program to retain affordability restrictions on affordable units by purchasing units threatened with foreclosure and re-selling them to income eligible buyers. The units purchased pursuant to this program were classified as Land Held for Resale. The former redevelopment agency transferred various properties included in Land Held for Resale in the amount of \$2,043,970 to the County on March 8, 2011. The Oversight Board of the Agency subsequently approved and affirmed the transfers on June 27, 2012. During their audit of the former redevelopment agency's asset transfers, the State Controller's Office recommended re-doing the transfers of the properties still in the County's possession, so that the properties could transfer from the Agency to the County. Pursuant to their recommendation, the County transferred four properties in Land Held for Resale in the amount of \$1,397,019 to the Agency on November 18, 2014. The Agency transferred the four properties in the amount of \$1,397,019 to the County on June 25, 2015.

NOTE 11 – DEFEASANCE OF BONDS

On May 12, 2015, the Agency issued 2015 Tax Allocation Refunding Bonds, Series A, in the original amount of \$59,390,000, with interest rates ranging from 2.00% 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 \$21,443,925 of the 2000 Subordinate Tax Allocation Bonds, Series A, maturing on or after September 1, 2023, and \$49,033,328 of the 2005 Tax Allocation Bonds, Series A, (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 \$9,687,149 is being amortized as a deferred debit over the remaining life of the current debt.

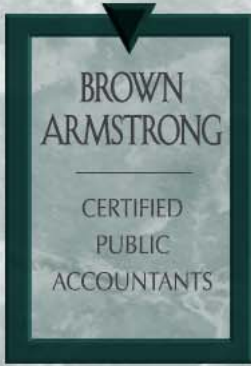
As a result of the advance refunding, the Agency decreased its total debt service requirements by \$17,493,735, resulting in an economic gain of \$9,637,497 and a deferred outflow of resources – loss on refunding of debt of \$343,473. The deferred outflow of resources – loss on refunding debt is amortized over the life of the 2015A Refunding Bond. As of June 30, 2015, the balance was \$341,167.

On May 12, 2015, the Agency issued 2015 Taxable Tax Allocation Refunding Bonds, Series B, in the original amount of \$19,860,000, with interest rates ranging from 0.65% to 4.25%. The proceeds of the bonds were used to (i) refinance certain outstanding obligations of the former County of Santa Cruz Redevelopment Agency, including \$19,132,923 of the 2005 Taxable Housing Tax Allocation Bonds, Series B, (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 discount in the amount of \$229,892 is being amortized as a deferred debit over the remaining life of the current debt.

As a result of the advance refunding, the Agency decreased its total debt service requirements by \$3,292,826, resulting in an economic gain of \$2,090,908 and a deferred inflow of resources – gain on refunding of debt of \$33,118. The deferred inflow of resources – gain on refunding debt is amortized over the life of the 2015B Refunding Bond. As of June 30, 2015, the balance was \$32,896.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 2, 2015, the date the financial statements were available to be issued, noting nothing that needed to be disclosed.



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 the Santa Cruz County Redevelopment Successor Agency (the Agency), as of and for the year ended June 30, 2015, 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 2, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the 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.

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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 the Agency's 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

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California
December 2, 2015