

**SUCCESSOR AGENCY TO THE
COSTA MESA REDEVELOPMENT AGENCY
(A PRIVATE-PURPOSE TRUST FUND OF
THE CITY OF COSTA MESA, CALIFORNIA)**

**WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

**FOR THE FIVE-MONTH PERIOD
FEBRUARY 1, 2012 TO JUNE 30, 2012
AND AS OF JUNE 30, 2012**

SUCCESSOR AGENCY TO THE COSTA MESA REDEVELOPMENT AGENCY

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INDEPENDENT AUDITORS' REPORT

Oversight Board of the Successor Agency
to the Costa Mesa Redevelopment Agency
Costa Mesa, California

We have audited the statement of net assets of the Successor Agency to the Costa Mesa Redevelopment Agency (Successor Agency) as of June 30, 2012 and for the related statement of changes in fiduciary net assets for the five-month period, February 1, 2012 to June 30, 2012. These financial statements are the responsibility of the Successor Agency's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Successor Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Successor Agency's financial statements and do not purport to, and do not fairly present, the financial position of the City of Costa Mesa, California as of June 30, 2012 and the changes in financial position of the five-month period, February 1, 2012 to June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Successor Agency as of June 30, 2012, and the respective changes in financial position thereof for the five-month period, February 1, 2012 to June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 5 to the financial statements, the Successor Agency was created on February 1, 2012 as a result of the dissolution of the former Redevelopment Agency due to legislation enacted by the State of California. Our opinion covers the period from the date of dissolution through June 30, 2012.

In accordance with Government Auditing Standards, we have also issued our report dated January 16, 2013 on our consideration of the Successor Agency's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management has not presented the management's discussion and analysis that governmental 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.

White Nelson Diehl Evans LLP

Irvine, California
January 16, 2013

BASIC FINANCIAL STATEMENTS

SUCCESSOR AGENCY TO THE COSTA MESA REDEVELOPMENT AGENCY

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2012

ASSETS:

| | |
|--|----------------|
| Cash and investments held by City of Costa Mesa (Note 2) | \$ 5,975,687 |
| Cash and investments with fiscal agent (Note 2) | <u>704,300</u> |

| | |
|--------------|------------------|
| TOTAL ASSETS | <u>6,679,987</u> |
|--------------|------------------|

LIABILITIES:

| | |
|--|------------------|
| Accounts payable | 1,542,365 |
| Accrued liabilities | 4,306 |
| Advance payable to the City of Costa Mesa (Note 3) | 9,794,676 |
| Long-term liabilities (Note 4): | |
| Due within one year | 545,000 |
| Due in more than one year | <u>3,070,000</u> |

| | |
|-------------------|-------------------|
| TOTAL LIABILITIES | <u>14,956,347</u> |
|-------------------|-------------------|

NET ASSETS (DEFICIT):

| | |
|------------------------------------|------------------------------|
| Net assets (deficit) held in trust | <u><u>\$ (8,276,360)</u></u> |
|------------------------------------|------------------------------|

See independent auditors' report and notes to basic financial statements.

SUCCESSOR AGENCY TO THE COSTA MESA REDEVELOPMENT AGENCY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the five month period from February 1, 2012 to June 30, 2012

| | |
|---|-----------------------|
| ADDITIONS: | |
| Property taxes | \$ 1,513,071 |
| Investment earnings | <u>1,357</u> |
| TOTAL ADDITIONS | <u>1,514,428</u> |
| DEDUCTIONS: | |
| Program expenses of former redevelopment agency | 305,457 |
| Administrative expenses | 146,872 |
| Interest and fiscal agent expenses of former redevelopment agency | <u>78,088</u> |
| TOTAL DEDUCTIONS | <u>530,417</u> |
| CHANGE IN NET ASSETS, BEFORE EXTRAORDINARY ITEM | 984,011 |
| EXTRAORDINARY ITEM: | |
| Loss on transfer from former redevelopment agency (Note 5) | <u>(9,260,371)</u> |
| CHANGE IN NET ASSETS | (8,276,360) |
| NET ASSETS - FEBRUARY 1, 2012 | <u>-</u> |
| NET ASSETS (DEFICIT) - JUNE 30, 2012 | <u>\$ (8,276,360)</u> |

See independent auditors' report and notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

SUCCESSOR AGENCY TO THE COSTA MESA REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2012

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES:

a. Reporting Entity:

The Costa Mesa Redevelopment Agency (the "Former RDA") was established on January 17, 1972 pursuant to the State of California Health and Safety Code, Section 3300 entitled "Community Redevelopment Law". The primary purpose of the Former RDA was to prepare and carry out plans for improvement, rehabilitation and redevelopment of blighted areas within the territorial limits of the City of Costa Mesa. On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 that provided for the dissolution of all redevelopment agencies in the State of California as of February 1, 2012, at which time the City of Costa Mesa took over as the Successor Agency.

The assets and liabilities of the Former RDA were transferred to the Successor Agency on February 1, 2012 as a result of the dissolution of the Former RDA. The Successor Agency acts in a fiduciary capacity to wind down the affairs of the Former RDA which includes disposing of the assets and liabilities and its activities are reported in a fiduciary private purpose trust fund. (See Note 5 for additional information).

b. Basis of Presentation:

Fiduciary Fund:

Private-Purpose Trust Fund - This fund is used to account for the assets, liabilities, additions and deductions made on behalf of the Former RDA.

c. Measurement Focus and Basis of Accounting:

Measurement Focus:

Measurement focus is a term used to describe which transactions are recorded within the various financial statements.

The financial statements are presented using the economic resources measurement focus. Under the economic measurement focus, all (both current and long-term) economic resources are reported in the financial statements.

See independent auditors' report.

SUCCESSOR AGENCY TO THE COSTA MESA REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. Measurement Focus and Basis of Accounting (Continued):

Basis of Accounting:

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements.

The financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Successor Agency gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

d. Investments:

Investments are stated at fair value (quoted market price or best available estimate thereof).

e. Property Tax Calendar:

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

| | |
|-----------------|---|
| Lien Date | January 1 |
| Levy Date | July 1 to June 30 |
| Due Date | November 1 - 1st Installment March 1 - 2nd Installment |
| Delinquent Date | December 10 - 1st Installment April 10 - 2nd Installment |

Under California law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the agencies based on complex formulas prescribed by state statutes. The Successor Agency will be allocated its share of property taxes based on its need to pay for enforceable obligations as defined in AB 1x26 as modified by AB 1484.

See independent auditors' report.

SUCCESSOR AGENCY TO THE COSTA MESA REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

f. Estimates:

The preparation of 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.

g. Subsequent Event:

In preparing these financial statements, the Successor Agency has evaluated events and transactions for potential recognition or disclosure through January 16, 2013, the date the financial statements were available to be issued.

2. CASH AND INVESTMENTS:

At June 30, 2012, cash and investments consisted of:

Fiduciary Funds:

| | |
|--|---------------------|
| Deposits | \$ 230,646 |
| Investments | 5,745,041 |
| Cash and investments with fiscal agent | <u>704,300</u> |
| Total Cash and Investments | <u>\$ 6,679,987</u> |

Equity in Cash and Investments Pool of the City of Costa Mesa

A portion of the Successor Agency's cash and investments are maintained in an investment pool managed by the City of Costa Mesa. The Successor Agency is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Costa Mesa. The Successor Agency has not adopted an investment policy separate from that of the City of Costa Mesa. The fair value of the Successor Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Successor Agency's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis.

At June 30, 2012 the City was holding \$230,646 in cash and investments on deposit for the Successor Agency which is reflected in the City's Basic Financial Statements. The monies on deposit with the City of Costa Mesa are not categorized.

See independent auditors' report.

SUCCESSOR AGENCY TO THE COSTA MESA REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

2. CASH AND INVESTMENTS (CONTINUED):

Cash and Investments with Fiscal Agent

Under terms of the various bond indentures, generally, the Bond Trustee is allowed to deposit funds in federally-insured certificates of deposits or investments authorized for governmental entities which include mutual funds under Section 53601 of the California Government Code. At June 30, 2012, substantially all cash with fiscal agent of \$704,300 was held in money market mutual funds.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment is, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City of Costa Mesa manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow.

At June 20, 2012, the Successor Agency held \$5,745,041 in money market mutual funds and cash with fiscal agent held in money market mutual funds in the amount of \$704,300 under the bond indentures was available on demand.

Information about the Successor Agency's exposure to interest rate risk as a result of its equity in the cash and investment pool of the City of Costa Mesa in the amount of \$230,646 is provided by disclosures in the notes to the basic financial statements of the City of Costa Mesa that shows the distribution of the City's investments by maturity.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The minimum ratings required by (where applicable) the California Government Code and the City of Costa Mesa's Investment Policy and the actual ratings as of year-end for the investment in the City of Costa Mesa is provided by disclosures in the notes to the basic financial statements of the City of Costa Mesa. The Successor Agency's investment in money market mutual funds of \$5,745,041 and \$704,300 cash held with fiscal agent (money market mutual funds) were rated as AAA by Standards and Poor.

Concentration of Credit Risk

Investments in any one issuer (other than U.S. Treasury securities, mutual funds and investment pools) that represent 5% or more of total investments for the entire entity (or for each separate major fund or for other governmental funds in the aggregate) are disclosed in the notes to the basic financial statements of the City of Costa Mesa.

See independent auditors' report.

SUCCESSOR AGENCY TO THE COSTA MESA REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

2. CASH AND INVESTMENTS (CONTINUED):

Custodial Credit Risk

The Successor Agency does not have any significant certificates of deposit or demand accounts that are subject to custodial credit risk disclosure (as defined by GASB Statement No. 40). The Successor Agency does not have direct investments in securities subject to custodial credit risk disclosure (as defined by GASB Statement No. 40).

3. ADVANCE PAYABLE TO THE CITY OF COSTA MESA:

The \$9,794,676 advance from the City of Costa Mesa's General Fund to the Successor Agency represents a note between the General Fund and the Successor Agency Private Purpose Trust Fund. Interest is stated at a rate of 8%. Repayment of the note is not expected in the forthcoming year, but the advance is expected to be repaid.

4. LONG-TERM LIABILITIES:

Changes in long-term liabilities for the five months ended June 30, 2012 were as follows:

| | <u>Transfers (a)</u> <u>Feb. 1, 2012</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>at June 30,</u> <u>2012</u> | <u>Due</u> <u>Within</u> <u>One Year</u> |
|---------------------|---|------------------|------------------|---|--|
| 2003 Tax Allocation | | | | | |
| Refunding Bonds | \$ 3,615,000 | \$ - | \$ - | \$ 3,615,000 | \$ 545,000 |

(a) The transfers relate to the transfer of long-term liabilities to the Successor Agency from the Former RDA. See Note 5 for additional information.

2003 Tax Allocation Refunding Bonds

On October 1, 2003, the Former RDA issued \$7,470,000 Tax Allocation Refunding Bonds to refund the \$9,955,000 Downtown Redevelopment Project 1993 Tax Allocation Refunding Bonds. The original bonds were issued to finance a portion of costs associated with implementing the Redevelopment Plan which included the refurbishment of the Downtown Redevelopment Project Area. The bonds issued consist of serial bonds maturing from 2004 to 2017 in semi-annual installments ranging from \$450,000 to \$670,000. Interest is payable on April 1 and October 1, commencing on April 1, 2004 at rates ranging from 2.0% to 5.0%. Bonds maturing on or after October 1, 2014 are subject to optional redemption, in whole or in part from among maturities as selected by the Agency on October 1, 2013. The bonds were transferred to the Successor Agency on February 1, 2012 as a result of the dissolution of the Former RDA.

See independent auditors' report.

SUCCESSOR AGENCY TO THE COSTA MESA REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

4. LONG-TERM LIABILITIES (CONTINUED):

2003 Tax Allocation Refunding Bonds (Continued)

The amount required for the bond reserve for the 2003 Tax allocation Refunding Bonds is \$704,300. The Successor Agency has \$704,300 on reserve with the fiscal agent at June 30, 2012. The principal balance outstanding at June 30, 2012 is \$3,615,000.

Noted below is a schedule of principal and interest maturities on the Refunding Bonds, with the applicable interest rates.

| <u>Date</u> | <u>Principal</u> | <u>Interest</u> | <u>Interest Rate</u> | <u>Total Debt Requirements</u> |
|-------------|---------------------|-------------------|----------------------|--------------------------------|
| 10-1-12 | \$ 545,000 | \$ 78,087 | 4.000 | \$ 623,087 |
| 4-1-13 | | 67,187 | 4.000 | 67,187 |
| 10-1-13 | 565,000 | 67,188 | | 632,188 |
| 4-1-14 | | 55,887 | 3.750 | 55,887 |
| 10-1-14 | 590,000 | 55,888 | | 645,888 |
| 4-1-15 | | 44,825 | 4.000 | 44,825 |
| 10-1-15 | 610,000 | 44,825 | | 654,825 |
| 4-1-16 | | 32,625 | 5.000 | 32,625 |
| 10-1-16 | 635,000 | 32,625 | | 667,625 |
| 4-1-17 | | 16,750 | 5.000 | 16,750 |
| 10-1-17 | 670,000 | 16,750 | | 686,750 |
| | <u>\$ 3,615,000</u> | <u>\$ 512,637</u> | | <u>\$ 4,127,637</u> |

5. COMMITMENTS AND CONTINGENCIES:

Recent Changes in Legislation Affecting California Redevelopment Agencies

On June 29, 2011, Assembly Bills 1x 26 (the “Dissolution Act”) and 1x 27 were enacted as part of the fiscal year 2011-12 state budget package. The Dissolution Act required each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for impending dissolution. Assembly Bill 1x 27 provided a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn the Dissolution Act and Assembly Bill 1x 27 on the grounds that these bills violate the California Constitution.

See independent auditors’ report.

SUCCESSOR AGENCY TO THE COSTA MESA REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

5. COMMITMENTS AND CONTINGENCIES (CONTINUED):

Recent Changes in Legislation Affecting California Redevelopment Agencies (Continued)

On December 29, 2011, the California Supreme Court upheld the Dissolution Act and struck down Assembly Bill 1x 27.

On June 27, 2012, as part of the fiscal year 2012-13 state budget package, the Legislature passed and the Governor signed AB 1484, which made technical and substantive amendments to the Dissolution Act based on experience to-date at the state and local level in implementing the Dissolution Act.

Under the Dissolution Act, each California redevelopment agency (each a “Dissolved RDA”) was dissolved as of February 1, 2012, and the sponsoring community that formed the Dissolved RDA, together with other designated entities, have initiated the process under the Dissolution Act to unwind the affairs of the Dissolved RDA. A Successor Agency was created for each Dissolved RDA which is the sponsoring community of the Dissolved RDA unless it elected not to serve as the Successor Agency. On February 1, 2012, as part of City Resolution No. 11-37, the City of Costa Mesa elected to serve as the Successor Agency of the Costa Mesa Redevelopment Agency.

The Dissolution Act also created oversight boards which monitor the activities of the successor agencies. The roles of the successor agencies and oversight boards is to administer the wind down of each Dissolved RDA which includes making payments due on enforceable obligations, disposing of the assets (other than housing assets) and remitting the unencumbered balances of the Dissolved RDAs to the County Auditor-Controller for distribution to the affected taxing entities.

The Dissolution Act and AB 1484 also establish roles for the County Auditor-Controller, the California Department of Finance (the “DOF”) and the California State Controller’s office in the dissolution process and the satisfaction of enforceable obligations of the Dissolved RDAs.

The County Auditor-Controller is charged with establishing a Redevelopment Property Tax Trust Fund (the “RPTTF”) for each Successor Agency and depositing into the RPTTF for each six-month period the amount of property taxes that would have been redevelopment property tax increment had the Dissolved RDA not been dissolved. The deposit in the RPTTF fund is to be used to pay to the Successor Agency the amounts due on the Successor Agency’s enforceable obligations for the upcoming six-month period. The Successor received \$1,513,071 in June 2012 which is reported as property tax in the accompanying financial statements.

See independent auditors’ report.

SUCCESSOR AGENCY TO THE COSTA MESA REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

5. COMMITMENTS AND CONTINGENCIES (CONTINUED):

Recent Changes in Legislation Affecting California Redevelopment Agencies (Continued)

The Successor Agency is required to prepare a recognized obligation payment schedule (the "ROPS") approved by the oversight board setting forth the amounts due for each enforceable obligation during each six month period. The ROPS is submitted to the DOF for approval. The County Auditor-Controller will make payments to the Successor Agency from the RPTTF fund based on the ROPS amount approved by the DOF. The ROPS is prepared in advance for the enforceable obligations due over the next six months.

The process of making RPTTF deposits to be used to pay enforceable obligations of the Dissolved RDA will continue until all enforceable obligations have been paid in full and all non-housing assets of the Dissolved RDA have been liquidated.

The State Controller of the State of California has been directed to review the propriety of any transfers of assets between Dissolved RDA 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.

Management believes, in consultation with legal counsel, that the obligations paid by the Successor Agency to the City of Costa Mesa are valid enforceable obligations under the requirements of the Dissolution Act and AB 1484. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

6. SUBSEQUENT EVENT:

AB 1484 required each Successor Agency to perform due diligence reviews to compute the amount of funds held by the Successor Agency which were not needed to pay for enforceable obligations and remit the amounts to the County of Orange. The due diligence reviews were performed separately for low income housing funds and for all other funds. In December 2012, the Successor Agency remitted \$2,393,420 to the County under the due diligence review for the Low Income Housing Fund.

The Successor Agency's due diligence review for All Other Funds did not show a balance due to the County of Orange. This amount is subject to change based on a review of the due diligence review which is expected by April 15, 2013.

See independent auditors' report.

INDEPENDENT AUDITORS' 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

Oversight Board of the Successor Agency
to the Costa Mesa Redevelopment Agency
Costa Mesa, California

We have audited the accompanying financial statements of the Successor Agency to the Costa Mesa Redevelopment Agency (the Successor Agency), as of and for the five-month period ended June 30, 2012, which collectively comprise the Successor Agency's basic financial statements and have issued our report thereon dated January 16, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Successor Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, 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.

This report is intended solely for the information and use of the management of the Successor Agency and the Oversight Board, and is not intended to be, and should not be, used by anyone other than these specified parties.

White Nelson Dick Evans LLP

Irvine, California
January 16, 2013