

**COSTA MESA
HOUSING AUTHORITY**

**(A COMPONENT UNIT OF
THE CITY OF COSTA MESA)**

FINANCIAL REPORT

**FOR THE PERIOD FROM
FEBRUARY 1, 2012 THROUGH JUNE 30, 2012**

COSTA MESA HOUSING AUTHORITY

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Costa Mesa Housing Authority
Costa Mesa, California

We have audited the accompanying financial statements of the governmental activities and the major fund of the Costa Mesa Housing Authority (the Authority), (a component unit of the City of Costa Mesa, California), as of and for the period from February 1, 2012 to June 30, 2012, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These component unit financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions 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 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 Authority'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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Authority as of June 30, 2012, and the respective changes in financial position thereof for the period then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 31, 2012 on our consideration of the Authority'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 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 Nick Evans LLP

Irvine, California
December 31, 2012

COSTA MESA HOUSING AUTHORITY

STATEMENT OF NET ASSETS

June 30, 2012

	<u>Governmental Activities</u>
ASSETS:	
Interest receivable	\$ 3,651
Loans receivable, long-term portion	5,183,195
Capital assets, nondepreciable	<u>1,697,665</u>
 TOTAL ASSETS	 <u>6,884,511</u>
LIABILITIES:	
Due to the City of Costa Mesa	<u>164,525</u>
 TOTAL LIABILITIES	 <u>164,525</u>
NET ASSETS:	
Invested in capital assets	1,697,665
Restricted for:	
Affordable housing	<u>5,022,321</u>
 TOTAL NET ASSETS	 <u><u>\$ 6,719,986</u></u>

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

COSTA MESA HOUSING AUTHORITY

STATEMENT OF ACTIVITIES

For the period from February 1, 2012 through June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental activities:					
Affordable housing	\$ 125,028	\$ 89,644	\$ -	\$ -	\$ (35,384)
Total governmental activities	<u>\$ 125,028</u>	<u>\$ 89,644</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(35,384)</u>
GENERAL REVENUES:					
					4,097
					<u>4,097</u>
CHANGE IN NET ASSETS, BEFORE EXTRAORDINARY ITEM					
					(31,287)
EXTRAORDINARY GAIN					
					<u>6,751,273</u>
CHANGE IN NET ASSETS					
					6,719,986
NET ASSETS AT BEGINNING OF PERIOD					
					<u>-</u>
NET ASSETS AT END OF YEAR					
					<u>\$ 6,719,986</u>

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

COSTA MESA HOUSING AUTHORITY

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2012

ASSETS	
Interest receivable	\$ 3,651
Loans receivable	<u>5,183,195</u>
TOTAL ASSETS	<u>\$ 5,186,846</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Deferred loans	\$ 5,183,195
Due to the City of Costa Mesa	<u>164,525</u>
TOTAL LIABILITIES	<u>5,347,720</u>
FUND DEFICIT:	
Unassigned	<u>(160,874)</u>
TOTAL FUND DEFICIT	<u>(160,874)</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 5,186,846</u>

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

COSTA MESA HOUSING AUTHORITY

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2012

Fund deficit - total governmental fund \$ (160,874)

Amounts reported for governmental activities in the Statement of Net Assets are different because:

When capital assets (property, plant, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the Statement of Net Assets includes those capital assets among the assets of the Authority as whole:

Land 1,697,665

Loans receivable are not available to pay for current period expenditures, and, therefore, a deferred loans offset is reported in the governmental funds. For the Statement of Net Assets, the loans are considered available to pay for expenses and are recognized as revenue.

5,183,195

Net assets of governmental activities

\$ 6,719,986

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

COSTA MESA HOUSING AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUND

For the period from February 1, 2012 through June 30, 2012

REVENUES:	
Investment income	\$ 4,097
Rental income	89,644
Other income (loan repayments)	<u>26,696</u>
TOTAL REVENUES	<u>120,437</u>
EXPENDITURES:	
Current:	
Affordable housing	<u>125,028</u>
TOTAL EXPENDITURES	<u>125,028</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(4,591)
EXTRAORDINARY LOSS	<u>(156,283)</u>
NET CHANGE IN FUND BALANCE	(160,874)
FUND BALANCE - BEGINNING OF PERIOD	<u>-</u>
FUND DEFICIT - END OF YEAR	<u><u>\$ (160,874)</u></u>

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

COSTA MESA HOUSING AUTHORITY

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES

For the period from February 1, 2012 through June 30, 2012

Net change in fund balance - total governmental fund \$ (160,874)

Amounts reported for governmental activities in the Statement of Activities are different because:

Loan repayments that do not provide current financial resources are not reported as revenue in the governmental funds. The collections on these loans are reported as revenue when received. For the government-wide financial statements, the loan repayments reduce the loan receivable asset balance. (26,696)

Difference in extraordinary gain (loss) due to measurement focus between fund financial statements and government-wide financial statements:

Capital assets recorded in the government-wide financial statements 1,697,665
Loan receivable recorded in the government-wide financial statements 5,209,891

Change in net assets of governmental activities \$ 6,719,986

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

COSTA MESA HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

For the period from February 1, 2012 through June 30, 2012

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Costa Mesa Housing Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles. The following is a summary of the Authority's significant accounting policies:

A. Description of the Reporting Entity:

The Costa Mesa Housing Authority was activated on January 17, 2012, pursuant to City Council Resolution No. 12-3. The primary purpose of the Authority is to promote affordable housing for families of low and moderate income within the City of Costa Mesa. The Authority is an integral part of the reporting entity of the City of Costa Mesa. The fund of the Authority has been included within the scope of the basic financial statements of the City because the City Council exercises oversight responsibility over the operations of the Authority.

Only the funds of the Authority are included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City of Costa Mesa, California.

B. Fund Accounting:

The basic accounting and reporting entity is a "fund". A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, recording resources, related liabilities, obligations, reserves and equities segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The accounting records of the Authority are organized on the basis of funds. Currently, the Authority only utilizes one fund.

See independent auditors' report.

COSTA MESA HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

For the period from February 1, 2012 through June 30, 2012

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

C. Basis of Accounting and Measurement Focus:

The *basic financial statements* of the Authority are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

Government-wide financial statements display information about the Authority as a whole. All activities of the Authority are classified as governmental activities. Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized assets in the government-wide financial statements, rather than reported as an expenditure.

Fund Financial Statements

The underlying accounting system of the Authority is organized and operated on the basis of one separate fund, of which is considered to be a separate accounting entity. The operations of the fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in the individual fund based upon the purposes for which it is to be spent and the means by which spending activities are controlled.

See independent auditors' report.

COSTA MESA HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

For the period from February 1, 2012 through June 30, 2012

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

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

Fund Financial Statements (Continued)

Fund financial statements for the Authority's governmental funds are presented after the government-wide financial statements. These statements display information about the governmental major fund individually.

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Authority generally considers revenues collected within sixty days after the fiscal year-end to be available which includes loan repayments and rental income.

Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Imposed non-exchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary non-exchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Noncurrent portions of long-term receivables due to governmental funds are reported on the balance sheet in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources", since they do not represent net current assets.

See independent auditors' report.

COSTA MESA HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

For the period from February 1, 2012 through June 30, 2012

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

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

Governmental Funds (Continued)

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term indebtedness are recorded as *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

D. Cash and Investments:

Investments are reported in the accompanying financial statements at fair value. Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

E. Capital Assets:

Capital assets are recorded at historical cost at the time of purchase. Assets acquired from gifts of contributions are recorded at fair market value on the date received. Generally, capital asset purchases in excess of \$5,000 are capitalized if they have an expected useful life of 2 years or more. Capital assets used in operations are generally depreciated in the government-wide financial statements. The Authority's only capital asset consists of land that was contributed by the former Costa Mesa Redevelopment Agency and recorded at cost. Land is considered to be a non-depreciable asset.

F. Net Assets:

Net assets of the Authority can be classified into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

See independent auditors' report.

COSTA MESA HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

For the period from February 1, 2012 through June 30, 2012

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

F. Net Assets (Continued):

- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." The Authority has no unrestricted net assets.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

G. Fund Equity:

Fund balance classifications are defined as follows:

Nonspendable - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted - This classification includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers or through enabling legislation.

Committed - This classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

Assigned - This classification includes amounts to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Unassigned - The classifications include the residual balance for the government's general fund and includes all spendable amounts not contained in other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

See independent auditors' report.

COSTA MESA HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

For the period from February 1, 2012 through June 30, 2012

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

G. Fund Equity (Continued):

The Authority reports its fund balance (deficit) as unassigned.

It is the Authority's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the Board.

H. Use of Estimates:

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

I. Subsequent Events:

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through December 31, 2012, the date the financial statements were available to be issued.

2. CASH AND INVESTMENTS:

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

The Authority does not have a separate bank account; however, the Authority's cash and investments are maintained in an investment pool managed by the City of Costa Mesa. The Authority 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 Authority has not adopted an investment policy separate from that of the City of Costa Mesa. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority'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 Authority had a deficit cash balance of \$8,242 which was reclassified to be due to the City of Costa Mesa on the financial statements.

See independent auditors' report.

COSTA MESA HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

For the period from February 1, 2012 through June 30, 2012

2. CASH AND INVESTMENTS (CONTINUED):

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.

Information about the Authority's exposure to interest rate risk as a result of its equity in the cash and investment pool of the City of Costa Mesa 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. 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 each investment type are provided by disclosures in the notes to the basic financial statements of the City of Costa Mesa.

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.

Custodial Credit Risk

The Authority 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 Authority does not have direct investments in securities subject to custodial credit risk disclosure (as defined by GASB Statement No. 40).

See independent auditors' report.

COSTA MESA HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

For the period from February 1, 2012 through June 30, 2012

3. LOANS RECEIVABLE:

	<u>Amount</u>
The first-time homebuyer program provides loans to first-time homebuyers for purchase of a home in the City of Costa Mesa. For loans made before 2007, loan repayments were deferred for 10 years and for loans made in 2007 and after, repayments of the loan are deferred for 30 years.	\$ 3,757,057
The single-family rehabilitation loan program provides loans to homeowners to make home improvements and repair code violations. There were 3 loans made under this program in 2009. The loans do not pay interest and are not due until the property is sold.	142,500
Loan receivable to a developer to construct an 8-unit multi-family rental project. The rental property is for low-income residents. The loan is due in 2050 and no interest is to be paid on the loan. The Authority is to receive residual receipts if the project has net profits on an annual basis, until 2050.	564,699
Loan receivable to a developer to construct a 36-unit senior-rental project. The rental property is for low-income residents. The loan repayment is deferred until 2062 and no interest is to be paid on the loan. The Authority is to receive residual receipts if the project has net profits on an annual basis, until 2062.	504,161
A loan made to a developer for a 96-unit SRO joint project with the Orange County Housing Authority. The loan was made in 2003. Interest payments of 3 percent are due until 2015. Principal and interest payments start after 2015.	612,500
The rental rehabilitation program is for deferred loans to owners of multi-family properties to make improvements and repair code violations. There are 3 remaining loans under this program and repayment is deferred until sale, transfer or default. Interest of 4 percent is due on these loans.	121,745
There are 5 loans made to underwrite land to a developer to build 5 single-family homes to be maintained in perpetuity for affordable housing. The Authority maintains enforceable covenants on the property. The loans are to be repaid only upon default of affordable housing covenants.	681,283

See independent auditors' report.

COSTA MESA HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

For the period from February 1, 2012 through June 30, 2012

3. LOANS RECEIVABLE (CONTINUED):

	<u>Amount</u>
There are two loans made to eligible homebuyers under the Federal Neighborhood Stabilization Program (NSP) administered by the State of California. The NSP program consists of acquisition, rehabilitation, and subsequent sale of foreclosed homes. Borrowers met income and affordability qualifications set by the HUD HOME Program and California Community Redevelopment law.	\$ <u>181,250</u>
Subtotal	6,565,195
Allowance for doubtful accounts	<u>(1,382,000)</u>
Total	<u>\$ 5,183,195</u>

4. EXTRAORDINARY GAIN:

On February 1, 2012, the Costa Mesa Housing Authority received the housing assets of the former Redevelopment Agency of the City of Costa Mesa which was dissolved as a result of Assembly Bill 1x26, which was passed by the California Legislature on June 27, 2011. The Low and Moderate Income Housing Fund of the former redevelopment agency transferred certain assets and liabilities to the Housing Authority.

Because of the different measurement focus of the governmental funds (*current financial resources measurement focus*) and the measurement focus of the government-wide financial statements (*economic resources measurement focus*), the extraordinary loss (gain) recognized in the governmental funds was not the same amount as the extraordinary gain (loss) that was recognized in the government-wide financial statements.

The difference between the extraordinary loss recognized in the fund financial statements and the extraordinary gain recognized in the government-wide financial statements is reconciled as follows:

Total extraordinary loss reported in governmental funds	\$ (156,283)
Capital assets recorded in the government-wide financial statements	1,697,665
Loan receivable recorded in the government-wide financial statements	<u>5,209,891</u>
Extraordinary gain reported in the government-wide financial statements of the Authority	<u>\$ 6,751,273</u>

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

The Board of Directors
Costa Mesa Housing Authority
Costa Mesa, California

We have audited the accompanying financial statements of the Costa Mesa Housing Authority (the Authority), as of and for the five-month period ended June 30, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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 Authority'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, Board of Directors and others within the Authority, 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
December 31, 2012