# SUCCESSOR AGENCY TO THE ARTESIA REDEVELOPMENT AGENCY (A PRIVATE-PURPOSE TRUST FUND OF THE CITY OF ARTESIA, 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 Artesia Redevelopment Agency**
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**June 30, 2012**

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

# INDEPENDENT AUDITORS' REPORT

Oversight Board of the Successor Agency
to the Artesia Redevelopment Agency
Artesia, California

We have audited the statement of fiduciary net assets of the Successor Agency to the Artesia Redevelopment Agency (the Successor Agency) as of June 30, 2012 and 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 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 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 Artesia, 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 respective 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.



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*Offices located in Orange and San Diego Counties*

In accordance with Government Auditing Standards, we have also issued our report dated March 19, 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
March 19, 2013

# BASIC FINANCIAL STATEMENTS

# Successor Agency to the Artesia Redevelopment Agency
## Statement of Fiduciary Net Assets
## June 30, 2012

| | |
|---|---|
| **ASSETS** | |
| Cash and investments | $ 1,771,921 |
| Receivables: | |
| Interest | 20,849 |
| Deferred charges | 475,062 |
| Restricted assets: | |
| Cash and investments, bond proceeds | 6,200,758 |
| Cash and investments with fiscal agents | 1,144,582 |
| Capital assets: | |
| Nondepreciable | 2,626,744 |
| Depreciable, net of accumulated depreciation | 2,814,314 |
| **Total Assets** | 15,054,230 |
| **LIABILITIES** | |
| Accounts payable | 130,677 |
| Accrued liabilities | 3,609 |
| Accrued interest | 61,626 |
| Long-term liabilities: | |
| Due within one year | 160,000 |
| Due in more than one year | 15,287,093 |
| **Total liabilities** | 15,643,005 |
| **NET ASSETS (DEFICIT)** | |
| Restricted for private purpose | (588,775) |
| **Total net deficit for private purpose** | $ (588,775) |

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

# Successor Agency to the Artesia Redevelopment Agency
## Statement of Changes in Fiduciary Net Assets
## For the five month period from February 1, 2012 to June 30, 2012

| | |
|---|---|
| **ADDITIONS:** | |
| Taxes | $ 569,249 |
| Use of money and property | 55,115 |
| **Total additions** | 624,364 |
| **DEDUCTIONS:** | |
| Community development | 142,469 |
| Transfer of rental income to Artesia Housing Authority | 62,887 |
| Interest and fiscal charges | 385,949 |
| **Total deductions** | 591,305 |
| **Change in net assets, before extraordinary item** | 33,059 |
| EXTRAORDINARY LOSS | (621,834) |
| **Change in net assets** | (588,775) |
| **NET ASSETS:** | |
| Beginning of period, February 1, 2012 | - |
| Net deficit for private purpose, June 30, 2012 | $ (588,775) |

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

# NOTES TO BASIC FINANCIAL STATEMENTS

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *A. Description of Reporting Entity*

The Artesia Redevelopment Agency (the "Former RDA") was established on September 11, 1995, by the City Council with the adoption of Ordinance No. 516, pursuant to the State of California Health and Safety Code, Section 33000. The purpose of the Former RDA was to prepare and execute plans for the improvement, rehabilitation and redevelopment of blighted areas within the City of Artesia. On December 29, 2011, the California Supreme Court upheld Assembly Bill X1 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 Artesia 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 is reported as a private purpose trust fund. (See Note 5 for additional information).

### *B. Basis of Accounting and Measurement Focus*

Fiduciary Fund Financial Statements

Fiduciary Fund Financial Statements include a Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. The Successor Agency's fiduciary fund represents a private purpose trust fund. The private purpose trust fund is reported 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 are reported in the financial statements. 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.

### *C. Assets, Liabilities and Net Assets or Equity*

Investments

Investments for the Successor Agency are reported at fair value (quoted market price or best available estimate thereof).

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

### *C. Assets, Liabilities and Net Assets or Equity, Continued*

Capital Assets

Capital assets include property, improvements and infrastructure assets (e.g., parking structures, sidewalks and similar items). Capital assets are defined by the Successor Agency as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. Purchased or constructed capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| | |
|---|---|
| Improvements other than buildings | 15 years |
| Infrastructure | 25 years |

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of fiduciary net assets. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Property Tax Calendar

The County of Los Angeles collects property taxes for the Successor Agency. Tax liens attach annually on the first day in January preceding the fiscal year for which the taxes are levied. The tax levy covers the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1. All taxes are delinquent, if unpaid, on December 10 and April 10, respectively. Unsecured personal property taxes become due on the first of March each year and are delinquent on August 31.

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

### *D. Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

## 2. CASH AND INVESTMENTS

The Successor Agency's cash and investments are presented on the accompanying statement of fiduciary net assets as follows:

| | |
|---|---|
| Cash and investments held by City of Artesia | $ 1,771,921 |
| Restricted bond proceeds held by City of Artesia | 6,200,758 |
| Restricted cash and investments with fiscal agents | 1,144,582 |
| Total cash and investments | $ 9,117,261 |

Cash and investments at June 30, 2012 consisted of the following:

| | |
|---|---|
| Deposits | $ 7,972,679 |
| Cash and investments held by fiscal agent | 1,144,582 |
| Total cash and investments | $ 9,117,261 |

**Equity in Cash and Investments Pool of the City of Artesia**

A portion of the Successor Agency's cash and investments are maintained in an investment pool managed by the City of Artesia. 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 Artesia. The Successor Agency has not adopted an investment policy separate from that of the City of Artesia. 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 $7,972,679 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 Artesia are not categorized.

## 2. CASH AND INVESTMENTS, Continued

### Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

| Authorized Investment Type | Maximum Maturity | Maximum Percentage Allowed | Maximum Investment in One Issuer |
|---|---|---|---|
| United States Treasury Obligations | None | None | None |
| United States Government Sponsored Agency Securities | None | None | None |
| Banker's Acceptances | 360 days | None | None |
| Commercial Paper | 270 days | None | None |
| Money Market Mutual Funds | N/A | None | None |
| Investment Contracts | None | None | None |
| Local Agency Investment Fund (LAIF) | None | None | None |
| Certificates of Deposit | None | None | None |

N/A - Not Applicable

### 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, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City of Artesia 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 and liquidity needed for operations. Information about the sensitivity of the fair values of the Successor Agency's cash and investments held by fiscal agent to market interest rate fluctuations is provided by the following table:

| | Remaining Maturity (in Years) | | |
|---|---|---|---|
| Investment Type | 1 Year or Less | 1 to 2 Years | Total |
| Held by Fiscal Agent: | | | |
| Certificates of deposit | $ - | $ 1,107,170 | $ 1,107,170 |
| Money market mutual funds | 37,412 | - | 37,412 |
| | $ 37,412 | $ 1,107,170 | $ 1,144,582 |

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 Artesia in the amount of $7,972,679 is provided by disclosure in the notes to the basic financial statements of the City of Artesia that shows the distribution of the City's investments by maturity.

## 2. CASH AND INVESTMENTS, Continued

### 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 Artesia's investment policy and the actual ratings as of year-end for the investment in the City of Artesia is provided by disclosures in the notes to the basic financial statements of the City of Artesia. Presented below for the cash and investments held by fiscal agent is the minimum rating required by (where applicable) the California Government Code, or debt agreements, and the actual rating, by Standards and Poors, as of year-end for each investment type:

| Investment Type | Total as of June 30, 2012 | Minimum Legal Rating | AAA | Not Rated |
|---|---|---|---|---|
| Held by Fiscal Agent: | | | | |
| Certificates of deposit | $ 1,107,170 | N/A | $ - | $ 1,107,170 |
| Money market mutual funds | 37,412 | N/A | 37,412 | - |
| | $ 1,144,582 | | $ 37,412 | $ 1,107,170 |

### Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City of Artesia's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Successor Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2012, the Successor Agency deposits (bank balances) were insured by the Federal Deposit Insurance Corporation or collateralized as required under California Law.

### 3. CAPITAL ASSETS

Capital asset activity for the period from February 1, 2012 through June 30, 2012 was as follows:

| | Transfers (a) Feb. 1, 2012 | Additions | Deletions | Balance at June 30, 2012 |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 2,033,445 | $ - | $ - | $ 2,033,445 |
| Construction in progress | 2,694,690 | 693,074 | (2,794,465) | 593,299 |
| Total capital assets, not being depreciated | 4,728,135 | 693,074 | (2,794,465) | 2,626,744 |
| Capital assets, being depreciated: | | | | |
| Improvements other than buildings | 27,274 | - | - | 27,274 |
| Infrastructure | - | 2,794,465 | - | 2,794,465 |
| Total capital assets, being depreciated | 27,274 | 2,794,465 | - | 2,821,739 |
| Less accumulated depreciation for: | | | | |
| Improvements other than buildings | (6,667) | (758) | - | (7,425) |
| Infrastructure | - | - | - | - |
| Total accumulated depreciation | (6,667) | (758) | - | (7,425) |
| Total capital assets, being depreciated, net | 20,607 | 2,793,707 | - | 2,814,314 |
| Total capital assets, net | $ 4,748,742 | $ 3,486,781 | $ (2,794,465) | $ 5,441,058 |

(a) The transfers relate to the transfer of capital assets from the Former RDA. The Successor Agency has assumed these assets as a result of the dissolution of the Former RDA. See Note 5 for additional information.

## 4. LONG-TERM LIABILITIES

Long-term liabilities activity for the period from February 1, 2012 through June 30, 2012 was as follows:

| | Transfers (a) Feb. 1, 2012 | Additions | Deletions | Balance at June 30, 2012 | Due Within One Year |
|---|---|---|---|---|---|
| 2007 Tax Allocation Bonds | $ 12,435,000 | $ - | $ (130,000) | $ 12,305,000 | $ 135,000 |
| Less: Issuance discounts | (251,303) | - | 3,396 | (247,907) | - |
| 2009 Housing Tax Allocation Bonds | 3,410,000 | - | (20,000) | 3,390,000 | 25,000 |
| Total long-term debt | $ 15,593,697 | $ - | $ (146,604) | $ 15,447,093 | $ 160,000 |

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

*2007 Tax Allocation Bonds*

On December 5, 2007, the Former RDA issued $12,920,000 in Tax Allocation Bonds for the purpose of financing certain redevelopment activities benefiting the Former RDA Project Area in the City of Artesia. The bonds mature annually on June 1, from 2008 to 2042, in amounts ranging from $115,000 to $600,000. The balance outstanding at June 30, 2012 was $12,305,000.

Original bond issuance discount on the bonds was $285,264, and the unamortized balance of the discount as of June 30, 2012 was $247,907.

The 2007 Tax Allocation Bonds are payable solely from taxes received by the Successor Agency on behalf of the Former RDA. The total principal and interest remaining to be paid on the bonds was $25,477,743.

The annual requirements to amortize the 2007 Tax Allocation Bonds outstanding at June 30, 2012, are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2013 | $ 135,000 | $ 670,625 | $ 805,625 |
| 2014 | 175,000 | 664,685 | 839,685 |
| 2015 | 195,000 | 656,390 | 851,390 |
| 2016 | 205,000 | 646,925 | 851,925 |
| 2017 | 215,000 | 636,790 | 851,790 |
| 2018 - 2022 | 1,250,000 | 3,007,685 | 4,257,685 |
| 2023 - 2027 | 1,615,000 | 2,637,113 | 4,252,113 |
| 2028 - 2032 | 2,115,000 | 2,140,950 | 4,255,950 |
| 2033 - 2037 | 2,770,000 | 1,485,430 | 4,255,430 |
| 2038 - 2042 | 3,630,000 | 626,150 | 4,256,150 |
| Totals | $ 12,305,000 | $ 13,172,743 | $ 25,477,743 |

## 4. LONG-TERM LIABILITIES, Continued

*2009 Tax Allocation Bonds*

On June 30, 2009, the Former RDA issued $3,470,000 in Housing Tax Allocation Bonds for the purpose of financing low and moderate income housing projects of the Former RDA. The bonds mature annually on June 1, from 2011 to 2046, in amounts ranging from $40,000 to $265,000. Interest is payable semiannually on June 1 and December 1, with a yield of 7.70%. The balance outstanding at June 30, 2012 was $3,390,000.

The 2009 Tax Allocation Bonds are payable solely from the taxes received by the Successor Agency on behalf of the Former RDA. The total principal and interest remaining to be paid on the bonds is $9,639,705.

The annual requirements to amortize the 2009 Housing Tax Allocation Bonds outstanding at June 30, 2012, are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2013 | $ 25,000 | $ 261,030 | $ 286,030 |
| 2014 | 25,000 | 259,105 | 284,105 |
| 2015 | 25,000 | 257,180 | 282,180 |
| 2016 | 30,000 | 255,255 | 285,255 |
| 2017 | 30,000 | 252,945 | 282,945 |
| 2018 - 2022 | 195,000 | 1,225,070 | 1,420,070 |
| 2023 - 2027 | 280,000 | 1,138,060 | 1,418,060 |
| 2028 - 2032 | 405,000 | 1,012,550 | 1,417,550 |
| 2033 - 2037 | 585,000 | 830,830 | 1,415,830 |
| 2038 - 2042 | 845,000 | 568,645 | 1,413,645 |
| 2043 - 2046 | 945,000 | 189,035 | 1,134,035 |
| Totals | $ 3,390,000 | $ 6,249,705 | $ 9,639,705 |

*Rebatable Arbitrage*

The Successor Agency is obligated to calculate arbitrage rebates on all tax allocation bonds. At June 30, 2012, there was no rebatable arbitrage liability.

## 5. COMMITMENT AND CONTINEGENCIES

**Recent Changes in Legislation Affecting California Redevelopment Agencies**

On June 29, 2011, Assembly Bills x1 26 (the "Dissolution Act") and x1 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 x1 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 x1 27 on the grounds that these bills violate the California Constitution.

On December 29, 2011, the California Supreme Court upheld the Dissolution Act and struck down Assembly Bill x1 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 "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 August 29, 2011, the City of Artesia elected to serve as the Successor Agency to the Artesia 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 allowed the sponsoring community that formed the Dissolved RDA to elect to assume the housing functions and take over the certain housing assets of the Dissolved RDA. If the sponsoring community does not elect to become the Successor Housing Agency and assume the Dissolved RDA's housing functions, such housing functions and all related housing assets will be transferred to the local housing authority in the jurisdiction. AB 1484 modified and provided some clarifications on the treatment of housing assets under the Dissolution Act. The Housing Authority elected on February 13, 2012 to serve as the Housing Successor Agency.

## 5. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES, Continued

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 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 Successor Agency received $569,249 from the County Auditor-Controller on June 1, 2012 for the ROPS for the period July 1, 2012 to December 31, 2012.

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.

On September 19, 2011, the Board of Directors of the Redevelopment Agency approved the transfer of low and moderate income housing residential real estate to the Housing Authority. The cost basis of the land transferred amounted to $267,340.

On June 30, 2012, the Successor Agency transferred low and moderate income housing rental income to the Housing Authority in the amount of $62,887. This rental income was generated by the residential real estate held by the Housing Authority.

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 Los Angeles. The due diligence reviews were performed separately for low income housing funds and for all other funds. In December 2012, the Successor Agency remitted $212,307 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 showed no balance due to the County of Los Angeles. The California Department of Finance has performed a review and changed the amount due to the County of Los Angeles to $324,934. In April 2013, the Successor Agency remitted $324,934 to the County under the due diligence review for All Other Funds.

## 5. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES, Continued

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 of the Dissolved RDA due to the City of Artesia are valid enforceable obligations payable by the Successor Agency under the requirements of the Dissolution Act and AB 1484. The City of Artesia'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 of Artesia.

## 6. SUBSEQUENT EVENTS

Management has evaluated for other subsequent events to determine if events or transactions occurring through March 19, 2013, the date the consolidated financial statements were available to be issued, require adjustment to, or disclosure in the basic financial statements.

# 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 Artesia Redevelopment Agency
Artesia, California

We have audited the financial statements of the Successor Agency to the Artesia 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 March 19, 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.



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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 Diehl Evans LLP

Irvine, California
March 19, 2013