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

YEAR ENDED JUNE 30, 2013

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the basic financial statements of the Successor Agency to the Artesia Redevelopment Agency (the Successor Agency) as of and for the year ended June 30, 2013, and the related notes to the basic financial statements, which collectively comprise the Successor Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Successor Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Successor Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Offices located in Orange and San Diego Counties

Opinion

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

Emphasis of Matters

As discussed in Note 1C to the basic financial statements, the Successor Agency incorporated deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure of net position due to the adoption of Governmental Accounting Standards Board's Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"*. The adoption of this standard also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Our opinion is not modified with respect to this matter.

As discussed in Notes 1C and 6 to the basic financial statements, the Successor Agency has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal year 2012-2013 due to the early adoption of Governmental Accounting Standards Board's Statement No. 65, *"Items Previously Reported as Assets and Liabilities"*. The adoption of this standard required retrospective application resulting in a $475,602 reduction of previously reported net position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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.

Other Information

As discussed in Note 1, the financial statements present only the Successor Agency and do not purport to, and do not fairly present, the financial position of the City of Artesia, California as of June 30, 2013 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2014, on our consideration of the Successor Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Successor Agency's internal control over financial reporting and compliance.

White Nelson Diehl Evans LLP

Irvine, California
February 19, 2014, except for Notes 1 and 5 that were revised to correct dates listed for certain events and to correct wording related to the dissolution of the Former RDA and the current Successor Agency practices for which the date is May 27, 2014

BASIC FINANCIAL STATEMENTS

Successor Agency to the Artesia Redevelopment Agency
Statement of Fiduciary Net Position
June 30, 2013

ASSETS :	
Cash and investments	$ 1,159,405
Receivables:	
Interest	20,732
Restricted assets:	
Cash and investments, bond proceeds	6,085,347
Cash and investments with fiscal agents	1,140,588
Capital assets:	
Nondepreciable	2,480,714
Depreciable, net of accumulated depreciation	2,973,187
Total Assets	13,859,973
LIABILITIES:	
Accounts payable	99,258
Accrued interest	76,982
Long-term liabilities:	
Due within one year	200,000
Due in more than one year	15,095,244
Total liabilities	15,471,484
NET POSITION:	
Restricted for private purpose	(1,611,511)
Total net position	$ (1,611,511)

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

Successor Agency to the Artesia Redevelopment Agency
Statement of Changes in Fiduciary Net Position
For the year ended June 30, 2013

ADDITIONS:		
Taxes	$	1,259,925
Use of money and property		55,544
Total additions		1,315,469
DEDUCTIONS:		
Community development		119,797
Administrative expenses		250,000
Payment to county		538,184
Interest and fiscal charges		955,162
Total deductions		1,863,143
Change in net position		(547,674)
NET POSITION:		
Beginning of year, as restated		(1,063,837)
End of year	$	(1,611,511)

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 the Artesia Redevelopment Project Area. 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, the Former RDA was dissolved and the Successor Agency was constituted. Pursuant to the Dissolution Act, the City Council of the City of Artesia adopted a resolution electing for the City to serve as the Successor Agency. For accounting reporting purposes only, the Successor Agency is considered a private purpose trust fund of the City. However, as a matter of law, the Dissolution Act specifically provides that the Successor Agency is a separate entity from the City. The liabilities of the Former RDA (and the Successor Agency) do not transfer to the City and the assets of the Successor Agency do not become the assets of the City.

The assets and liabilities of the Former RDA were transferred to the Successor Agency on February 1, 2012. Subsequently, housing assets (as defined by the Dissolution Act), if any and to the extent approved by the DOF, were transferred to the Artesia Housing Authority, as the entity that assumed the housing function of the Former RDA. The Successor Agency is responsible for the winding down of 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).

The financial statements present only the Successor Agency and do not purport to, and do not fairly present, the financial position of the City of Artesia, California as of June 30, 2013 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America

B. Basis of Accounting and Measurement Focus

<u>Fiduciary Fund Financial Statements</u>

Fiduciary Fund Financial Statements include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. 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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. New Accounting Pronouncements:

Implemented

In fiscal year 2012-2013, the Successor Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, *"Elements of Financial Statements"* into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new Statement of Net Position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

In fiscal year 2012-2013, the Successor Agency early implemented GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". This statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Due to the early implementation of this statement, bond issue costs, which should be recognized as an expense in the period incurred, were eliminated. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this standard decreased the net position at July l, 2012 by $475,602.

Pending Accounting Standards

GASB has issued the following statements which may impact the Successor Agency's financial reporting requirements in the future:

- GASB 66 - "*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62*", effective for periods beginning after December 15, 2012.
- GASB 67 - "*Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*", effective for the fiscal years beginning after June 15, 2013.
- GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", effective for the fiscal years beginning after June 15, 2014.
- GASB 69 - "*Government Combinations and Disposals of Government Operations*", effective for periods beginning after December 15, 2013.
- GASB 70 - "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*", effective for the periods beginning after June 15, 2013.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Assets, Liabilities and Net Position or Equity

Investments

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

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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

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. Assets, Liabilities and Net Position or Equity, Continued

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Successor Agency does not have deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Successor Agency does not have deferred inflows of resources.

E. 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 position as follows:

Cash and investments held by City of Artesia	$ 1,159,405
Restricted bond proceeds held by City of Artesia	6,085,347
Restricted cash and investments with fiscal agents	1,140,588
Total cash and investments	$ 8,385,340

Cash and investments at June 30, 2013 consisted of the following:

Equity in cash and investments pooled with the City of Artesia	$ 7,244,752
Cash and investments held by fiscal agent	1,140,588
Total cash and investments	$ 8,385,340

2. CASH AND INVESTMENTS, Continued

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, 2013 the City was holding $7,244,752 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.

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

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, 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	33,418	-	33,418
	$ 33,418	$ 1,107,170	$ 1,140,588

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 $7,244,752 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.

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, 2013	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	33,418	A	33,418	-
	$ 1,140,588		$ 33,418	$ 1,107,170

2. CASH AND INVESTMENTS, Continued

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, 2013, 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 year ended June 30, 2013 was as follows:

	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013
Capital assets, not being depreciated:				
Land	$ 2,033,445	$ -	$ -	$ 2,033,445
Construction in progress	593,299	126,441	(272,471)	447,269
Total capital assets, not being depreciated	2,626,744	126,441	(272,471)	2,480,714
Capital assets, being depreciated:				
Improvements other than buildings	27,274	-	-	27,274
Infrastructure	2,794,465	272,469	-	3,066,934
Total capital assets, being depreciated	2,821,739	272,469	-	3,094,208
Less accumulated depreciation for:				
Improvements other than buildings	(7,425)	(1,818)	-	(9,243)
Infrastructure	-	(111,778)	-	(111,778)
Total accumulated depreciation	(7,425)	(113,596)	-	(121,021)
Total capital assets, being depreciated, net	2,814,314	158,873	-	2,973,187
Total capital assets, net	$ 5,441,058	$ 285,314	$ (272,471)	$ 5,453,901

4. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2013 was as follows:

	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013	Due Within One Year
2007 Tax Allocation Bonds	$ 12,305,000	$ -	$ (135,000)	$ 12,170,000	$ 175,000
Less: Issuance discounts	(247,907)	-	8,151	(239,756)	-
2009 Housing Tax Allocation Bonds	3,390,000	-	(25,000)	3,365,000	25,000
Total long-term debt	$ 15,447,093	$ -	$ (151,849)	$ 15,295,244	$ 200,000

2007 Tax Allocation Bonds

On December 5, 2007, the Agency issued $12,920,000 in Tax Allocation Bonds for the purpose of financing certain redevelopment activities benefiting the Artesia Redevelopment Project Area in the City. The bonds mature annually on June 1, from 2008 to 2042, in amounts ranging from $115,000 to $600,000. $4,821,725 is reserved to finance redevelopment projects that meet conditions as set forth in the Bond Indenture. The principal balance outstanding at June 30, 2013 was $12,170,000.

Original bond issuance discount on the bonds was $285,264, and the unamortized balance of the discount as of June 30, 2013 was $239,756.

The 2007 Tax Allocation Bonds are payable solely from taxes received by the Successor Agency on behalf of the former Redevelopment Agency. The total principal and interest remaining to be paid on the bonds was $24,672,117. Principal and interest paid for the current year is $805,625.

The annual requirements to amortize the 2007 Tax Allocation Bonds outstanding at June 30, 2013, are as follows:

Year Ending June 30,	Principal	Interest	Total
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	225,000	626,020	851,020
2019 - 2023	1,315,000	2,942,416	4,257,416
2024 - 2028	1,705,000	2,549,006	4,254,006
2029 - 2033	2,230,000	2,023,565	4,253,565
2034 - 2038	2,925,000	1,331,670	4,256,670
2039 - 2042	2,980,000	424,650	3,404,650
Totals	$ 12,170,000	$ 12,502,117	$ 24,672,117

4. LONG-TERM LIABILITIES, Continued

2009 Tax Allocation Bonds

On June 30, 2009, the Agency issued $3,470,000 in Housing Tax Allocation Bonds for the purpose of financing low and moderate income housing projects of the Agency. The bonds mature annually on June 1, from 2012 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, 2013 was $3,365,000.

The 2009 Tax Allocation Bonds are payable solely from the taxes received by the Successor Agency on behalf of the former Redevelopment Agency. The total principal and interest remaining to be paid on the bonds is $9,353,675. Principal and interest paid for the current year was $286,030.

The annual requirements to amortize the 2009 Housing Tax Allocation Bonds outstanding at June 30, 2013, are as follows:

Year Ending June 30,	Principal	Interest	Total
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	35,000	250,635	285,635
2019 - 2023	210,000	1,210,055	1,420,055
2024 - 2028	300,000	1,116,500	1,416,500
2029 - 2033	435,000	981,365	1,416,365
2034 - 2038	630,000	785,785	1,415,785
2039 - 2033	910,000	503,580	1,413,580
2044 - 2046	735,000	116,270	851,270
Totals	$ 3,365,000	$ 5,988,675	$ 9,353,675

Rebatable Arbitrage

The Successor Agency is obligated to calculate arbitrage rebates on all tax allocation bonds. At June 30, 2013, there was no rebatable arbitrage liability.

5. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES

On June 28, 2011, Assembly Bills x1 26 (the "Dissolution Act") was enacted as part of the fiscal year 2011-12 state budget package which dissolved Redevelopment.

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 a successor agency was constituted with respect to each Dissolved RDA to wind down the affairs of such Dissolved RDA. Pursuant to the Dissolution Act, the local agency (e.g., the city or the county) that formed the Dissolved RDA became the successor agency, unless the local agency had elected not to serve as the successor agency. On August 29, 2011, the City Council of the City of Artesia adopted Resolution No. 11-2299 electing for the City to serve as the Successor Agency. The Dissolution Act specifies that the City and the Successor Agency do not merge as the result of this election. The City and Successor Agency are separate legal entities. The liabilities of the Former RDA (and the Successor Agency) do not transfer to the City and the assets of the Successor Agency do not become the assets of the City.

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. On February 13, 2012, the City Council of the City of Artesia, adopted Resolution No. 12-2316 electing for the City not to serve as the Housing Successor and determined that the housing functions of the Former RDA shall be transferred to the Artesia Housing Authority pursuant to the Dissolution Act.

The housing assets, obligations, and activities of the Dissolved RDA have been transferred and are reported in the Housing Authority Special Revenue Fund in the financial statements of the City. All other assets, obligations, and activities of the Dissolved RDA have been transferred and are reported in the accompanying financial statements.

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.

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

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. Moneys in the RPTTF, after payment of certain administrative costs of the County, are disbursed twice a year (January 2 and June 1, respectively) to pay: (i) the taxing entities for pass-through payments, (ii) the Successor Agency for payments of enforceable obligations on the Successor Agency's Recognized Obligation Payment Schedule ("ROPS") as approved by the DOF (discussed below), (iii) the Successor Agency for its administrative cost allowance, as defined and up to the amount allowed by the Dissolution Act, and (iv) the taxing entities to the extent that there is any residual amount remaining in the RPTTF after application based on the foregoing.

The Successor Agency is required to prepare a ROPS approved by the oversight board setting forth the amounts due for each enforceable obligation during each six month period (commencing each January 1 and July 1). 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.

As part of the dissolution process AB1484 required the Successor Agency to have due diligence reviews of both the low and moderate income housing funds and all other funds to be completed by October 15, 2012 and January 15, 2013 to compute the funds (cash) which were not needed by the Successor Agency to be retained to pay for existing enforceable obligations. These funds were to be remitted to the CAC after the DOF completed its review of the due diligence reviews. The former redevelopment agency (Successor Agency) made payments totaling $538,184 to the CAC as a result of the due diligence reviews.

The DOF issued a Finding of Completion on April 18, 2013 in which DOF concurred that the Successor Agency has made full payments of any payments required as a result of the due diligence reviews. The Finding of Completion allowed the placement of loan agreements between the former redevelopment agency and the City on the ROPS, as an enforceable obligation, provided the oversight board makes a finding that the loan was for legitimate redevelopment purposes. The Successor Agency does not have an outstanding loan payable to the City. It should be noted that, however, during any ROPS period (and as the Successor Agency has indicated on every ROPS submitted to the Oversight Board and the DOF), the City may advance resources such as staff and office administrative cost, and the Successor Agency repays the City for such advances out of the Successor Agency's administrative cost allowance.

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 assets to be returned to the successor agency to the extent not prohibited by state or federal law.

6. RESTATEMENT OF NET POSITION

Net position for the Successor Agency financial statements as of July 1, 2012 was restated as follows:

	Private-Purpose Trust Fund
Net position as previously reported as of June 30, 2012	$ (588,775)
Reduction in net position to remove unamortized bond issuance costs for the implementation of GASB Statement 65.	(475,062)
Net position as restated July 1, 2012	$ (1,063,837)

7. SUBSEQUENT EVENTS

Management has evaluated for other subsequent events to determine if events or transactions occurring through February 19, 2014, the date the financial statements were available to be issued, require adjustment to, or disclosure in the basic financial statements.

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Successor Agency to the Artesia Redevelopment Agency (the Successor Agency) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Successor Agency's basic financial statements, and have issued our report thereon dated February 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Successor Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Successor Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Successor Agency's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weakness. However, material weaknesses may exist that have not been identified.

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Offices located in Orange and San Diego Counties

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Successor Agency's financial statements are free from material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Successor Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Successor Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

White Nelson Diehl Evans LLP

Irvine, California
February 19, 2014