Successor Agency to the Redevelopment Agency of the City of Riverside

Independent Auditor’s Reports and Financial Statements
For the year ended June 30, 2014

Prepared by the City of Riverside
Brent A. Mason, Finance Director/Treasurer

3900 Main Street, Riverside, California 92522

Successor Agency to the Redevelopment Agency of the City of Riverside
Independent Auditor's Reports and Financial Statements
For the year ended June 30, 2014

Contents

MGO Certified Public Accountants.

Newport Beach
4675 MacArthur Court, Suite 600
Newport Beach, CA 92660
949.221.0025

Sacramento

Walnut Creek

Oakland

LA/Century City

San Diego

Seattle

Independent Auditor's Report

Honorable Members of the Oversight Board
Successor Agency to the Redevelopment Agency of the City of Riverside, California

We have audited the accompanying financial statements of the Successor Agency to the Redevelopment Agency (the Successor Agency) of the City of Riverside, California (the City), a fiduciary component unit of the City, as of and for the year ended June 30, 2014, and the related notes to the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Successor Agency, as of June 30, 2014, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted 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 required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 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 the Successor Agency's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Newport Beach, California
December 8, 2014

Successor Agency to the Redevelopment Agency of the City of Riverside
Statement of Fiduciary Net Deficit
June 30, 2014
(amounts expressed in thousands)

Assets		
Cash and investments	$	26,105
Cash and investments with fiscal agent		25,974
Receivables:		
Interest		97
Accounts		22
Notes		22,235
Direct Financing Lease Receivable		20,510
Deposits		2
Land and improvements held for resale		15,799
Capital assets:		
Land		185
Equipment		6
Accumulated depreciation - equipment		(6)
Total assets		110,929
Liabilities		
Accounts payable		1,156
Retainage payable		229
Accrued interest		4,940
Advances from City of Riverside		56,261
Bonds payable		248,039
Notes payable		5,607
Total liabilities		316,232
Deferred Inflows of Resources		
Deferred charge on refunding		301
Total deferred inflows on resources		301
Net Deficit		
Held by Successor Agency		(205,604)
Total net deficit	$	(205,604)

The notes to the financial statements are an integral part of this statement.

Successor Agency to the Redevelopment Agency of the City of Riverside
Statement of Changes in Fiduciary Net Deficit
For the fiscal year ended June 30, 2014
(amounts expressed in thousands)

Additions		
Property tax revenue	$	26,460
Rental and investment income		2,624
Miscellaneous		1,240
Total additions		30,324
Deductions		
Professional services and other deductions		2,613
Redevelopment projects		8,129
Interest expense		13,680
Total deductions		24,422
Change in Net Deficit		5,902
Net deficit - beginning, as restated		(211,506)
Net deficit - ending	$	(205,604)

The notes to the financial statements are an integral part of this statement.

Note 1. Description of Reporting Entity & Summary of Significant Accounting Policies

A. Reporting entity: The Redevelopment Agency of the City of Riverside (Redevelopment Agency) was established in 1967 to provide affordable housing, revitalize communities, eliminate blight, and fuel economic growth through focused reinvestment of local funds back into local projects and programs that supported job growth and private investment.

There are six Redevelopment Project Areas throughout the City of Riverside (City) including Arlington, Casa Blanca, merged Downtown/Airport Industrial/Hunter Park/Northside, La Sierra/Arlanza, Magnolia Center, and University Corridor/Sycamore Canyon (Project Areas). Over the years, the Redevelopment Agency was active in implementing housing programs, business incentive programs, commercial improvement programs, planning and development of projects, capital improvement projects, and property acquisition in the Project Areas.

On June 29, 2011, Governor Brown signed Assembly Bill 1X 26 (AB 1X 26) eliminating redevelopment agencies throughout the State. On July 18, 2011, the California Redevelopment Association and the League of California Cities filed a lawsuit against the State of California in response to the passage of AB 1X 26. On December 29, 2011, the California Supreme Court upheld AB 1X 26. The bill provided that upon dissolution of the Redevelopment Agency, either the city or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government.

Pursuant to City Council actions taken on March 15, 2011, and January 10, 2012 the City elected to serve as the Successor Agency to the Redevelopment Agency of the City of Riverside (Successor Agency). The Successor Agency is a separate legal entity, which serves as a custodian for the assets and liabilities of the dissolved Redevelopment Agency pending distribution to the appropriate taxing entities after the payment of enforceable obligations. The activity of the Successor Agency is overseen by an Oversight Board comprised of individuals appointed by various government agencies and the City of Riverside as Successor Agency of the former Redevelopment Agency.

In 1987, the Riverside Public Financing Authority (Authority), a non-profit corporation, was created as a joint-powers authority between the Redevelopment Agency and the City to serve as a conduit for the issuance of bonds to fund improvements in various redevelopment project areas. The Authority has issued tax allocation bonds secured by loan agreements between the Redevelopment Agency and the Authority. These loan agreements are secured by a first pledge of and lien on a portion of property tax revenues within the respective project areas. Financial data of the Authority is included in the activity of the Successor Agency. Separate Authority financial statements may be obtained from the City's Finance Department, 3900 Main Street, Riverside, California 92522.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation: The Successor Agency is presented herein as a private-purpose trust fund and is reported using the economic resources measurement focus and the accrual basis of accounting.

Successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated. Such funds are paid from the Redevelopment Property Tax Trust Fund (RPTTF), which is administered by the County Auditor-Controller. In January and June of each year, the County Auditor-Controller allocates revenue from the RPTTF to each Successor Agency for payments listed on the Recognized Obligation Payment Schedule (ROPS) for each six month period. Property taxes are recognized as revenues in the year for which they are levied.

For the fiscal year ended June 30, 2014 (amounts expressed in thousands)

C. Cash and Investments

The Successor Agency's cash and investments, except for cash and investments with fiscal agents, are invested in a pool managed by the Treasurer of the City. The Successor Agency does not own specific, identifiable investments of the pool. The pooled interest earned is allocated monthly based on the month end cash balances.

The City values its cash and investments in accordance with the provisions of Government Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools (GASB 31)," which requires governmental entities, including governmental external investment pools, to report certain investments at fair value and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using published market prices.

Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings.

Citywide information concerning cash and investments for the year ended June 30, 2014, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities, and concentration of investments, carrying amount, and market value of deposits and investments may be found in the notes of the City's "Comprehensive Annual Financial Report."

D. Cash and Investments with Fiscal Agent

Cash and investments maintained by fiscal agents are considered restricted because their use is limited by applicable bond covenants. Provisions of debt agreements govern investments of debt proceeds held by bond fiscal agents. Permitted investments are specified in related trust agreements and include the following types of investments:

Investments in money market funds rated in the single highest classification
Investments in the Local Agency Investment Fund (State Investment Pool)
Securities of the U. S. Government and its sponsored agencies
Commercial Paper rated AA or higher at the time of purchase

No maximum percentage of the related debt issue or maximum investment in one issuer is specified.

Investments held by fiscal agent are as follows:

		Remaining Maturity (in Months)		
Investment Type	Total	12 Months or Less	13 to 24 Months	25 to 60 Months
Money Market Funds	$ 4,850	$ 4,850	$ -	$ -
State Investment Pool	18,529	18,529	-	-
Federal Agency Securities	2,435	1,193	-	1,242
Commercial Paper	160	160	-	-
Total	$25,974	$24,732	$ -	$ 1,242

For the fiscal year ended June 30, 2014 (amounts expressed in thousands)

		Ratings as of Year End		
Investment Type	Total	AAA	A	Unrated
Money Market Funds	$ 4,850	$4,850	$ -	$ -
State Investment Pool	18,529	-	-	18,529
Federal Agency Securities	2,435	2,435	-	
Commercial Paper	160	-	160	-
Total	$25,974	$7,285	$ 160	$ 18,529

E. Land and Improvements Held for Resale

Land and improvements held for resale were generally acquired for future development projects. The properties are carried at the lower of cost or net realizable value.

F. Bond Premiums

Bond premiums are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums.

G. Deferred Charge on Refunding

The deferred charge on refunding is deferred and amortized over the life of the bonds using the effective interest method. The deferred charge on refunding is recorded as a deferred inflow of resources.

H. Deferred Inflows of Resources

The statement of fiduciary net deficit reports a separate section for deferred inflows of resources. Deferred inflows of resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are *not* recognized as an inflow of resources (revenue) until that time.

I. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures. Actual results could differ from those estimates.

Note 2. Notes and Direct Financing Lease Receivable

Rehabilitation Notes Receivable

Notes receivable consist of $3,067 of rehabilitation loans. The loans were granted for a period of up to 55 years and bear interest at rates from 0 to 12 percent, which are secured by deeds of trust to individuals and businesses.

Hyatt Note Receivable

The former Redevelopment Agency entered into a developer loan agreement for the construction of the Hyatt Place Hotel. As of June 30, 2014, the outstanding balance owed by the developer was $19,168 at an interest rate of 4.0%

For the fiscal year ended June 30, 2014 (amounts expressed in thousands)

Direct Financing Lease Receivable

The former Redevelopment Agency had a direct financing lease arrangement with the State of California (the State) for the California Tower Office Complex, located in the Downtown/Airport/Hunter Park/Northside Project Area. The Agreement is for a thirty year period and at maturity the ownership of California Tower will be transferred to the State. The lease calls for semi-annual payments not less than the debt service owed on the related lease revenue bonds issued by the former Redevelopment Agency for the purchase and renovation of the building. The future minimum lease payments to be received are as follows:

2015	$ 2,507
2016	2,533
2017	2,561
2018	2,598
2019	2,626
Thereafter	16,443
Total Due	29,268
Less: amount applicable to interest	(8,758)
Total direct financing lease receivable	$20,510

Note 3. Long-Term Obligations

Changes in Long-Term Obligations:

Below is a summary of changes in long-term obligations during the fiscal year:

	Beginning Balance*	Additions	Reductions	Ending Balance	Due Within One Year
Redevelopment Agency Bonds	$256,222	$ -	$8,183	$248,039	$ 8,310
Notes Payable	6,257	-	650	5,607	733
Total	$262,479	$ -	$8,833	$253,646	$9,043

*Beginning balances have been restated to exclude the unamortized balances of deferred refunding charges that have been reclassified as deferred inflows of resources.

Redevelopment Agency Bonds:	Principal Outstanding
$13,285 1991 Public Financing Authority Revenue Bonds, Series A, Multiple Project Areas; $1,470 serial revenue bonds 7.15% to 7.6%, due in annual installments from $100 to $145 through Feb. 1, 2003; and $4,175 term bonds, 8.0%, due in annual installments from $155 to $450 through Feb. 1, 2018 (portion not refunded).	$ 85
$17,025 1999 University Corridor/Sycamore Canyon Merged Project Area, Tax Allocation Bonds, Series A; $6,205 serial bonds, 3.4% to 4.7% due in annual installments from $40 to $570 through August 1, 2014; $4,810 term bonds at 4.75% due Aug. 1, 2021; and $6,010 term bonds at 5.0% due Aug. 1, 2027.	11,390
$6,055 1999 University Corridor/Sycamore Canyon Merged Project Area, Subordinate Tax Allocation Bonds, Series B; $1,900 serial bonds, 4.5% to 5.5% due in annual installments from $35 to $190 through Sep. 1, 2013; $1,135 term bonds at 5.5% due Sep. 1, 2018; and $3,020 term bonds at 5.625% due Sep. 1, 2027.	4,155

For the fiscal year ended June 30, 2014 (amounts expressed in thousands)

$20,395 1999 Casa Blanca Project Area, Tax Allocation Bonds, Series A; $8,925 serial bonds, 3.4% to 4.7% due in annual installments from $455 to $780 through Aug. 1, 2014; $2,565 term bonds at 4.75% due Aug. 1, 2017; $4,035 term bonds at 4.75% due Aug. 1, 2021; and $4,870 term bonds at 5% due Aug. 1, 2025.	12,250
$4,550 Arlington Redevelopment Project, 2004 Tax Allocation Bonds, Series A; $420 term bonds at 3.8% due Aug. 1, 2014; $615 term bonds at 4.6% due Aug. 1, 2024; $3,515 term bonds at 4.7% due Aug. 1, 2034.	4,175
$2,975 Arlington Redevelopment Project Area, 2004 Tax Allocation Bonds; Series B: 5.5% due in annual installments from $85 to $235 through Aug. 1, 2024.	2,010
$26,255 State of California Department of General Services Project, 2003 Lease Revenue Refunding Bonds, Series A; 2% to 5% due in annual installments from $545 to $2,230 through Oct. 1, 2024.	17,790
$4,810 State of California Department of General Services Project, 2003 Lease Revenue Refunding Bonds, Series B; $310 serial bonds 1.20% to 1.42% through Oct. 1, 2004; $620 term bonds at 3.090% due Oct. 1, 2008; $1,110 term bonds at 4.340% due Oct. 1, 2014 and $2,770 term bonds at 5.480% due Oct. 1, 2024.	2,975
$40,435 Downtown/Airport Merged Project Area, 2003 Tax Allocation and Refunding Bonds; $32,720 serial bonds 2.0% to 5.25% due in annual installments from $1,220 to $1,955 through Aug. 1, 2023; and $7,715 term bonds at 5.0% due in annual installments from $195 to $2,060 through Aug. 2034.	26,780
$24,115 2005 Housing Set-Aside Tax Allocation Bonds; $17,025 serial bonds 3.0% to 4.625% due in annual installments from $505 to $1,165 through Aug. 1, 2025; $2,425 term bonds at 5.0% due Aug. 1, 2028; and $4,665 term bonds at 4.85% due Aug. 1, 2034.	18,415
$8,340 Downtown/Airport Merged Project Area and Casa Blanca Project Area 2007 Tax Allocation Bonds, Tax Exempt, Series A, serial bonds 4.0% to 4.25% due in annual installments from $20 to $590 through Aug. 1, 2025; $4,980 term bonds at 4.5% due Aug. 1, 2029; $410 term bonds at 4.375% due Aug. 1, 2037.	8,220
$1,465 California Statewide Communities Development Authority 2005 Taxable Revenue Bonds, Series A (CRA/ERAF Loan Program); 3.87% to 5.01% due in annual installments of $105 to $180 through Aug. 1, 2015.	180
$14,850 Downtown/Airport Merged Project Area and Casa Blanca Project Area 2007 Tax Allocation Bonds, Taxable, Series B, $4,050 term bonds at 5.2% due Aug. 1, 2017; $10,800 term bonds at 5.8% due Aug. 1, 2028.	12,520
$89,205 University Corridor/Sycamore Canyon Merged Project Area, Arlington Project Area, Hunter Park/Northside Project Area, Magnolia Center Project Area, and La Sierra/Arlanza Project Area 2007 Tax Allocation Bonds, Tax-Exempt, Series C, serial bonds 4.0% to 5.0% due in annual installments from $50 to $3,210 through Aug. 1, 2025; $17,955 term bonds at 4.5% due Aug. 1, 2030; $47,775 term bonds at 5.0% due Aug. 1, 2037.	87,110

For the fiscal year ended June 30, 2014 (amounts expressed in thousands)

$43,875 University Corridor/Sycamore Canyon Merged Project Area, Arlington Project Area, Hunter Park/Northside Project Area, Magnolia Center Project Area, and La Sierra/Arlanza Project Area 2007 Tax Allocation Bonds, Taxable, Series D, $15,740 term bonds AT 5.24% due Aug. 1, 2017; $28,135 term bonds AT 5.90% due Aug. 1, 2032.	34,785
Subtotal	242,840
Add: Unamortized bond premium	5,200
Total Redevelopment Agency Bonds	$248,040

Remaining debt service will be paid by the Successor Agency from future property tax revenues. Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2015	$ 8,310	$ 12,047	$ 20,357
2016	8,520	11,665	20,185
2017	8,905	11,256	20,161
2018	9,660	10,799	20,459
2019	10,125	10,299	20,424
2020-2024	61,015	42,744	103,759
2025-2029	58,175	26,736	84,911
2030-2034	45,205	13,826	59,031
2035-2038	32,925	3,110	36,035
Premium	5,200	-	5,200
Total	$248,040	$142,482	$390,522

Notes Payable:	Principal Outstanding
These notes payable have been issued to promote development and expansion within the City's redevelopment areas.	
Pepsi Cola Bottling Company of Los Angeles, 10.5%, payable in net annual installments of $341, subject to recording of completion.	$ 2,987
HUD Section 108 loan for University Village, 5.36% to 7.66%, payable in semi-annual installments beginning August 1, 1996 of $272 to $425 through August 1, 2015	775
HUD Section 108 loan for Mission Village Project, 6.15% to 6.72%, payable in semi-annual installments beginning August 1, 1999 of $110 to $420 through August 1, 2018	1,845
Total notes payable	$ 5,607

Remaining debt service will be paid by the Successor Agency from future property tax revenues. Annual debt service requirements to maturity are as follows.

For the fiscal year ended June 30, 2014 (amounts expressed in thousands)

Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2015	$ 733	$ 383	$ 1,116
2016	771	357	1,128
2017	399	337	736
2018	428	323	751
2019	462	306	768
2020-2024	286	1,423	1,709
2025-2029	471	1,238	1,709
2030-2034	777	933	1,710
2035-2038	1,280	430	1,710
Total	$ 5,607	$5,730	$11,337

As a result of action by the State of California to dissolve all redevelopment agencies in the state, the Successor Agency no longer receives the full amount of tax increment previously pledged by the dissolved redevelopment agency to its bondholders. In its place is a new revenue stream provided to the Successor Agency that represents only that portion of tax increment that is necessary to pay the enforceable obligations approved by the California Department of Finance.

For the current year, debt service payments as a percentage of the pledged gross revenue (or net of certain expenses where so required by the debt agreement) are indicated in the table below. The debt service coverage ratios also approximate the relationship of debt service to pledged revenue for the remainder of the term of the commitment.

	Annual Amount of Pledged Revenue (net of expenses, where required)*	Annual Debt Service Payments (of all debt secured by this revenue)	Debt Service Coverage Ratio For FYE 6/30/14
Non-Housing			
Arlington	$ 2,927	$ 1,722	1.70
Casa Blanca	2,690	1,853	1.45
Eastside	86	24	3.58
Magnolia Center	2,554	1,205	2.12
University Corridor/ Sycamore Canyon	9,934	2,705	3.67
Downtown/Airport Industrial/Hunter Park/Northside	11,300	4,775	2.37
La Sierra/Arlanza	11,846	3,015	3.93
Housing			
Arlington	$ 814	$ 283	2.88
Casa Blanca	672	398	1.69
Magnolia Center	638	161	3.96
University Corridor/ Sycamore Canyon	2,483	802	3.10
Downtown/Airport Industrial/Hunter Park/Northside	4,059	1,120	3.62

* The computations above are based on the total tax increment generated for the year ended June 30, 2014 for each project area that had been pledged as collateral for the Bonds. As discussed above, only a portion of tax increment has been actually remitted to the Successor Agency and reported as revenue in the accompanying financial statements.

Note 4. Advances from the City of Riverside

The former Redevelopment Agency had entered into various arrangements with the City. The State Department of Finance had concluded that certain loans were not enforceable obligations, which would have resulted in the repayment of only 80 percent of the loans. The City sued the State and in July 2013 a Sacramento County Superior Court ruled that the loans are enforceable obligations and therefore must be repaid in full.

Note 5. Net Deficit

The deficit in the Successor Agency Trust Fund will be reduced over the years as the related debt is paid-off with funds received from the Redevelopment Property Tax Trust Fund (RPTTF), which is administered by the County Auditor-Controller.

Note 6. Subsequent Events

On October 16, 2014, the Successor Agency to the Redevelopment Agency of the City issued 2014 Subordinate Tax Allocation Refunding Bonds (Series A and B) in the amount of $62,980. The bonds were issued to refund certain obligations of the former Redevelopment Agency of the City. Interest is due semi-annually on March 1 and September 1, commencing March 1, 2015. Principal is due in annual installments from $160 to $4,745 through September 1, 2034. The rate of interest varies from 0.6% to 5% per annum.

MGO Certified Public Accountants.

Newport Beach
4675 MacArthur Court, Suite 600
Newport Beach, CA 92660
949.221.0025

Sacramento

Walnut Creek

Oakland

LA/Century City

San Diego

Seattle

Independent Auditor's 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*

Honorable Members of the Oversight Board
Successor Agency to the Redevelopment Agency of the City of Riverside, 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 Redevelopment Agency (the Successor Agency), a fiduciary component unit of the City of Riverside, California (the City), as of and for the year ended June 30, 2014, 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 December 8, 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 opinions 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Successor Agency's financial statements are free from 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*.

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.

Macias Gini & O'Connell LLP

Newport Beach, California
December 8, 2014