ATTACHMENT 2

COSTA MESA
HOUSING AUTHORITY

(A COMPONENT UNIT OF
THE CITY OF COSTA MESA)

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2015

COSTA MESA HOUSING AUTHORITY

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WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Costa Mesa Housing Authority (the Authority), (a component unit of the City of Costa Mesa, California) as of and for the year ended June 30, 2015, and the related notes to the basic financial statements, which collectively comprise the Authority'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 opinions on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic 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 Authority'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 Authority'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 opinions.

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Offices located in Orange and San Diego Counties

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Authority as of June 30, 2015, and the respective 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 a Matter

As described more fully in Note 1A, the basic component unit financial statements present only the Authority and are not intended to present fairly the financial position and results of operations of the City of Costa Mesa, California in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Management has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2015, on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

White Nelson Diehl Evans LLP

Irvine, California
December 15, 2015

COSTA MESA HOUSING AUTHORITY

STATEMENT OF NET POSITION

June 30, 2015

	Governmental Activities
ASSETS:	
Cash and investments	$ 930,738
Interest receivable	1,346
Loans receivable, net of allowance (Note 3)	3,627,094
Capital assets, nondepreciable	1,697,665
TOTAL ASSETS	6,256,843
LIABILITIES:	
Accounts payable	19,660
Payroll payable	184
TOTAL LIABILITIES	19,844
NET POSITION:	
Net investment in capital assets	1,697,665
Restricted for:	
Affordable housing	4,539,334
TOTAL NET POSITION	$ 6,236,999

See accompanying notes to basic financial statements.

COSTA MESA HOUSING AUTHORITY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2015

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental activities:					
Affordable housing	$ 176,057	$ 87,194	$ -	$ -	$ (88,863)
Total governmental activities	$ 176,057	$ 87,194	$ -	$ -	(88,863)
General revenues and transfers:					
Repayment of Successor Agency advance					71,935
Loan repayments					78,550
Investment income					4,964
Transfers					(36,124)
Total general revenues and transfers					119,325
Special item - note receivable write-off (see Note 5)					(675,522)
CHANGE IN NET POSITION					(645,060)
NET POSITION AT BEGINNING OF YEAR					6,882,059
NET POSITION AT END OF YEAR					$ 6,236,999

See accompanying notes to basic financial statements.

COSTA MESA HOUSING AUTHORITY

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2015

ASSETS	
Cash and investments	$ 930,738
Interest receivable	1,346
Loans receivable, net of allowance	3,627,094
TOTAL ASSETS	$ 4,559,178
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
LIABILITIES:	
Accounts payable	$ 19,660
Payroll payable	184
TOTAL LIABILITIES	19,844
DEFERRED INFLOWS OF RESOURCES:	
Unavailable revenue	3,627,094
TOTAL DEFERRED INFLOWS OF RESOURCES	3,627,094
FUND BALANCE:	
Restricted for affordable housing	912,240
TOTAL FUND BALANCE	912,240
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$ 4,559,178

See accompanying notes to basic financial statements.

COSTA MESA HOUSING AUTHORITY

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

June 30, 2015

Fund balance - total governmental fund	$ 912,240
Amounts reported for governmental activities in the Statement of Net Position are different because:	
When capital assets (property, plant, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the Statement of Net Position includes those capital assets among the assets of the Authority as whole:	
Land	1,697,665
Loans receivable are not available to pay for current period expenditures, and, therefore, are reported as unavailable revenue in the governmental funds. For the Statement of Net Position, the loans are considered available to pay for expenses and have been previously reported as revenues.	3,627,094
Net position of governmental activities	$ 6,236,999

See accompanying notes to basic financial statements.

COSTA MESA HOUSING AUTHORITY

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

For the year ended June 30, 2015

REVENUES:	
Rental income	$ 78,550
Repayment of Successor Agency advance	71,935
Other income (loan repayments)	568,143
Investment income	4,964
TOTAL REVENUES	723,592
EXPENDITURES:	
Current:	
Affordable housing	176,057
Miscellaneous	36,124
TOTAL EXPENDITURES	212,181
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	511,411
FUND BALANCE - BEGINNING OF YEAR	400,829
FUND BALANCE - END OF YEAR	$ 912,240

See accompanying notes to basic financial statements.

COSTA MESA HOUSING AUTHORITY

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

For the year ended June 30, 2015

Net change in fund balance - total governmental fund		$ 511,411
Amounts reported for governmental activities in the Statement of Activities are different because:		
For the governmental funds, collections on loans receivable are recorded as revenue when received by reducing unavailable revenue. For the governmental activities, principal loan repayments in the current fiscal year reduces the revenue as the loans have been previously reported as revenues for the governmental activities. Interest added to the loan in the current year which is not available for the governmental funds is recognized as revenue for the governmental activities and reported as unavailable revenue for the governmental funds.		
Special item - write-off (see Note 5)	$ (675,522)	
Principal repayments	(542,360)	
Interest added to the loan	61,411	
		(1,156,471)
Change in net position of governmental activities		$ (645,060)

See accompanying notes to basic financial statements.

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES:

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

A. Description of the Reporting Entity:

The Costa Mesa Housing Authority was established on January 17, 2012, pursuant to City Council Resolution No. 12-3. The primary purpose of the Authority is to promote affordable housing for families of low and moderate income within the City of Costa Mesa, California (the City). Pursuant to Assembly Bill 1484, the housing assets and obligations of the former Redevelopment Agency's Low and Moderate Income Housing Fund were transferred to the Housing Authority. The Authority is an integral part of the reporting entity of the City. The fund of the Authority has been included within the scope of the basic financial statements of the City because the City Council exercises oversight responsibility over the operations of the Authority.

Only the fund of the Authority is included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City.

B. Fund Accounting:

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

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

C. Basis of Accounting and Measurement Focus:

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

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

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

Fund Financial Statements (Continued)

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

Governmental Funds

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

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

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

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

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

Governmental Funds (Continued)

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

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

D. New Accounting Pronouncements:

Current Year Standards

GASB Statement No. 68 - *"Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27"* was required to be implemented in the current fiscal year and did not impact the Authority.

GASB Statement No. 69 - *"Government Combinations and Disposals of Government Operations"* was required to be implemented in the current fiscal year and did not impact the Authority.

GASB Statement No. 71 - *"Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68"* was required to be implemented in the current fiscal year and did not impact the Authority.

Pending Accounting Standards

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

- GASB 72 - *"Fair Value Measurement and Application"*, effective for periods beginning after June 15, 2015.

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

D. New Accounting Pronouncements (Continued):

Pending Accounting Standards (Continued)

- GASB 73 - *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68"*, effective for periods beginning after June 15, 2015 - except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.

- GASB 74 - *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"*, effective for periods beginning after June 15, 2016.

- GASB 75 - *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"*, effective for periods beginning after June 15, 2017.

- GASB 76 - *"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"*, effective for periods beginning after June 15, 2015.

E. Cash and Investments:

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

F. Capital Assets:

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

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

G. Net Position:

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

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

- Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net position - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted". The Authority has no unrestricted net position.

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

H. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position and the governmental fund balance sheet 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 future periods and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The Authority does not have any applicable deferred outflows of resources.

In addition to liabilities, the statement of net position and the governmental fund balance sheet 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 future periods and will not be recognized as an inflow of resources (revenue) until that time. The Authority reports unavailable revenue on loans receivable as deferred inflows of resources.

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

I. Fund Equity:

Fund balance classifications are defined as follows:

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

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

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

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

Unassigned - The classifications include the residual balance for the government's general fund and includes all spendable amounts not contained in other classifications.

The Authority reports its fund balance as restricted for affordable housing.

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

J. Use of Estimates:

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

2. CASH AND INVESTMENTS:

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

The Authority does not have a separate bank account; however, the Authority's cash and investments are maintained in an investment pool managed by the City. The Authority is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City. The Authority has not adopted an investment policy separate from that of the City. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis. At June 30, 2015, the Authority had a cash balance of $930,738.

Disclosures Relating to Interest Rate Risk

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

Information about the Authority's exposure to interest rate risk as a result of its equity in the cash and investment pool of the City is provided by disclosures in the notes to the basic financial statements of the City that shows the distribution of the City's investments by maturity.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Minimum ratings required by (where applicable) the California Government Code and the City’s Investment Policy and the actual ratings as of year-end for each investment type are provided by disclosures in the notes to the basic financial statements of the City.

2. CASH AND INVESTMENTS (CONTINUED):

Concentration of Credit Risk

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

Custodial Credit Risk

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

3. LOANS RECEIVABLE:

	Amount
The first-time homebuyer program provides loans to first-time homebuyers for purchases of homes in the City of Costa Mesa. For loans made before 2007, loan repayments were deferred for 10 years and for loans made in 2007 and after, repayments of the loan are deferred for 30 years.	$ 3,478,761
The single-family rehabilitation loan program provides loans to homeowners to make home improvements and repair code violations. There were 3 loans made under this program in 2009. The loans do not pay interest and are not due until the property is sold.	142,500
Loan receivable to a developer to construct a 36-unit senior-rental project for low-income residents. The loan repayment is deferred until 2062 and no interest is to be paid on the loan. The Authority is to receive residual receipts if the project has net profits on an annual basis, until 2062.	543,617
The rental rehabilitation program is for deferred loans to owners of multi-family properties to make improvements and repair code violations. There are 3 remaining loans under this program and repayment is deferred until sale, transfer or default. Interest of 4 percent is due on these loans.	130,683
There are 5 loans made to underwrite land to a developer to build 5 single-family homes to be maintained in perpetuity for affordable housing. The Authority maintains enforceable covenants on the property. The loans are to be repaid only upon default of affordable housing covenants.	681,283

3. LOANS RECEIVABLE (CONTINUED):

	Amount
There are two loans made to eligible homebuyers under the Federal Neighborhood Stabilization Program (NSP) administered by the State of California. The NSP program consists of acquisition, rehabilitation, and subsequent sale of foreclosed homes. Borrowers met income and affordability qualifications set by the HUD HOME Program and California Community Redevelopment law.	$ 181,250
Subtotal	5,158,094
Allowance for doubtful accounts	(1,531,000)
Total	$ 3,627,094

4. CONTINGENCIES:

In the dissolution process, the DOF disallowed a loan in the amount of $9,278,545 from the City's General Fund to the former Redevelopment Agency as an enforceable obligation. The DOF's Finding of Completion on May 24, 2013 allowed the placement of these loan agreements on the recognized obligation payment schedule (the "ROPS"), provided the oversight board made a finding that the loan was for legitimate redevelopment purposes pursuant to Health and Safety Code section 34191.4. On October 9, 2013, the City filed a lawsuit in the Sacramento Superior Court, Case No. 34-2013-80001675, against the DOF and the Orange County Auditor-Controller. The lawsuit sought, among other relief, orders requiring the DOF to approve annual loan repayments to the City on future ROPS submitted by the Successor Agency and requiring the Orange County Auditor-Controller to refund the $2,492,747 payment the City made on May 1, 2013. Based on the uncertainty of DOF reinstatement of the loan, the City wrote off the outstanding balance of the loan in the fiscal year 2012-13. At this time, the status of the lawsuit is still active.

On April 17, 2014, the Oversight Board approved the finding that the loan was for legitimate redevelopment purposes pursuant to Health and Safety Code Section 34191.4. On May 6, 2014, the DOF sent a letter affirming the Oversight Board's decision that the loan was for legitimate redevelopment purpose and reestablishing the loan under certain Amended and Restated Agreement. Subsequent to the write-off of the loan, the City has adjusted the loan for principal additions, interest additions and principal received after the loan was recognized as an enforceable obligation. At June 30, 2015, the loan balance is estimated to be $9,252,576. The Housing Authority is entitled to receive 20% of this amount which is $1,850,515. The loan balance continues to be excluded from the fiscal year 2014-15 financial statements as certain assurances from the DOF need to occur before the City will formally reinstate the loan.

5. SPECIAL ITEM:

During the year the City seized possession of properties associated with loans receivable from the developer related to an 8-unit multi-family rental project in the amount of $675,522. Based on the seizure the City wrote-off the balance of the note receivable.

6. SUBSEQUENT EVENTS:

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through December 15, 2015, the date the financial statements were available to be issued.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, 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, financial statements of the governmental activities and the major fund of the Costa Mesa Housing Authority (the Authority), as of and for the year ended June 30, 2015, and the related notes to the basic financial statements, which collectively comprise of the Authority's basic financial statements, and have issued our report thereon dated December 15, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority'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 Authority'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.

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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 Authority'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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

White Nelson Diehl Evans LLP

Irvine, California
December 15, 2015