THE SUCCESSOR AGENCY TO THE FORMER MONTEREY PARK REDEVELOPMENT AGENCY

Annual Financial Report
For the Year Ended June 30, 2014

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INDEPENDENT AUDITORS' REPORT

To the Governing Board and Oversight Committee
of the Successor Agency to the Former Monterey Park Redevelopment Agency
Monterey Park, California

Report on Financial Statements

We have audited the accompanying statement of fiduciary net position of the Successor Agency to the Former Monterey Park Redevelopment Agency (the "Successor Agency"), as of June 30, 2014 and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

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. 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 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.

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.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Successor Agency and do not purport to, and do not present fairly the financial position of the City of Monterey Park, California (the "City"), as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As discussed in Notes 2G and 8 to the financial statements, in 2014 the Successor Agency adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter. As a result of this implementation, the Successor Agency restated the 2014 opening balance for net position in order to expense bond issuance costs in the period in which they were incurred.

Other Matters

Required Supplementary Information

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

Pun & McGeady LLP

Irvine, California
November 20, 2014

FINANCIAL STATEMENTS

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THE SUCCESSOR AGENCY TO THE FORMER
MONTEREY PARK REDEVELOPMENT AGENCY
Statement of Fiduciary Net Position
June 30, 2014

Assets:		
Current assets:		
Cash	$	6,750,786
Cash and investments held by fiscal agents		5,959,698
Total current assets		12,710,484
Noncurrent assets:		
Land held for resale		5,646,937
Total noncurrent assets		5,646,937
Total assets		18,357,421
Liabilities:		
Current liabilities:		
Accounts payable		5,730
Deposits		1,058,970
Interest payable		320,772
Settlement agreement payable		4,028,540
Bonds payable		1,450,000
Total current liabilities		6,864,012
Noncurrent liabilities:		
Advances from City of Monterey Park		1,989,686
Tax increment deferred loan		46,184,609
Bonds payable		20,643,112
Low/Mod Housing deferred loans		1,186,222
Total noncurrent liabilities		70,003,629
Total liabilities		76,867,641
Net Position (Deficit):		
Net position (deficit) held in trust for debt service and certain administrative expenses	$	(58,510,220)

See Accompanying Notes to the Financial Statements.

THE SUCCESSOR AGENCY TO THE FORMER MONTEREY PARK REDEVELOPMENT AGENCY
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2014

Additions:		
Redevelopment Property Tax Trust Fund	$	2,061,018
Contribution from County of Los Angeles		1,931,157
Investment income		21,830
Total additions		4,014,005
Deductions:		
Administration		824,813
Tax increment deferred loans		7,248,417
Interest expense		1,035,523
Total deductions		9,108,753
Change in net position		(5,094,748)
Net Position (Deficit):		
Beginning of year, as restated (Note 8)		(53,415,472)
End of year	$	(58,510,220)

See Accompanying Notes to the Financial Statements.

1. FINANCIAL REPORTING ENTITY

On December 29, 2011, the California Supreme upheld Assembly Bill X1 26 (the "Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Monterey Park (the "City") that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city of 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. On January 11, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City Resolution No. 11455.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, 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.

The Bill directs the Department of Finance and State Controller of the State of California (the "State Controller") to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operated as a legal entity as of February 1, 2012.

The Successor Agency of the Former Monterey Park Redevelopment Agency (the "Successor Agency") was activated on February 1, 2012. The City Council serves as the governing body of the Successor Agency and exercises all rights, powers, duties and privileges of the Successor Agency. The primary purpose of the Successor Agency is to wind down the affairs of the dissolved Community Redevelopment Agency of the City of Monterey Park (the "Agency") and to, among other things, make payments due for enforceable obligations, perform obligations required pursuant to any enforceable obligation, dispose of all assets of the former Agency, and to remit unencumbered balances of the Agency's funds, including housing funds, to the county auditor-controller for distribution to taxing entities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Statements

The accompanying financial statements present only the Successor Agency and are not intended to present fairly the financial position, changes in financial position, or cash flows, where applicable, of the City in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

B. Basis of Accounting

The Successor Agency's financial statements include a statement of fiduciary net position and a statement of changes in fiduciary net position. The financial statements are presented on the accrual basis of accounting. Under the accrual basis of accounting, Redevelopment Property Tax Trust Fund ("RPTTF") revenues are recognized in the period in which they are received, and investment income are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred.

C. Investments

Investments are stated at fair value (the value at which financial instruments could be exchanged between willing parties other than in a forced liquidation sale).

D. Land Held for Resale

Land held for resale is reported at acquisition cost.

Land held for resale is generally acquired for redevelopment through the use of disposition and development agreements. These agreements provide for transfer of the property to developers after certain redevelopment obligations have been fulfilled.

E. Redevelopment Property Tax Trust Fund

The Successor Agency's primary source of revenue comes from the RPTTF allocation distributed by the County. Property tax revenues for each Project Area are deposited into the RPTTF, which redistributes each Project Area's tax increment under specified formulas. The County Auditor administers the RPTTF and disburses twice annually from this fund pass-through payments to affected taxing entities, an amount equal to the total of obligation payments that are required to be paid from tax increment as denoted on the Recognized Obligation Payment Schedule ("ROPS"). The disbursements are established in the treasury of the Successor Agencies, and various allowed administrative fees and allowances. Any remaining balance is then distributed by the County Auditor back to affected taxing entities under a prescribed method that accounts for pass-through payments. The County Auditor is also responsible for distributing other monies received from the Successor Agency (from sale of assets, etc.) to the affected taxing entities. Successor agencies in turn will use the amounts deposited into their respective funds for making payments on the principal and interest on loans, and monies advanced to or indebtedness incurred by the dissolved redevelopment agencies.

F. Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. Accounting Changes

GASB has issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The requirements of this statement improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement became effective for periods beginning after December 15, 2012. See Note 8 for prior period adjustment as a result of implementation.

3. CASH AND INVESTMENTS

Cash and investments at June 30, 2014 are classified in the accompanying financial statements as follows:

Cash	$	6,750,786
Cash and investments held by fiscal agents		5,959,698
Total cash and investments	$	12,710,484

Cash and investments at June 30, 2014 consist of the following:

Demand deposits with financial institutions	$	6,750,786
Cash held in escrow		4,028,540
Money market mutual funds		1,931,158
Total cash and investments	$	12,710,484

Funds required to be held by outside fiscal agents under the provisions of bond indentures are reported as investments held by fiscal agent. Proceeds obtained from long-term debt issuances including construction and reserve fund balances are held by the fiscal agents on behalf of the Successor Agency and invested in the Successor Agency's name. Interest income on proceeds of debt is credited directly to the fund, as defined by the Bond Indenture.

A. Deposits

At June 30, 2014, the carrying amount of the Successor Agency's demand deposits was $6,750,786 and the bank balance was $6,750,771. The $15 difference represented outstanding checks, deposits in transit, or other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure the Successor Agency's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the Successor Agency's name.

The market value of pledged securities must equal at least 110% of the Successor Agency's cash deposits. California law also allows institutions to secure Successor Agency's deposits by pledging first trust deed mortgage notes having a value of 150% of the Successor Agency's total cash deposits. The Successor Agency may waive collateral requirements for cash deposits, which are fully insured up to $250,000 by the Federal Deposit Insurance Corporation ("FDIC"). The Successor Agency, however, has not waived the collateralization requirements.

B. Investments Authorized by the California Government Code

There is no adopted investment policy for the Successor Agency. The Successor Agency may invest in accordance with Section 53601 of the California Government Code. At June 30, 2014, there were no investments, except for those authorized by the debt agreements and held by fiscal agents.

3. CASH AND INVESTMENTS, CONTINUED

C. Investments Authorized by Debt Agreements

In addition to the investment discussed above, the Successor Agency may also invest appropriate funds in money market funds and mutual funds in accordance with bond indentures.

D. 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.

E. Concentration of Credit Risk

The investment policy of the Successor Agency, as summarized above, contains certain limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At June 30, 2014, there were no investments, except for those held by fiscal agents.

F. 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 requires California banks and savings and loan associations to secure an agency's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the face value of the deposits. California law also allows financial institutions to secure agency deposits by pledging first trust deed mortgage notes having a value of 150% of the agency's total deposits. The Successor Agency may waive collateral requirements for deposits which are fully insured by federal depository insurance. However, the Successor Agency has not waived the collateralization requirements.

G. 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.

3. CASH AND INVESTMENTS, CONTINUED

G. Interest Rate Risk, Continued

Information about the sensitivity of the fair values of the Successor Agency's investments to market interest rate is provided by the following table that shows the remaining maturity of each investment:

Investments	Credit Rating	Fair Value June 30, 2014	Maturity - 12 Months or Less
Investments Held by Fiscal Agents:			
Money market mutual funds	N/A *	$ 1,931,158	$ 1,931,158
Total Investments Held by Fiscal Agents		$ 1,931,158	$ 1,931,158

*There is no rating for the money market mutual funds.

4. ADVANCES FROM THE CITY OF MONTEREY PARK

In 2009, the former Redevelopment Agency's Low and Moderate Income Housing Fund loan $2,601,898 to debt service fund to deposit the required Supplemental Educational Revenue Augmentation Funds ("SERAF") payments to the County. SERAF was created by the County to meet the State requirement of redevelopment agencies to shift $1.7 billion in property tax revenues to K-12 schools. The former Redevelopment Agency's share of SERAF is $2,601,898, which consists of $1,142,640 from Merged Projects and $1,459,258 from Atlantic-Garvey Project. The former Redevelopment Agency's board of directors authorized the loan from Low and Moderate Income Housing Fund to each project area and to be pay back to the City's Special Revenue Housing Fund by June 30, 2015.

On May 4, 2011, the former Redevelopment Agency passed two resolutions, RA 682 and 683, authorizing additional Takeaway Loans to be made from the Low and Moderate Income Housing Fund to the Atlantic Garvey Project Area and the Merged Project Areas Debt Service Fund in an amount of $300,436 and $235,249, respectively. This take-away loan in the amount of $535,685 will be paid back to the City's Special Revenue Housing Fund by June 30, 2016.

The outstanding balance in the amount of $2,617,203 was transferred to the Successor Agency on February 1, 2012 due to the dissolution of the former Redevelopment Agency, while the receivable was transferred to the City's Special Revenue Housing Fund. The balance at June 30, 2014 was $1,989,686.

Project Area	Balance July 1, 2013	Payments	Balance June 30, 2014
Merged	$ 873,783	$ -	$ 873,783
Atlantic-Garvey	1,115,903	-	1,115,903
Total	$ 1,989,686	$ -	$ 1,989,686

5. LAND HELD FOR RESALE

On February 1, 2012, land held for resale amounted to $8,523,237 was transferred from the former Redevelopment Agency to the Successor Agency due to the dissolution of former Redevelopment Agency.

On June 15, 2012, the Oversight Board for the Successor Agency approved the disposition and transfer in the amount of $2,876,300 to the City for continued use as public parking facilities.

At June 30, 2014, the Successor Agency held title to several parcels slated for development in the amount of $5,646,937. The total amount consists of the $4,233,000 Hotel site and the $1,413,937 Garvey site.

6. LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2014 are as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Due Within One Year	Due In More Than One Year
1998 Tax Allocation Revenue Bonds - Merged Redevelopment Project	$ 7,895,000	$ -	$ (7,895,000)	$ -	$ -	$ -
2002 Tax Allocation Bonds - Atlantic-Garvey Project Redevelopment Project	16,705,000	-	(16,705,000)	-	-	-
2013A Tax Refunding Bonds - Atlantic-Garvey Project Redevelopment Project	-	13,825,000	-	13,825,000	1,010,000	12,815,000
2013B Tax Refunding Bonds - Merged Redevelopment Project	-	7,080,000	-	7,080,000	440,000	6,640,000
Subtotal	24,600,000	20,905,000	(24,600,000)	20,905,000	1,450,000	19,455,000
Add deferred amounts:						
Bond premium	-	1,234,822	(46,710)	1,188,112	-	1,188,112
Total bonds payable	24,600,000	22,139,822	(24,646,710)	22,093,112	1,450,000	20,643,112
Tax Increment Deferred Loan - Atlantic-Garvey Project	7,370,650	1,234,388	-	8,605,038	-	8,605,038
Tax Increment Deferred Loan - Merged Project	31,565,542	6,014,029	-	37,579,571	-	37,579,571
Total Tax Increment Deferred Loans	38,936,192	7,248,417	-	46,184,609	-	46,184,609
Low/Mod Housing Deferred Loans	1,186,222	-	-	1,186,222	-	1,186,222
Total Long-Term Debt	$ 64,722,414	$ 29,388,239	$ (24,646,710)	$ 69,463,943	$ 1,450,000	$ 68,013,943

6. LONG-TERM DEBT, CONTINUED

Tax Allocation Bonds

1998 Tax Allocation Revenue Bonds (Merged Project)

On October 14, 1998, the Monterey Park Public Financing Authority issued the 1998 Tax Allocation Revenue Bonds in the principal amount of $11,610,000. The proceeds were loaned to the Monterey Park Redevelopment Agency to advance refund the 1977 Freeway Bonds and to finance additional redevelopment activities within its Merged Project Area. The bonds are secured by a pledge of the tax revenues from the Merged Project Area and were issued in denominations of $5,000, with interest rates ranging from 3.8% to 5.3%. Interest payments are payable semiannually on March 1 and September 1. Principal payments are due on March 1 of each year and continue until the year 2028.

The bonds were paid off in a current refunding in December 2013 with the issuance of the Tax Allocation Refunding Bond, Series 2013B. This transaction resulted in a net economic gain of $517,613.

$ 0

2002 Tax Allocation Revenue Bonds (Atlantic-Garvey Project)

On August 22, 2002, the former Redevelopment Agency issued $24,270,000 Tax Allocation Bonds Issue of 2002, for the Atlantic-Garvey Redevelopment Project No. 1. These Bonds were issued to redeem outstanding 1992 Refunding Bonds on September 1, 2002 and to finance improvements within Atlantic-Garvey Redevelopment Project No. 1 Project area. The bonds are secured by a pledge of the tax revenues from the Project area and were issued in denominations of $5,000, with interest rates ranging from 2.5% to 5.0%. Interest payments are payable semiannually on September 1 and March 1. Principal payments are made on September 1 of each year and continue until the year 2028.

The bonds were paid off in a current refunding in December 2013 with the issuance of the Tax Allocation Refunding Bond, Series 2013A. This transaction resulted in a net economic gain of $811,747.

$ 0

Tax Allocation Refunding Bond, Series 2013A (Atlantic-Garvey Redevelopment Project No. 1)

On December 1, 2013, the County of Los Angeles Redevelopment Refunding Authority assisted the Successor Agency to issue the $13,835,000 Tax Allocation Refunding Bond, Series 2013A, for the Atlantic-Garvey Redevelopment Project No. 1. These Bonds were issued to redeem the outstanding 2002 Tax Allocation Revenue Bonds. The bonds are secured by a pledge of the tax revenues from the Project area and were issued in denominations of $1, with interest rates ranging from 3.0% to 5.0%. Interest payments are payable semiannually on September 1 and March 1. Principal payments are made on September 1 of each year and continue until the year 2026.

6. LONG-TERM DEBT, CONTINUED

Optional Redemption: The Bonds maturing on or before September 1, 2024, are not subject to optional redemption prior to maturity. The Bonds maturing on and after September 1, 2024, are subject to optional redemption on any date on and after September 1, 2023, in integral multiples of $5,000, from any available source of funds, at the times, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

The bonds are secured by a first and prior lien on tax increment revenues, excluding any portion of revenues that are required to be deposited to Rebate Fund. Annual Principal and interest payments on the bonds are expected to require less than 90% of net revenues. The amount of principal and interest outstanding at June 30, 2014 totaled $18,005,967. Interest paid for the current year is $117,898 and the net tax increment revenue is collected and withheld by the County of Los Angeles due to the dissolution of the former Redevelopment Agency. $ 13,825,000

Tax Allocation Refunding Bond, Series 2013B (Merged Redevelopment Project Area)

On December 1, 2013, the County of Los Angeles Redevelopment Refunding Authority assisted the Successor Agency issued $7,080,000 Tax Allocation Refunding Bond, Series 2013B, for the Merged Redevelopment Project No. 1. These Bonds were issued to redeem the outstanding 1998 Tax Allocation Revenue Bonds. The bonds are secured by a pledge of the tax revenues from the Project area and were issued in denominations of $1, with interest rates ranging from 3.0% to 5.0%. Interest payments are payable semiannually on September 1 and March 1. Principal payments are made on September 1 of each year and continue until the year 2028.

Optional Redemption: The Bonds maturing on or before September 1, 2024, are not subject to optional redemption prior to maturity. The Bonds maturing on and after September 1, 2024, are subject to optional redemption on any date on and after September 1, 2023, in integral multiples of $5,000, from any available source of funds, at the times, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium. $ 7,080,000

The bonds are secured by a first and prior lien on tax increment revenues, excluding any portion of revenues that are required to be deposited to Rebate Fund. Annual Principal and interest payments on the bonds are expected to require less than 90% of net revenues. The amount of principal and interest outstanding at June 30, 2014 totaled $9,831,125. Interest paid for the current year is $61,199 and the net tax increment revenue is collected and withheld by the County of Los Angeles due to the dissolution of the former Redevelopment Agency.

Total Tax Allocation Bonds **$ 20,905,000**

6. LONG-TERM DEBT, CONTINUED

The future debt service requirement on the tax allocation refunding bonds is as follows:

	2013A Atlantic-Garvey Tax Allocation Bond Refunding		2013B Merged Tax Allocation Bond Refunding		
	Principal	**Interest**	**Principal**	**Interest**	**Total**
2015	$ 1,010,000	$ 618,181	$ 440,000	$ 322,232	$ 2,390,413
2016	845,000	330,060	345,000	308,731	1,828,791
2017	875,000	547,506	360,000	292,831	2,075,337
2018	915,000	502,881	380,000	274,331	2,072,212
2019	965,000	455,631	400,000	254,831	2,075,462
2020-2024	5,530,000	1,487,906	2,300,000	947,405	10,265,311
2025-2029	3,685,000	238,802	2,855,000	350,764	7,129,566
	$ 13,825,000	$ 4,180,967	$ 7,080,000	$ 2,751,125	$ 27,837,092

Tax Increment Deferred Loan - (Atlantic-Garvey Project)

On August 20, 1987, the former Redevelopment Agency entered into an agreement for reimbursement of tax increment funds with the County of Los Angeles (the "County"). In the Agreement, the County agreed to loan its portion of the tax increment revenues received from the amended area (88 Annex) to the former Redevelopment Agency at a 7% compound interest rate, beginning fiscal year 1989-90. The percentage distribution from the basic tax levy for the 88 Annex areas for the County and the former Redevelopment Agency is 43.7% and 56.3% respectively. The former Redevelopment Agency will commence repayment of this loan annually beginning with the fiscal year in which the former Redevelopment Agency's share of tax increment revenues (excluding Housing Fund contributions) from the 88 Annex areas exceeds $800,000.	$ 8,605,038

Tax Increment Deferred Loan - (Merged Project)

The former Redevelopment Agency and the County Taxing Entities (the County of Los Angeles, the Los Angeles County Flood Control District, and the Los Angeles County Office of Education) entered into four agreements for reimbursement of the tax increment deferred amounts. In the Agreements, the County Taxing Entities agreed to loan their portions of the tax increment revenues received from the Southeast Project area, Freeway `99 Annex area, Central Commercial Project area, and Merged Monterey Pass Road area to the former Redevelopment Agency at specified interest rates ranging from 0% to 7%. The percentage distribution from the basic tax levy and the repayment schedule of the deferred loans are also based on a specified formula for each taxing entity.	$ 37,579,571

6. LONG-TERM DEBT, CONTINUED

Arbitrage

The Tax Reform Act of 1986 substantially revised the treatment to be afforded to arbitrage earnings on invested bond proceeds and now requires the Successor Agency to remit excess arbitrage earnings to the Internal Revenue Service. Certain of the Successor Agency's debt and interest earned on the proceeds thereon fall under the requirements of the act. The Successor Agency has made the necessary arbitrage rebate calculations. As of June 30, 2014, the Successor Agency incurred no rebate liability for its bonds.

Low/Mod Housing Deferred Loans

State law requires redevelopment agencies to set aside 20 percent of their tax increment revenues for low/mod housing. In 1997, the former Redevelopment Agency approved a plan to set aside future tax increment revenue in addition to the regular 20 percent set aside requirements. On February 1, 2012, the commitment was transferred to the Successor Agency due to the dissolution of the former Redevelopment Agency and was approved by the Department of Finance of the State of California as a payable to the City's Special Revenue Housing Fund.

A summary of the repayment plan is presented below:

For the year ending June 30,	Amount
2024-2029	$ 500,000
2030-2034	450,000
2035-2039	236,222
Total	$ 1,186,222

7. SETTLEMENT PAYABLE

Atlantic Time Square – Mezzanine Loan

There are provisions within the agreement with the developer suggesting that the former Redevelopment Agency may be obligated to provide millions of dollars of subsidies to the Atlantic Times Square development. Uncertainty regarding whether the former Redevelopment Agency is actually obligated to provide subsidies, and how much, arises from a determination issued by the Department of Industrial Relations ("DIR") in June 2010. That determination was appealed by the former Redevelopment Agency. On August 26, 2011, the DIR upheld its previous 2010 determination and denied the former Redevelopment Agency's appeal.

The former Redevelopment Agency filed a lawsuit in Superior Court to overturn the DIR's determination on October 19, 2011. The former Redevelopment Agency was also subject to enforcement action from the Division of Labor Standards Enforcement ("DLSE") for unpaid prevailing wages on the development project. On July 23, 2012, the parties entered into escrow agreement, and then on July 26, 2012, the Successor Agency deposited $9,900,000 to the escrow account. On September 18 and 19, 2012, the Successor Agency entered into a settlement agreement with the DLSE and the developer, respectively, which resolved all outstanding issues.

7. SETTLEMENT PAYABLE, CONTINUED

Atlantic Time Square – Mezzanine Loan, Continued

Pursuant to the settlement agreement, 1) the Mezzanine Loan in the amount of $5,850,000 is converted to a grant and is no longer owed to the Successor Agency and 2) the Successor Agency will pay $476,650 to DLSE, $5,400,000 to the developer for costs related to the Atlantic Times Square project, and up to $600,000 to the developer for settlement of the dispute from the escrow account. The remaining settlement to the Successor Agency is estimated to be $3,370,000 and will be retained in escrow until November 30, 2014 upon expiration of the applicable statute of limitations for others to file a claim regarding the project, less any claims filed before such expiration.

The California Department of Finance approved the settlement agreement on November 21, 2012 and agreed that up to $3,370,000 will be available for distribution to the taxing entities after the retention period ends in November 2014. The estimated settlement in the amount of $4,028,540 is reported as settlement payable as of June 30, 2014 in the accompanying financial statements.

8. PRIOR PERIOD ADJUSTMENT

The Successor Agency implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* during the year ended June 30, 2014. Bond issuance costs are recognized as expenses in the year they are incurred. Prior to the implementation, these items were deferred and amortized over the life of the existing debt. The unamortized deferred charges on bond issuance costs at July 1, 2013 were in the amount of $482,499 for the Successor Agency. The beginning net position at July 1, 2013 was restated as follows:

Net Position at July 1, 2013	$	(52,932,973)
Bond Issuance Costs		(482,499)
Net Position at July 1, 2013, as Restated	$	(53,415,472)

9. CONTINGENCIES

Management believes, in consultation with legal counsel that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the Successor Agency Trust under the requirement of the Bill.