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Certified Public Accountants

INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES

San Joaquin County Auditor-Controller / Oversight Board of the Successor Agency
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We have performed the minimum required agreed-upon procedures (AUP) enumerated in Attachment A, which were agreed to by the California State Controller's Office, Department of Finance, and the San Joaquin County Auditor-Controller, solely to assist you in ensuring that the dissolved redevelopment agency is complying with its statutory requirements with respect to ABX1 26. Management of the successor agency and San Joaquin County are responsible for the accounting records pertaining to statutory compliance pursuant to Health and Safety Code Section 34182(a)(1). This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The scope of this engagement was limited to performing the minimum required agreed-upon procedures as set forth in Attachment A. The results of the procedures performed are also listed under each related testing step in Attachment A.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion as to the appropriateness of the results summarized in Attachment A. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the San Joaquin County Auditor-Controller, the successor agency, and applicable State agencies, and is not intended to be, and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION
Brown Armstrong
Accountancy Corporation

Bakersfield, California
September 18, 2012



REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

**Attachment A—Agreed-Upon Procedures Engagement
Pursuant to ABX1 26, Community Redevelopment Dissolution**

Purpose: To establish each redevelopment agency's assets and liabilities, to document and determine each redevelopment agency's pass-through payment obligations to other taxing agencies, and to document and determine both the amount and the terms of any indebtedness incurred by the redevelopment agency and certify the initial recognized obligation payment schedule. [Health and Safety Code Section 34182(a)(2)]

In conformity with attestation standards, the language in each separate report for each agency will need to be specific as to the type of documents that were examined in performing the procedure.

A. RDA Dissolution and Restrictions

For each redevelopment agency dissolved, perform the following:

1. Obtain a copy of the enforceable obligation payment schedule (EOPS) for the period of August 1, 2011, through December 31, 2011. Trace the redevelopment project name or area (whichever applies) associated with the obligations, the payee, a description of the nature of the work/service agreed to, and the amount of payments made by month through December 31, 2011, and compare it to the legal document(s) that forms the basis for the obligations. Since amounts could be estimated, determine that they are stated as such and that legal documentation supports those estimates.

Result:

We noted the following exceptions:

- A) Estimated amounts existed on the EOPS; however, they were not stated as such on the EOPS form.

Management's Response:

Per the SCO's procedures, it is necessary to include "estimated" on the EOPS for any estimated amounts. We both know that the EOPS are estimates but we are simply following the SCO's procedures.

2. Obtain a copy of all amended EOPS filed during the period of January 1, 2012, through June 30, 2012. Trace the redevelopment project name or area (whichever applies) associated with the obligations, the payee, a description of the nature of the work/service agreed to, and the amount of payments to be made by month through June 30, 2012, and compare it to the legal document(s) that forms the basis for the obligations. Again, since amounts could be estimated, determine that they are stated as such and that legal documentation supports those estimates.

Result:

We noted the following exception:

- A) Estimated amounts existed on the amended EOPS; however, they were not stated as such on the form.

Management's Response:

Per the SCO's procedures, it is necessary to include "estimated" on the EOPS for any estimated amounts. We both know that the EOPS are estimates but we are simply following the SCO's procedures.

3. Identify any obligations listed on the EOPS that were entered into after June 29, 2011, by inspecting the date of incurrence specified on Form A of the Statement of Indebtedness filed with the County Auditor-Controller, which was filed on or before October 1, 2011.

Result:

We found no exceptions as a result of the procedures performed.

4. Inquire and specifically state in the report the manner in which the agency did or did not execute a transfer of the Low and Moderate Income Housing Fund to the redevelopment successor agency by February 1, 2012. Procedures to accomplish this might include changing the name of the accounting fund and related bank accounts that are holding these assets for the successor agency. If the successor agency is a party other than the agency that created the redevelopment agency, an examination of bank statements and changing of account titles and fund names evidencing such transfer will be sufficient.

Result:

- A) The Redevelopment Agency transferred the Low and Moderate Income Housing Fund #281 to the Successor Agency Housing Fund #282 by February 1, 2012.
 - B) We found no exceptions as a result of the procedures performed.
5. Inquire and specifically state in the report how housing activities (assets and functions, rights, powers, duties, and obligations) were transferred and the manner in which this agency did or did not execute a transfer. Procedures to accomplish this might include changing the name of the accounting fund and related bank accounts that are holding these assets for the other agency. An examination of bank statements and changing of account titles and fund names evidencing such transfers will be sufficient. If the housing successor is a party other than the agency that created the redevelopment agency, an examination of bank statements and re-recording of titles evidencing such transfer will be sufficient.

Result:

- A) The Council of the City of Tracy elected to retain the housing assets and functions previously performed by the Redevelopment Agency. This election included changing the fund name and number.
- B) We found no exceptions as a result of the procedures performed.

B. Successor Agency

1. Inspect evidence that a successor agency (A) has been established by February 1, 2012; and (B) the successor agency oversight board has been appointed, with names of the successor agency oversight board members, which must be submitted to the Department of Finance by May 1, 2012.

Result:

We found no exceptions as a result of the procedures performed.

2. Inquire regarding the procedures accomplished and specifically state in the report the manner in which this agency did or did not execute a transfer of operations to the successor agency, which was due by February 1, 2012. Procedures to accomplish this might include changing the name of the accounting fund and related bank accounts that are holding these assets for the successor agency. If the successor agency is a party other than the agency that created the redevelopment agency, an examination of bank statements and changing of account titles and fund names evidencing such transfers will be sufficient.

Result:

- A) The Redevelopment Agency did execute a transfer of operations to the Successor Agency on February 1, 2012. The procedure to accomplish this included changing the name and number of the accounting fund.
 - B) We found no exceptions as a result of the procedures performed.
3. Ascertain that the successor agency has established the Redevelopment Obligation Retirement Fund(s) in its accounting system.

Result:

We found no exceptions as a result of the procedures performed.

4. Inspect the EOPS and ROPS and identify the payments that were due to be paid through the date of the AUP Report. Select a sample (based on a dollar amount and/or percentage amount as determined by the San Joaquin County Auditor-Controller) and compare the payments that were due to be paid through the date of the AUP Report to a copy of the cancelled check or other documentation supporting the payment.

Result:

We found no exceptions as a result of the procedures performed.

5. Obtain listings that support the asset figures (cash, investments, accounts receivable, notes, receivables, fixed assets, etc.) in the audited financial statements as of June 30, 2010, June 30, 2011, and as of January 31, 2012, as determined by the successor agency and include as an attachment to the AUP Report.

Result:

We found no exceptions as a result of the procedures performed.

Please see Attachment B for listings that support the asset figures.

Management's Response:

Please see footnote relating to the transfer of the Grand Theatre from the former redevelopment agency to the City of Tracy.

C. Recognized Obligation Payment Schedule (Draft ROPS)

- Obtain a copy of the initial draft of the ROPS from the successor agency.
1. Inspect evidence that the initial draft of the ROPS was prepared by March 1, 2012.

Result:

We noted the following exception:

- A) No evidence was provided to determine that the initial draft of the ROPS was prepared by March 1, 2012.

Management's Response:

I do not know the date that I first prepared the draft ROPS and I certainly never thought I would someday need to provide some sort of "proof." After the unfortunate Supreme Court decision, everyone in local government finance was scrambling about trying to make sense of it all. I did attend the California Redevelopment Association's training on AB26x/27x in mid-March. It was at that training that attendees were provided some instruction about how to prepare a ROPS. Our first ROPS was approved by the City Council acting as the successor agency on March 20, 2012. Meanwhile, the City of Tracy as the successor agency was still waiting on appointments to the Oversight Board by the various other agencies. We had our first Oversight Board meeting on May 1, 2012, at which time the Board also approved the ROPS. Both our January 1, 2012, to June 30, 2012, and July 1, 2012, to December 31, 2012, ROPS have been submitted and approved by the State. As such, I find this noted exception to be irrelevant and moot.

2. Note in the minutes of the Oversight Board that the draft ROPS has been approved by the Oversight Board. If the Oversight Board has not yet approved the draft ROPS as of the date of the AUP Report, this should be mentioned in the AUP Report.

Result:

We found no exceptions as a result of the procedures performed.

3. Inspect evidence that a copy of the draft ROPS was submitted to the County Auditor-Controller, State Controller, and Department of Finance.

Result:

We found no exceptions as a result of the procedures performed.

4. Inspect evidence that the draft ROPS includes monthly scheduled payments for each enforceable obligation for the current six-month reporting time period.

Result:

We found no exceptions as a result of the procedures performed.

5. Select a sample (based on dollar amount and/or percentage amount as determined by the San Joaquin County Auditor-Controller) and trace enforceable obligations listed on the draft ROPS to the legal document that forms the basis for the obligation.

Result:

We found no exceptions as a result of the procedures performed.

6. Trace the obligations enumerated on the draft ROPS to the obligations enumerated on the EOPS (including amendments) and note any material differences as agreed to by the San Joaquin County Auditor-Controller.

Result:

We noted the following material differences:

<u>Descriptions of Obligation</u>	<u>Amount per Amended EOPS</u>	<u>Amount per the Draft ROPS</u>	<u>Differences</u>
2008 Lease Revenue Bonds	\$ 10,800,000	\$ -	\$ 10,800,000
SERAF	-	2,803,520	(2,803,520)
Personnel Expenses - Redevelopment Program Budget	389,140	-	389,140
Contracted Services - Redevelopment Program Budget	66,710	-	66,710
Personnel Expenses - Housing Program Budget	314,020	-	314,020
Contracted Services - Housing Program Budget	66,200	-	66,200
Total	<u>\$ 11,636,070</u>	<u>\$ 2,803,520</u>	<u>\$ 8,832,550</u>

Management's Response:

We initially listed the various personnel and contracted services on the EOPS but later were advised by the Department of Finance (DOF) to remove these items as they were not required. It is true, we did not identify the SERAF initially since that was just from one fund to another WITHIN the redevelopment agency. But of course if legislation is passed to use some of these funds on housing, this will be important.

The FY 11-12 redevelopment agency annual payment under the 2008 City lease revenue bonds had already been made in the fall of 2011. Thus, we were advised by the DOF not to put the item on that ROPS. You will see the item is now correctly listed on the July 2012 to December 2012 ROPS.

D. Recognized Obligation Payment Schedule (Final ROPS)

- Obtain a copy of the final ROPS (January 1, 2012, through June 30, 2012) from the successor agency.
- 1. Inspect evidence that the final ROPS was submitted to the County Auditor-Controller, the State Controller, and Department of Finance by April 15, 2012, and is posted on the website of the City/County as successor agency (Health and Safety Code Section 34177(2)(C)).

Result:

We noted the following exception:

- A) The final ROPS was not filed with Department of Finance by April 15, 2012.

Management's Response:

At its first meeting on May 1, 2012, the Oversight Board approved the January 1, 2012 to June 30, 2012, ROPS. The Board chose however, to consider the July 1, 2012 to December 31, 2012, ROPS at its next meeting to be held on June 5, 2012. City staff was unaware of any real consequences to this delay other than delaying the release of funds - but since our next obligation was for bond payments and those weren't needed until September, Staff reluctantly agreed to put this ROPS on the June 5, 2012, agenda of the Oversight Board. I was planning on sending the State this ROPS after it was approved by the Oversight Board. I did receive a phone call from my contact (the person who had reviewed my draft ROPS) at the State Department of Finance and she requested that I send her the ROPS right away even though it had not yet been considered by the Oversight Board. I sent her the ROPS and it was also posted where needed. I subsequently received a letter from the State approving not only the January 1, 2012 to June 30, 2012, ROPS but also the July 1, 2012 to December 31, 2012, ROPS even though the second ROPS hadn't yet been approved by the Oversight Board. The Oversight Board did approve it on June 5, 2012, as did the City Council acting in its capacity as the successor agency.

2. Inspect the final ROPS and identify the payments that were due to be paid through the date of the Agreed-Upon Procedures report. For payments on the ROPS that were identified as being due through the date of the Agreed-Upon Procedures Report, inspect evidence of payment and determine that amounts agree to the purpose of the obligation as amounts could be estimated.

Result:

We found no exceptions as a result of the procedures performed.

3. Select a sample (based on a dollar amount and/or percentage amount as determined by the San Joaquin County Auditor-Controller) and trace enforceable obligations listed on the final ROPS to the legal agreements or documents that forms the basis for the obligation.

Result:

We found no exceptions as a result of the procedures performed.

E. Other Procedures

- Obtain a list of pass-through obligations and payment schedules.
- 1. Obtain a list of pass-through obligations and payments made from the redevelopment agency from July 1, 2011, through January 31, 2012, inspect evidence of payment, and note any differences from the list of pass-through obligations and payments made.

Result:

We found no exceptions as a result of the procedures performed.

- Issue Agreed-Upon Procedures Report and distribute to the California State Controller by July 15, 2012.

Result:

AB 1484 has extended the due date for the agreed-upon procedures report to October 1, 2012. We will submit the report to the California State Controller on or before October 1, 2012.

Attachment B

	<u>June 30, 2010</u>	<u>June 30, 2011</u>	<u>January 31, 2012</u>
ASSETS			
Cash and Investments	\$ 8,917,585.00	\$ 4,289,122.00	\$ 8,579,178.00
Restricted Cash and Investments	755,434.00	759,207.00	6,908,404.00
Cash and Investment with Fiscal Agents	5,844,258.00	3,745,949.00	-
Accounts Receivable	247,614.00	426,699.00	-
Interest Receivable	46,629.00	19,661.00	(7,578.00)
Long-Term Notes Receivable:			
Mountain View Townhomes Association	846,510.00	855,645.00	855,645.00
Eden Housing Inc	2,354,167.00	2,375,661.00	2,375,661.00
Habitat for Humanity	40,093.00	49,740.00	49,740.00
DHI Tracy Garden Associates	2,095,642.00	2,184,485.00	2,184,485.00
Loans to Individuals	1,793,060.00	2,152,835.00	2,152,835.00
CFY Development Inc.	4,470,379.00	4,515,083.00	4,515,083.00
Residential and Commercial Rehabilitation Program	343,289.00	315,773.00	317,952.00
Less: Allowance for Conditional Grants	(1,003,593.00)	(1,003,593.00)	-
Due from San Joaquin County	-	-	401,267.00
Deferred Charges	3,410,030.00	3,246,789.00	-
Land	2,581,457.00	-	-
Buildings and Structures	16,942,456.00 *	-	-
Improvements	1,079,772.00	-	-
Equipment	297,073.00	-	-
Total	<u>\$ 51,061,855.00</u>	<u>\$ 23,933,056.00</u>	<u>\$ 28,332,672.00</u>

* Pursuant to the former redevelopment agency's CDA Resolution 229 and Health and Safety Code Section 33445, on September 2, 2008, the agency transferred ownership of the Grand Theatre to the City of Tracy by grant deed. The audited financial statements erroneously included the Grand Theatre for year ended June 30, 2010, in the amount of \$16,942,456.