

# SUCCESSOR AGENCY CITY OF OCEANSIDE

OVERSIGHT BOARD MEETING DATE: October 9, 2012

ITEM TITLE: APPROVAL OF THE DUE DILIGENCE REVIEW OF THE LOW AND MODERATE INCOME HOUSING FUND

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## SYNOPSIS

Review and approve the Due Diligence Review of the Low and Moderate Income Housing Fund prepared by Lance Soll & Lunghard, LLP.

## BACKGROUND

Pursuant to Section 18 34179.6 of the Community Redevelopment Law (Health and Safety Code Section 33000 *et seq.*; "CRL"), the Successor Agencies must submit the results of a Due Diligence Review conducted pursuant to Section 34179.5 for the Low and Moderate Incoming Housing Fund and specifically the amount of cash and cash equivalents determined to be available for allocation to taxing entities. A separate Due Diligence Review will be submitted in December for the remaining Successor Agency funds.

## FISCAL IMPACT

Total cash on hand in the Successor Agency Low and Moderate Housing Fund as of June 30, 2012 is \$5,378,138 which will be remitted to the County for distribution to taxing entities. Attached is a breakdown of the Excess Distribution percentages.

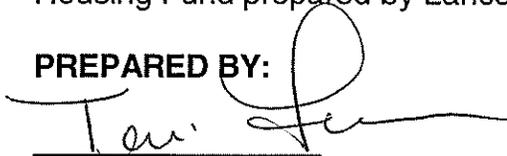
## CITY ATTORNEY'S ANALYSIS

The referenced documents have been reviewed by the City Attorney, acting as counsel to the Successor Agency, and approved as to form.

## RECOMMENDATION

Review and approval of the Due Diligence Review of the Low and Moderate Income Housing Fund prepared by Lance Soll & Lunghard, LLP.

PREPARED BY:



Teri Ferro  
Financial Services Director

Attachment: Due Diligence Review of the Low and Moderate Income Housing Fund  
Excess Distributions

## Excess Distributions

Agency	Agency Description	Weighted Avg Share
4317-01	Unified Oceanside	38.345504%
6070-01	Oceanside City District No. 1	25.856552%
1001-00	County General	23.019068%
4450-01	Mira Costa Community College	8.228875%
6180-00	Tri City Hospital District Maintenance	1.734382%
4535-01	County School Service	0.658225%
4535-16	Regional Occupational Centers	0.419814%
6750-16	CWA City of Oceanside	0.335477%
4535-18	Physically Handicapped Minors High School Comp.	0.291810%
4535-13	Physically Handicapped Minors Elem. Comp.	0.290875%
4535-17	Trainable Mentally Retarded Minors High School	0.189403%
4535-12	Trainable Mentally Retarded Minors Elem. Comp.	0.188352%
4535-04	County School Service- Capital Outlay	0.165888%
4535-15	Children's Institutions Tuition	0.140397%
4535-38	Development Centers For Handicapped EC5681 1 High	0.042510%
4535-33	Development Centers For Handicapped EC5681 1 Elem.	0.041354%
4535-20	Vista Project (19/85701)	0.016672%
4535-21	Oceanside Project (19/85001)	0.008913%
4535-23	Autistic Pupils Minors Elementary Comp.	0.008913%
4535-28	Autistic Pupils Minors High School Comp.	0.008797%
4535-24	Carlsbad Project (19/86001)	0.008220%
<b>Totals</b>		<b>100.000000%</b>



**Successor Agency  
of the Former Redevelopment Activities  
of the Oceanside Community Development Commission**

**Due Diligence Review  
of the Low and Moderate Income Housing Fund  
Pursuant to Sections 34179.5(c)(1) through 34179.5(c)(3)  
and Sections 34179.5(c)(5) through 34179.5(c)(6)  
of Assembly Bill No. 1484 of 2012**

**Lance Soll & Lunghard, LLP**

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Successor Agency  
of the Former Redevelopment Activities  
of the Oceanside Community Development Commission

Due Diligence Review  
of the Low and Moderate Income Housing Fund  
Pursuant to Sections 34179.5(c)(1) through 34179.5(c)(3)  
and Sections 34179.5(c)(5) through 34179.5(c)(6)  
of Assembly Bill No. 1484 of 2012

- Brandon W. Burrows, CPA
- David E. Hale, CPA, CFP  
*A Professional Corporation*
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, CPA
- Deborah A. Harper, CPA

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING  
AGREED-UPON PROCEDURES

To the Successor Agency of the Former Redevelopment Activities of the  
Oceanside Community Development Commission  
City of Oceanside, California

We have performed the procedures enumerated in Attachment A for the Low and Moderate Housing Fund, which were agreed to by the California State Controller's Office and the State of California Department of Finance (State Agencies) solely to assist you in ensuring that the dissolved redevelopment agency is complying with Assembly Bill 1484, Chapter 26, Section 17's amendment to health and safety code 34179.5. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Management of the successor agency is responsible for providing all the information obtained in performing these procedures. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

As stated above, the scope of this engagement was limited to performing the procedures identified in Attachment A, which specified the "List of Procedures for the Due Diligence Review" obtained from the California Department of Finance Website.

The results of the procedures performed are identified in Attachment B1 through B11.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of a certified opinion as to the appropriateness of the results of the procedures performed. 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 the Successor Agency.

This report is intended solely for the information and use of the Successor Agency Oversight Board, the Successor Agency and the 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.

*Lance, Soll & Lunghard, LLP*

Brea, California  
September 19, 2012

**List of Procedures for Due Diligence Review of the Low and Moderate Housing Fund**

1. Obtain from the Successor Agency a listing of all assets that were transferred from the former redevelopment agency to the Successor Agency on February 1, 2012. Agree the amounts on this listing to account balances established in the accounting records of the Successor Agency. Identify in the Agreed-Upon Procedures (AUP) report the amount of the assets transferred to the Successor Agency as of that date.
2. If the State Controller's Office has completed its review of transfers required under both sections 34167.5 and 34178.8 and issued its report regarding such review, attach a copy of that report as an exhibit to the AUP report. If this has not yet occurred, perform the following procedures:
  - a. Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from the former redevelopment agency to the city, county, or city and county that formed the redevelopment agency for the period from January 1, 2011 through January 31, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements. Provide this listing as an attachment to the AUP report.
  - b. Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from the Successor Agency to the city, county, or city and county that formed the redevelopment agency for the period from February 1, 2012 through June 30, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements. Provide this listing as an attachment to the AUP report.
  - c. For each transfer, obtain the legal document that formed the basis for the enforceable obligation that required any transfer. Note in the AUP report the absence of any such legal document or the absence of language in the document that required the transfer.
3. If the State Controller's Office has completed its review of transfers required under both Sections 34167.5 and 34178.8 and issued its report regarding such review, attach a copy of that report as an exhibit to the AUP report. If this has not yet occurred, perform the following procedures:
  - a. Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from the former redevelopment agency to any other public agency or to private parties for the period from January 1, 2011 through January 31, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements. Provide this listing as an attachment to the AUP report.
  - b. Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from the Successor Agency to any other public agency or private parties for the period from February 1, 2012 through June 30, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements. Provide this listing as an attachment to the AUP report.
  - c. For each transfer, obtain the legal document that formed the basis for the enforceable obligation that required any transfer. Note in the AUP report the absence of any such legal document or the absence of language in the document that required the transfer.

**List of Procedures for Due Diligence Review for the Low and Moderate Housing Fund (Continued)**

4. Perform the following procedures:
  - a. Obtain from the Successor Agency a summary of the financial transactions of the Redevelopment Agency and the Successor Agency in the format set forth in the attached schedule for the fiscal periods indicated in the schedule. For purposes of this summary, the financial transactions should be presented using the modified accrual basis of accounting. End of year balances for capital assets (in total) and long-term liabilities (in total) should be presented at the bottom of this summary schedule for information purposes.
  - b. Ascertain that for each period presented, the total of revenues, expenditures, and transfers accounts fully for the changes in equity from the previous fiscal period.
  - c. Compare amounts in the schedule relevant to the fiscal year ended June 30, 2010 to the state controller's report filed for the Redevelopment Agency for that period.
  - d. Compare amounts in the schedule for the other fiscal periods presented to account balances in the accounting records or other supporting schedules. Describe in the report the type of support provided for each fiscal period.
5. Obtain from the Successor Agency a listing of all assets of the Low and Moderate Income Housing Fund as of June 30, 2012 for the report that is due October 1, 2012 and a listing of all assets of all other funds of the Successor Agency as of June 30, 2012 (excluding the previously reported assets of the Low and Moderate Income Housing Fund) for the report that is due December 15, 2012. When this procedure is applied to the Low and Moderate Income Housing Fund, the schedule attached as an exhibit will include only those assets of the Low and Moderate Income Housing Fund that were held by the Successor Agency as of June 30, 2012 and will exclude all assets held by the entity that assumed the housing function previously performed by the former redevelopment agency. Agree the assets so listed to recorded balances reflected in the accounting records of the Successor Agency. The listing should be attached as an exhibit to the appropriate AUP report.
6. Obtain from the Successor Agency a listing of asset balances held on June 30, 2012 that are restricted for the following purposes:
  - a. Unspent bond proceeds:
    - i. Obtain the Successor Agency's computation of the restricted balances (e.g., total proceeds less eligible project expenditures, amounts set aside for debt service payments, etc.)
    - ii. Trace individual components of this computation to related account balances in the accounting records, or to other supporting documentation (specify in the AUP report a description of such documentation).
    - iii. Obtain from the Successor Agency a copy of the legal document that sets forth the restriction pertaining to these balances. Note in the AUP report the absence of language restricting the use of the balances that were identified by the Successor Agency as restricted.
  - b. Grant proceeds and program income that are restricted by third parties:
    - i. Obtain the Successor Agency's computation of the restricted balances (e.g., total proceeds less eligible project expenditures).
    - ii. Trace individual components of this computation to related account balances in the accounting records, or to other supporting documentation (specify in the AUP report a description of such documentation).

**List of Procedures for Due Diligence Review for the Low and Moderate Housing Fund (Continued)**

- iii. Obtain from the Successor Agency a copy of the grant agreement that sets forth the restriction pertaining to these balances. Note in the AUP report the absence of language restricting the use of the balances that were identified by the Successor Agency as restricted.
  - c. Other assets considered to be legally restricted:
    - i. Obtain the Successor Agency's computation of the restricted balances (e.g., total proceeds less eligible project expenditures).
    - ii. Trace individual components of this computation to related account balances in the accounting records, or to other supporting documentation (specify in the AUP report a description of such documentation).
    - iii. Obtain from the Successor Agency a copy of the legal document that sets forth the restriction pertaining to these balances. Note in the AUP report the absence of language restricting the use of the balances that were identified by Successor the Agency as restricted.
  - d. Attach the above mentioned Successor Agency prepared schedule(s) as an exhibit to the AUP report. For each restriction identified on these schedules, indicate in the report the period of time for which the restrictions are in effect. If the restrictions are in effect until the related assets are expended for their intended purpose, this should be indicated in the report.
- 7. Perform the following:
  - a. Obtain from the Successor Agency a listing of assets as of June 30, 2012 that are **not** liquid or otherwise available for distribution (such as capital assets, land held for resale, long-term receivables, etc.) and ascertain if the values are listed at either purchase cost (based on book value reflected in the accounting records of the Successor Agency) or market value as recently estimated by the Successor Agency.
  - b. If the assets listed at 7(A) are listed at purchase cost, trace the amounts to a previously audited financial statement (or to the accounting records of the Successor Agency) and note any differences.
  - c. For any differences noted in 7(B), inspect evidence of disposal of the asset and ascertain that the proceeds were deposited into the Successor Agency trust fund. If the differences are due to additions (this generally is not expected to occur), inspect the supporting documentation and note the circumstances.
  - d. If the assets listed at 7(A) are listed at recently estimated market value, inspect the evidence (if any) supporting the value and note the methodology used. If no evidence is available to support the value and/or methodology, note the lack of evidence.
- 8. Perform the following:
  - a. If the Successor Agency believes that asset balances need to be retained to satisfy enforceable obligations, obtain from the Successor Agency an itemized schedule of asset balances (resources) as of June 30, 2012 that are dedicated or restricted for the funding of enforceable obligations and perform the following procedures. The schedule should identify the amount dedicated or restricted, the nature of the dedication or restriction, the specific enforceable obligation to which the dedication or restriction relates, and the language in the legal document that is associated with the enforceable obligation that specifies the dedication of existing asset balances toward payment of that obligation.
    - i. Compare all information on the schedule to the legal documents that form the basis for the dedication or restriction of the resource balance in question.

**List of Procedures for Due Diligence Review for the Low and Moderate Housing Fund (Continued)**

- ii. Compare all current balances to the amounts reported in the accounting records of the Successor Agency or to an alternative computation.
  - iii. Compare the specified enforceable obligations to those that were included in the final Recognized Obligation Payment Schedule approved by the California Department of Finance.
  - iv. Attach as an exhibit to the report the listing obtained from the Successor Agency. Identify in the report any listed balances for which the Successor Agency was unable to provide appropriate restricting language in the legal document associated with the enforceable obligation.
- b. If the Successor Agency believes that future revenues together with balances dedicated or restricted to an enforceable obligation are insufficient to fund future obligation payments and thus retention of current balances is required, obtain from the Successor Agency a schedule of approved enforceable obligations that includes a projection of the annual spending requirements to satisfy each obligation and a projection of the annual revenues available to fund those requirements and perform the following procedures:
- i. Compare the enforceable obligations to those that were approved by the California Department of Finance. Procedures to accomplish this may include reviewing the letter from the California Department of Finance approving the Recognized Enforceable Obligation Payment Schedules for the six month period from January 1, 2012 through June 30, 2012 and for the six month period July 1, 2012 through December 31, 2012.
  - ii. Compare the forecasted annual spending requirements to the legal document supporting each enforceable obligation.
    - a. Obtain from the Successor Agency its assumptions relating to the forecasted annual spending requirements and disclose in the report major assumptions associated with the projections.
  - iii. For the forecasted annual revenues:
    - a. Obtain from the Successor Agency its assumptions for the forecasted annual revenues and disclose in the report major assumptions associated with the projections.
- c. If the Successor Agency believes that projected property tax revenues and other general purpose revenues to be received by the Successor Agency are insufficient to pay bond debt service payments (considering both the timing and amount of the related cash flows), obtain from the Successor Agency a schedule demonstrating this insufficiency and apply the following procedures to the information reflected in that schedule.
- i. Compare the timing and amounts of bond debt service payments to the related bond debt service schedules in the bond agreement.
  - ii. Obtain the assumptions for the forecasted property tax revenues and disclose major assumptions associated with the projections.
  - iii. Obtain the assumptions for the forecasted other general purpose revenues and disclose major assumptions associated with the projections.
- d. If procedures A, B, or C were performed, calculate the amount of current unrestricted balances necessary for retention in order to meet the enforceable obligations by performing the following procedures.

**List of Procedures for Due Diligence Review for the Low and Moderate Housing Fund (Continued)**

- i. Combine the amount of identified current dedicated or restricted balances and the amount of forecasted annual revenues to arrive at the amount of total resources available to fund enforceable obligations.
  - ii. Reduce the amount of total resources available by the amount forecasted for the annual spending requirements. A negative result indicates the amount of current unrestricted balances that needs to be retained.
  - iii. Include the calculation in the AUP report.
9. If the Successor Agency believes that cash balances as of June 30, 2012 need to be retained to satisfy obligations on the Recognized Obligation Payment Schedule (ROPS) for the period of July 1, 2012 through June 30, 2013, obtain a copy of the final ROPS for the period of July 1, 2012 through December 31, 2012 and a copy of the final ROPS for the period January 1, 2013 through June 30, 2013. For each obligation listed on the ROPS, the Successor Agency should add columns identifying (1) any dollar amounts of existing cash that are needed to satisfy that obligation and (2) the Successor Agency's explanation as to why the Successor Agency believes that such balances are needed to satisfy the obligation. Include this schedule as an attachment to the AUP report.
10. Include (or present) a schedule detailing the computation of the Balance Available for Allocation to Affected Taxing Entities. Amounts included in the calculation should agree to the results of the procedures performed in each section above. The schedule should also include a deduction to recognize amounts already paid to the County Auditor-Controller on July 12, 2012 as directed by the California Department of Finance. The amount of this deduction presented should be agreed to evidence of payment. The attached example summary schedule may be considered for this purpose. Separate schedules should be completed for the Low and Moderate Income Housing Fund and for all other funds combined (excluding the Low and Moderate Income Housing Fund).
11. Obtain a representation letter from Successor Agency management acknowledging their responsibility for the data provided to the practitioner and the data presented in the report or in any attachments to the report. Included in the representations should be an acknowledgment that management is not aware of any transfers (as defined by Section 34179.5) from either the former redevelopment agency or the Successor Agency to other parties for the period from January 1, 2011 through June 30, 2012 that have not been properly identified in the AUP report and its related exhibits. Management's refusal to sign the representation letter should be noted in the AUP report as required by attestation standards.

**Procedure 1** **Attachment B1**  
**List of Assets Transferred from the Former Redevelopment Agency to the Successor Agency**  
**Low and Moderate Housing Fund**  
**As of February 1, 2012**

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Asset	Balance at 2/1/2012
Cash in bank	\$ 6,581,939
	<b>Total Assets Transferred: \$ 6,581,939</b>

Procedure 2  
 Listing of Transfers (excluding payments for goods and services) to the City  
 Low and Moderate Housing Fund  
 For the Period from January 1, 2011 through June 30, 2012

Describe Purpose of Transfer	Enforceable Obligation (EO)/ Other Legal Requirement (LR)	Amount	Legal Documentation Obtained? (Y/N)
<u>From former Redevelopment Agency to City for January 1, 2011 through January 31, 2012:</u>	None to report	\$ -	
	Sub-total:	\$ -	
<u>From Successor Agency to City for February 1, 2012 through June 30, 2012</u>	None to report	\$ -	
	Sub-total:	\$ -	
	Total Transfers to City for 1/1/2011 through 6/30/2012:	\$ -	

**Procedure 3**  
**Listing of Transfers (excluding payments for goods and services) to other public agencies or private parties**  
**Low and Moderate Housing Fund**  
**For the Period from January 1, 2011 through June 30, 2012**

<u>Describe Purpose of Transfer</u>	<u>Enforceable Obligation (EO)/ Other Legal Requirement (LR)</u>	<u>Amount</u>	<u>Legal Documentation Obtained? (Y/N)</u>
From former Redevelopment Agency to other public agencies or private parties for January 1, 2011 through January 31, 2012:			
None to report		\$ -	
	Sub-total:	-	
From Successor Agency to other public agencies or private parties for February 1, 2012 through June 30, 2012			
Transfer of notes receivable to housing successor	LR	\$ 11,423,076	Y
Transfer of advances receivable to housing successor	LR	4,317,085	Y
	Sub-total:	15,740,161	
<b>Total Transfers to other public agencies or private parties for 1/1/2011 through 6/30/2012:</b>		<b>\$ 15,740,161</b>	

**Procedure 4**

**Summary of the financial transactions of Redevelopment Agency and Successor Agency  
Low and Moderate Housing Fund  
Per schedule attached to List of Procedures for Due Diligence Review**

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**Attachment B4**

**NOT APPLICABLE TO THE LOW AND MODERATE HOUSING FUND DUE DILIGENCE REVIEW**

Procedure 5

Listing of All Assets (excluding all assets held by the entity that assumed the housing function)  
 Low and Moderate Housing Fund

As of June 30, 2012

Attachment B5

Asset	Amount
Cash	
00977-1005	\$ 5,378,138
<b>TOTAL CASH:</b>	<b>\$ 5,378,138</b>
<b>TOTAL ASSETS AT 6/30/2012:</b>	<b>\$ 5,378,138</b>

Procedure 6  
 Listing of Assets that are restricted  
 Low and Moderate Housing Fund  
 As of June 30, 2012

Item #	Description	Documentation Referenced	Amount	Purpose	Legal Documentation Obtained? (Y/N)
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There is no restricted assets.

**Procedure 7  
Listing of Assets That Are Not Liquid or Otherwise Available for Distribution  
Low and Moderate Housing Fund  
As of June 30, 2012**

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**Attachment B7**

There are no assets that are not liquid or otherwise available for distribution.

**Procedure 8a**  
**Listing of Assets (resources) that are dedicated or restricted for the funding of enforceable obligations**  
**Low and Moderate Housing Fund**  
**As of June 30, 2012**

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**Attachment B8a**

No assets are dedicated or restricted for the funding of enforceable obligations.