

**REPORT ON APPLYING
DUE DILIGENCE REVIEW PROCEDURES
TO THE SUCCESSOR AGENCY OF THE
CITY OF FORTUNA
REDEVELOPMENT AGENCY'S
LOW AND MODERATE INCOME HOUSING FUND
IN ACCORDANCE WITH AB 1484**

**DUE DILIGENCE REVIEW PROCEDURES TO THE
SUCCESSOR AGENCY OF THE
CITY OF FORTUNA REDEVELOPMENT AGENCY**

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**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING DUE DILIGENCE REVIEW PROCEDURES**

Oversight Board of the Successor Agency
of the Fortuna Redevelopment Agency
Fortuna, California

We have performed the minimum required due diligence review procedures enumerated in Attachment A, which were agreed to by the California State Controller's Office and the Department of Finance solely to assist you in ensuring that the dissolved redevelopment agency is complying with its statutory requirements with respect to AB 1484. Management of the successor agency and the City of Fortuna are responsible for the accounting records pertaining to statutory compliance pursuant to Health and Safety Code sections 34179.5(c)(1) through 34179.5(c)(6). This due diligence review 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 due diligence review procedures as set forth in Attachment A related to the Low and Moderate Income Housing Fund of the Successor Agency.

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 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.

GALLINA LLP

Roseville, California
September 17, 2012

ATTACHMENT A

Due Diligence Review Procedures Engagement Pursuant to AB1484 and Health and Safety Code Section 34179.5

Purpose: to determine the unobligated balances of the (a) Low and Moderate Income Housing Fund

Health and Safety Code Section 34179.5(c)

34179.5(c)(1) The dollar value of assets transferred from the former redevelopment agency to the successor agency on or about February 1, 2012.

1. **Procedure:** 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 due diligence review procedures report the book value of the assets transferred to the Successor Agency as of that date.

Results:

Refer to Appendix 1 for a listing of assets transferred to the Successor Agency and comments, if any. The book value of the assets transferred was \$3,590,294.

34179.5(c)(2)The dollar value of assets and cash and cash equivalents transferred after January 1, 2011, through June 30, 2012, by the redevelopment agency or the successor agency to the city, county, or city and county that formed the redevelopment agency and the purpose of each transfer. The reviews shall provide documentation of any enforceable obligation that required the transfer.

2. **Procedure:** If the State Controller's Office has completed its review of transfers required under Section 34178.8 and issued its report regarding such review, attach a copy of that report as an exhibit to the due diligence review procedures report. If this has not yet occurred, perform the following procedures:
 - A. Obtain a list prepared by the Successor Agency of all 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 or accounting requirements. Provide this listing as an attachment to the due diligence review procedures report.

Results:

The former redevelopment agency did not transfer any assets relating to the Low and Moderate Income Housing Fund to the City of Fortuna for the period January 1, 2011 through January 31, 2012.

- B. Obtain a list prepared by the Successor Agency of all 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 or accounting requirements. Provide this listing as an attachment to the due diligence review procedures report.

Results:

The Successor Agency did not transfer any assets relating to the Low and Moderate Income Housing Fund to the City of Fortuna for the period February 1, 2012 through June 30, 2012.

- C. For each transfer, obtain the legal document that formed the basis for the enforceable obligation that required any transfer. Note in the due diligence review procedures report the absence of any such legal document or the absence of language in the document that required the transfer.

Results:

N/A. Refer to procedures 2A and 2B above.

34179.5(c)(3)The dollar value of any cash or cash equivalents transferred after January 1, 2011, through June 30, 2012, by the redevelopment agency or the successor agency to any other public agency or private party and the purpose of each transfer. The review shall provide documentation of any enforceable obligation that required the transfer.

- 3. **Procedure:** If the State Controller's Office has completed its review of transfers required under Section 34178.8 and issued its report regarding such review, attach a copy of that report as an exhibit to the due diligence review procedures report. If this has not yet occurred, perform the following procedures:
 - A. Obtain a list prepared by the Successor Agency of all 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 or accounting requirements. Provide this listing as an attachment to the due diligence review procedures report.

Results:

The former redevelopment agency did not transfer any assets relating to the Low and Moderate Income Housing Fund to any other public agency or private party for the period January 1, 2011 through January 31, 2012.

- B. Obtain a list prepared by the Successor Agency of all 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 or accounting requirements. Provide this listing as an attachment to the due diligence review procedures report.

Results:

Refer to Appendix 3B for a listing of transfers relating to the Low and Moderate Income Housing Fund from the Successor Agency to another public agency or private party for the period February 1, 2012 through June 30, 2012.

- C. For each transfer, obtain the legal document that formed the basis for the enforceable obligation that required any transfer. Note in the due diligence review procedures report the absence of any such legal document or the absence of language in the document that required the transfer.

Results:

Refer to Appendix 3B for results of documentation review.

34179.5(c)(5) A separate accounting for the balance for the Low and Moderate Income Housing Fund for all other funds and accounts combined shall be made as follows:

- A. A statement of the total value of each fund as of June 30, 2012.
- 4. **Procedure:** 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 the assets of all other funds of the Successor Agency as of June 30, 2012 (excluding the previously reported assets and liabilities 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 that were 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 listings should be attached as an exhibit to the appropriate due diligence review procedures report.

Results:

Refer to Appendix 5 for a listing of the assets held by the Successor Agency related to the Low and Moderate Income Housing Fund.

34179.5(c)(5)(B) An itemized statement listing any amounts that are legally restricted as to purpose and cannot be provided to taxing entities. This could include the proceeds of any bonds, grant funds, or funds provided by other governmental entities that place conditions on their use.

5. **Procedure:** 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 due diligence review procedures 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 due diligence review procedures report the absence of language restricting the use of the balances that were identified by the Successor Agency as restricted.

Results:

There are no amounts that are legally restricted for unspent bond proceeds and cannot be provided to taxing entities for the Low and Moderate Income Housing Fund.

- B. Grant proceeds and program income that are restricted by third parties:
 - i. Obtain 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 due diligence review procedures report a description of such documentation).
 - iii. Obtain from the Successor Agency a copy of the grant agreement that sets forth the restriction pertaining to these balances. Note in the due diligence review procedures report the absence of language restricting the use of the balances that were identified by the Successor Agency as restricted.

Results:

There are no amounts that are legally restricted by third parties and cannot be provided to taxing entities for the Low and Moderate Income Housing Fund.

Other assets considered to be legally restricted:

- i. Obtain 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 due diligence review procedures 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 due diligence review procedures report the absence of language restricting the use of the balances that were identified by Successor the Agency as restricted.

Results:

There are no other amounts that are legally restricted and cannot be provided to taxing entities for the Low and Moderate Income Housing Fund.

- C. Attach the above mentioned Successor Agency prepared schedule(s) as an exhibit to the due diligence review procedures report.

N/A. No amounts have been identified as a result of procedures 6A, 6B or 6C.

34179.5(c)(5)(C) An itemized statement of the values of any assets that are not cash or cash equivalents. This may include physical assets, land, records, and equipment. For the purpose of this accounting, physical assets may be valued at purchase cost or at any recently estimated market value. The statement shall list separately housing-related assets.

7. Procedure: Perform the following procedures:

- 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.

Results:

Refer to Appendix 7 for a listing of assets that are not liquid or otherwise available for distribution that relate to the Low and Moderate Income Housing Fund.

34179.5(c)(5)(D) An itemized listing of any current balances that are legally or contractually dedicated or restricted for the funding of an enforceable obligation that identifies the nature of the dedication or restriction and the specific enforceable obligation. In addition, the successor agency shall provide a listing of all approved enforceable obligations that includes a projection of annual spending requirements to satisfy each obligation and a projection of annual revenues available to fund those requirements. If a review finds that future revenues together with dedicated or restricted balances are insufficient to fund future obligations and thus retention of current balances is required, it shall identify the amount of current balances necessary for retention. The review shall also detail the projected property tax revenues and other general purpose revenues to be received by the successor agency, together with both the amount and timing of the bond debt service payments of the successor agency, for the period in which the oversight board anticipates the successor agency will have insufficient property tax revenue to pay the specified obligations.

8. Procedure: Perform the following procedures:

- 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.
 - 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.

Results:

The Successor Agency has not asserted that asset balances need to be retained to satisfy enforceable obligations.

- 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.

Results:

The Successor Agency has not asserted the need to retain any current balances to pay for enforceable obligations.

- 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.

Results:

The Successor Agency has not asserted the need to retain any current balances to pay for debt service obligations.

- 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.

- 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 due diligence review procedures report.

34179.5(c)(5)(E) An itemized list and analysis of any amounts of current balances that are needed to satisfy obligations that will be placed on the Recognized Obligation Payment Schedules for the current fiscal year.

9. **Procedure:** 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 due diligence review procedures report.

Results:

The Successor Agency has not asserted the need to retain any cash balances to satisfy obligations on the ROPS for the period of July 1, 2012 through June 30, 2013.

34179.5(c)(6) The review shall total the net balances available after deducting the total amounts described in subparagraphs (B) to (E), inclusive, of paragraph (5). The review shall add any amounts that were transferred as identified in paragraphs (2) and (3) of subdivision (c) if an enforceable obligation to make that transfer did not exist. The resulting sum shall be available for allocation to affected taxing entities pursuant to Section 34179.6. It shall be a rebuttable presumption that cash and cash equivalent balances available to the successor agency are available and sufficient to disburse the amount determined in this paragraph to taxing entities. If the review finds that there are insufficient cash balances to transfer or that cash or cash equivalents are specifically obligated to the purposes described in subparagraphs (B), (D), and (E) of paragraph (5) in such amounts that there is insufficient cash to provide the full amount determined pursuant to this paragraph, that amount shall be demonstrated in an additional itemized schedule.

10. **Procedure:** 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).

Results:

Refer to Appendix 10 for the schedule detailing the computation of the Balance Available for Allocation to Affected Taxing Entities.

Appendix 1
Successor Agency to the Fortuna Redevelopment Agency
Balance Sheet
Low and Moderate Income Housing Fund
February 1, 2012

	<u>Fund No. 810</u>
ASSETS	
Cash, cash equivalents and investments	\$ 2,738,307
Notes receivable	258,903
Land held for resale	593,084
Total assets	<u><u>\$ 3,590,294</u></u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Deferred revenues - loans	\$ 258,903
Total liabilities	<u>258,903</u>
Fund balances:	
Nonspendable	851,987
Restricted for various	2,479,404
Total fund balances	<u>3,331,391</u>
Total liabilities and fund balances	<u><u>\$ 3,590,294</u></u>

Appendix 3b		Successor Agency to the Fortuna Redevelopment Agency		Health and Safety Code Section 34179.5(c)		Transfers by Redevelopment Agency (Low and Moderate Income Housing Fund) to Other Public Agencies or Private Parties	
February 1, 2012 through June 30, 2012							
Date	Description	Value	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 or accounting requirements.		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.		
1	3/1/2012 Loan to Rohner Village	1,450,000.00	Per DDR dated April 7, 2008 provided loan to Rohner Village for LMHF apartments		Traced to Resolution 2009-18, dated 6/1/09, authorizing loans to Rohner Village LP to finance the construction of the 35 unit affordable housing project.		
2	3/2/2012 Loan to Rohner Village	550,000.00	Per DDR dated April 7, 2008 provided loan to Rohner Village for LMHF apartments		Traced to Resolution 2009-18, dated 6/1/09, authorizing loan to Rohner Village LP to finance the construction of the 35 unit affordable housing project. Amount represents the value of the property loaned (reported in the 6/30/11 audited financial statements as land held for resale at \$551,368 cost).		
	TOTAL	2,000,000.00					

Appendix 5
Successor Agency to the Fortuna Redevelopment Agency
Low and Moderate Income Housing Fund
June 30, 2012

	<u>Fund No 810</u>
Assets:	
Cash	\$ 1,290,093
Notes receivable	2,258,903
Land held for resale	<u>41,716</u>
Total Assets	<u><u>\$ 3,590,712</u></u>
Liabilities:	
Accounts payables	\$ 1,512
Deferred revenues - loans	<u>2,258,903</u>
Total Liabilities	<u><u>\$ 2,260,415</u></u>
Equity	<u>1,330,297</u>
Total Liabilities + Equity	<u><u>\$ 3,590,712</u></u>
Total Revenues:	<u>\$ 715</u>
Total Expenditures/Expenses:	<u>1,809</u>
Total Transfers (Loans to Rohner Village, L.P.):	<u>(2,000,000)</u>
Net change in equity	(2,001,094)
Beginning Equity:	<u>3,331,391</u>
Ending Equity:	<u><u>\$ 1,330,297</u></u>

Appendix 10
Successor Agency to the Fortuna Redevelopment Agency
Low and Moderate Income Housing Fund

Procedure:

Include (or present) a schedule detailing the computation of the Balance Available for Allocation to Affected Taxing Entities pursuant to section 34179.5 (c) (6) of AB 1484.

BALANCE AVAILABLE FOR ALLOCATION TO AFFECTED TAXING ENTITIES

Total amount of assets held by the successor agency as of June 30, 2012	\$ 3,590,712
Less assets legally restricted for uses specified by debt covenants, grant restrictions, or restrictions imposed by other governments.	-
Less assets that are not cash or cash equivalents (i.e. physical assets)	(2,300,619)
Less balances that are legally restricted for the funding of an enforceable obligation (net of projected annual revenues available to fund those obligations)	-
Less balances needed to satisfy ROPS for the current fiscal year	-
Add the amount of any assets transferred to the city for which an enforceable obligation with a third party requiring such transfer and obligating the use of the transferred assets did not exist (1)	<u>-</u>
Amount to be remitted to county for disbursement to taxing entities	<u>\$ 1,290,093</u>