

REPORT OF INDEPENDENT ACCOUNTANTS ON THE APPLICATION OF AGREED-UPON PROCEDURES

Successor Agency to the Redevelopment Agency of the City of Riverside
3900 Main Street
Riverside, California

We have performed the procedures enumerated below, which were agreed to by the Successor Agency to the Redevelopment Agency of the City of Riverside (the "Successor Agency"), solely to assist the users in evaluating management's assertions about the Successor Agency's compliance with the due diligence review procedures associated with the California Health and Safety Code sections 34179.5(c)(1) through 34179.5(c)(3) and sections 34179.5(c)(5) through 34179.5(c)(6) (the "HSC sections") to be applied to the Low and Moderate Income Housing Fund of the Successor Agency. Management is responsible for the Successor Agency's compliance with these HSC sections.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of this 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.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the internal controls as they relate to compliance with the HSC sections. 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 use of the Successor Agency to the Redevelopment Agency of the City of Riverside, the Oversight Board, the California Department of Finance, the County of Riverside Auditor/Controller, and the California State Controller's Office, and is not intended to be, and should not be, used by anyone other than these specified parties.



Los Angeles, California
September 14, 2012

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE
CITY OF RIVERSIDE
PROCEDURES AND RESULTS PERFORMED FOR THE
YEAR ENDED JUNE 30, 2012**

The procedures performed and the results of those procedures were as follows:

1. We obtained 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. We agreed the amounts on this listing to account balances established in the accounting records of the Successor Agency. We identified below the amount of the assets transferred to the Successor Agency as of that date.

Results: On February 1, 2012, assets of \$52,886,000 for the former redevelopment agency remained in the same fund in the City of Riverside's (the "City") accounting system and was renamed to the Successor Agency. No exceptions noted.

2. The State Controller's Office has completed its review of transfers required under both HSC sections 34167.5 and 34178.8 and provided notes of the exit conference to the City but has not issued its report regarding the review. As such, we performed the following procedures:
 - A. We obtained the schedules prepared by the Successor Agency of transfers (excluding payments for goods and services) from the former redevelopment agency to the City for the period from January 1, 2011 through January 31, 2012. For each transfer, we obtained the Successor Agency's description of the purpose of the transfer and described in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements.

Results: The listing of assets transferred for the period from January 1, 2011 through January 31, 2012 and the description for the purpose of the transfer and legal requirement is as follows:

| Transaction Description | APN | Amount | Purpose of Transfer |
|--|------------------------------|---------------------|---------------------|
| Picker Street | 151-123-005, 006, 007 & 013 | \$ 1,029,272 | (1) |
| Picker Street | 151-123-008 | 250,000 | (1) |
| Eleventh & Ottawa (1871 11th) | 221-063-028 | 1 | (1) |
| 2627 Fairmount Blvd | 151-162-005 | 302,992 | (1) |
| 2882 Mission Inn | 211-131-001 | 156,584 | (1) |
| 2555, 2567, 2575, 2585 Fairmount | 209-162-001, 002, 003 & 004 | 1,020,643 | (1) |
| 4171 Ramona Ave | 217-181-014 | 136,164 | (3) |
| Picker Street | 151-123- 001, 002, 003 & 004 | 402,716 | (4) |
| 2.12 Acres on Harrison Street | 145-240-002 | 1,624,415 | (5) |
| 3490 Lime Street | 213-172-006 | 453,241 | (2) |
| 2550 14th St | 221-084-015 | 51,020 | (2) |
| 2719 & 2743 11th Street | 211-213-010 & 012 | 376,398 | (2) |
| 3426 Lime Street | 213-172-002 | 315,000 | (2) |
| 1733 & 1705 Seventh St | 211-181-020 & 026 | 3,142,054 | (2) |
| Total Transferred out of Low/Mod Funds in FY 10/11 after 1/1/11 | | \$ 9,260,499 | |

- (1) *The City made these transfers from the former redevelopment agency (Low Moderate Income Housing Funds) to the City's Housing Authority in FY 10/11 and were subsequently transferred back to the former redevelopment agency on January 31, 2012.*
- (2) *Although titles on these properties were legally transferred to the City's Housing Authority prior to January 1, 2011, these properties were transferred in the City's accounting records out of the former redevelopment agency in FY 10/11. These properties did not relate to third parties as enforceable obligations. Transfer of titles for these properties was approved by the City's Redevelopment Agency and Housing Authority Board on November 19, 2009.*
- (3) *Although title on this property was legally transferred to the City prior to January 1, 2011, this property was transferred in the City's accounting records out of the former redevelopment agency and disposed of in FY 10/11. This property did not relate to third parties as enforceable obligations. Transfer of title for this property was approved by the City's Redevelopment Agency and Housing Authority Board on November 19, 2009.*
- (4) *These properties were transferred in the City's accounting records in FY 10/11. These properties did not relate to third parties as enforceable obligations. Title was previously conveyed to the City and approved by the Redevelopment Agency Board on October 28, 2008.*
- (5) *This property's sale was approved by the Redevelopment Agency Board on June 3, 2008. However, it was not was accounted for in the City's accounting records until FY 10/11. The property was added to the former redevelopment agency, transferred to the City's Housing Authority and deleted from the accounting records in fiscal year 10/11.*

- B. We obtained the schedules prepared by the Successor Agency of transfers (excluding payments for goods and services) from the Successor Agency to the City for the period from February 1, 2012 through June 30, 2012. For each transfer, we obtained the Successor Agency description for the purpose of the transfer and described in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements.

Results: See below for the listing of assets transferred for the period from February 1, 2012 through June 30, 2012 and the description for the purpose of the transfer and legal requirement:

| Post Date | Transaction Description | APN | Amount | Purpose of Transfer |
|------------------|----------------------------------|-----------------------------|----------------------|----------------------------|
| 3/30/2012 | 3753 Myers | 234-101-051, 054 & 057 | \$ 245,559 | (6) |
| 3/30/2012 | 8733 Indiana Ave | 233-140-016 | 703,958 | (6) |
| 3/30/2012 | 3236 Washington Street | 230-320-084 | 146,569 | (6) |
| 3/30/2012 | Eleventh & Ottawa (1871 11th) | 221-063-028 | 1 | (6) |
| 3/30/2012 | 2627 Fairmount Blvd | 151-162-005 | 302,992 | (6) |
| 3/30/2012 | 2882 Mission Inn | 211-131-001 | 156,584 | (6) |
| 3/30/2012 | 2555, 2567, 2575, 2585 Fairmount | 209-162-001, 002, 003 & 004 | 1,020,643 | (6) |
| 3/30/2012 | 3902 University Ave | 215-022-017 & 018 | 300,000 | (6) |
| 3/30/2012 | Picker Street | 151-123-005, 006, 007 & 013 | 1,029,272 | (6) |
| 3/30/2012 | Picker Street | 151-123-008 | 250,000 | (6) |
| 3/30/2012 | 4350 La Sierra | 142-480-005 | 1,155,553 | (6) |
| 3/30/2012 | SERAF Loans Receivable | | 20,571,233 | (6) |
| 3/30/2012 | Low Mod Notes Receivable | | <u>19,608,094</u> | (6) |
| | | | <u>\$ 45,490,458</u> | |

(6) These transfers were approved by the Successor Agency's Oversight Board on March 30, 2012 and were recorded in the City's accounting system as being transferred to the City's new Low and Moderate Income Housing Asset Fund as prescribed by Assembly Bill No. 1484 section 34176.

- C. For each transfer, we obtained the legal document that formed the basis for the enforceable obligation that required any transfer.

Results: Obtained the legal documents that formed the basis for the property transfers. Received legal basis for other assets transferred as stated above and we obtained a letter from the California Department of Finance (the "Department") to the Successor Agency dated September 11, 2012 indicating that they do not object to these transfers of assets. No absences of a legal basis for the transfers were noted as a result of our procedures.

3. The State Controller's Office has completed its review of transfers required under both HSC sections 34167.5 and 34178.8 but has not issued its report regarding the review. As such we performed the following procedures:

- A. We would have obtained 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.
- B. We would have obtained 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.
- C. For each transfer, we would have obtained 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.

Results: There were no transfers to other public agencies or private parties from January 1, 2011 through January 31, 2012, or February 1, 2012 through June 30, 2012.

4. We performed the following procedures:

- A. We obtained 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 (Appendix A “Reconciliation Worksheet”). For purposes of this summary, the financial transactions are presented using the modified accrual basis of accounting. End-of-year balances for capital assets (in total) and long-term liabilities (in total) are presented at the bottom of this summary schedule for information purposes.

Results: See Appendix A “Reconciliation Worksheet” for the format of the summary of financial transactions of the Redevelopment Agency and the Successor Agency set forth by the Department.

- B. We ascertained that for each period presented, the total of revenues, expenditures, and transfers accounts fully for the changes in equity from the previous fiscal period.

Results: No exceptions were noted as a result of our procedures.

- C. We compared 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.

Results: No exceptions were noted as a result of our procedures.

- D. We compared amounts in the schedule for the other fiscal periods presented to account balances in the accounting records or other supporting schedules. We described in the report the type of support provided for each fiscal period.

Results: Agreed the June 30, 2010 and 2011 figures for the former redevelopment agency's Low and Moderate Income Housing Funds to the City's accounting records with no exceptions. We agreed the January 31, 2012 and June 30, 2012 figures to the City's accounting records, bank statements, and interest receivable schedules. No exceptions were noted as a result of our procedures.

5. We obtained 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. 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 excluded all assets held by the entity that assumed the housing function previously performed by the former redevelopment agency. We agreed the assets so listed to recorded balances reflected in the accounting records of the Successor Agency.

Results: See Appendix A "Reconciliation Worksheet" for the Low and Moderate Income Housing Funds of the Successor Agency as of June 30, 2012. No exceptions noted as a result of our procedures.

6. We obtained 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. We obtained 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. We traced individual components of this computation to related account balances in the accounting records, or to other supporting documentation.
- iii. We obtained from the Successor Agency a copy of the legal document that sets forth the restriction pertaining to these balances.

Results: Obtained the bond agreements, schedules, and bank statements for the unspent 1999 and 2004 tax allocation bond proceeds that totaled \$192,458 as of June 30, 2012. No exceptions were noted as a result of our procedures.

- B. Grant proceeds and program income that are restricted by third parties:

- i. We would have obtained the Successor Agency's computation of the restricted balances (e.g., total proceeds less eligible project expenditures).
- ii. We would have traced individual components of this computation to related account balances in the accounting records, or to other supporting documentation.
- iii. We would have obtained from the Successor Agency a copy of the grant agreement that sets forth the restriction pertaining to these balances.

Results: These procedures were not applicable to the Successor Agency. No such restricted grant proceeds or program income restricted by third parties in this fund.

- C. Other assets considered to be legally restricted:
 - i. We would have obtained the Successor Agency's computation of the restricted balances (e.g., total proceeds less eligible project expenditures).
 - ii. We would have traced individual components of this computation to related account balances in the accounting records, or to other supporting documentation.
 - iii. We would have obtained from the Successor Agency a copy of the legal document that sets forth the restriction pertaining to these balances.
- D. We attached the above-mentioned Successor Agency-prepared schedule(s) as an exhibit to the AUP report. For each restriction identified on these schedules, it is indicated 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 is indicated in the report.

Results: This procedure was not applicable to the Successor Agency. No such other assets restricted in this fund.

7. We performed the following procedures:

- A. We obtained 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 ascertained 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, we traced the amounts to a previously audited financial statement (or to the accounting records of the Successor Agency) noting any differences.
- C. For any differences noted in 7(B), we inspected evidence of disposal of the asset and ascertained 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), we inspected the supporting documentation and noted the circumstances.
- D. If the assets listed at 7(A) are listed at recently estimated market value, we inspected the evidence (if any) supporting the value and noted the methodology used.

Results: The amount of the Successor Agency's non-cash value of investments was \$91,738 and interest receivable of \$41,584 (for a total of \$133,322) at June 30, 2012. We obtained the Successor Agency's investment schedules and fair market value adjustments and agreed with methodology used to calculate the figures. We noted no differences during our procedures.

8. We performed the following procedures:

- A. If the Successor Agency believes that asset balances need to be retained to satisfy enforceable obligations, we would have obtained 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.
- 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, we would have obtained 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.
- 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), we would have obtained from the Successor Agency a schedule demonstrating this insufficiency.

Results: This procedure was not applicable to the Successor Agency. The Successor Agency does not have concerns about the following:

- *Asset balances of the Successor Agency that need to be retained to satisfy enforceable obligations*
- *Projected property tax revenues and other general purpose revenues to be received by the Successor Agency are insufficient to pay bond debt-service payments*
- *Future revenues, together with balances dedicated or restricted to an enforceable obligation, are insufficient to fund future obligation payments*

D. 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, we obtained 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 added 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.

Results: We obtained the final ROPS for the fiscal year 12/13 and noted a total of \$3,154,625 needed to satisfy such obligations. For each obligation listed on the ROPS, there are columns and explanations meeting the requirement as follows and we noted no exceptions.

| Project Name/Debt Obligation | Payee | Description | Status | Estimated Amount Due FY 2012-13 |
|---|-----------------------|---|---|--|
| 1999 - Series A Tax Allocation Bonds | US Bank | Bonds issued to fund housing and non-housing projects | Maturity Date: 8/1/25 | \$ 306,827 |
| 1999 - Series A Tax Allocation Bonds | US Bank | Bonds issued to fund housing and non-housing projects | Maturity Date: 8/1/27 | 164,424 |
| 1999 - Series A Tax Allocation Bonds | US Bank | Bonds issued to fund housing and non-housing projects | Maturity Date: 9/1/27 | 61,265 |
| 1999 - Series A Tax Allocation Bonds | US Bank | Bonds issued to fund housing and non-housing projects | Maturity Date: 8/1/34 | 362,373 |
| 2004 - Series A Housing Tax Allocation Bonds | US Bank | Bonds issued to fund housing projects | Maturity Date: 8/1/34 | 206,798 |
| 2004 - Series A Housing Tax Allocation Bonds | US Bank | Bonds issued to fund housing projects | Maturity Date: 8/1/34 | 117,922 |
| 2004 - Series A Housing Tax Allocation Bonds | US Bank | Bonds issued to fund housing projects | Maturity Date: 8/1/34 | 361,058 |
| 2004 - Series A Housing Tax Allocation Bonds | US Bank | Bonds issued to fund housing projects | Maturity Date: 8/1/34 | 471,458 |
| Revolving line of credit for Low/Mod Housing | City National Bank | Acquisition and rehabilitation of foreclosed properties for low-moderate households | Agreement terminates 7-1-12. | 1,100,000 |
| | | | Outstanding drawn amount of 1.1m plus interest to be repaid by July 1, 2012 | |
| Jax Apple Market Parking Lease | James and Josephine M | Lease of twelve parking spaces | Agreement ends 8-31-12 | 2,500 |
| Recognized Obligation Payment Schedule Total | | | | <u>\$ 3,154,625</u> |

E. We obtained from management a schedule detailing the computation of the Balance Available for Allocation to Affected Taxing Entities. Amounts included in the calculation agreed to the results of the procedures performed also included a deduction to recognize amounts already paid to the County Auditor-Controller on July 12, 2012, as directed by the Department. The amount of this deduction presented agrees to evidence of the payment. See summary schedule in Appendix B.

Results: The Allocation to Affected Taxing Entities is attached in Appendix B. However, there were no amounts already paid to the County Auditor-Controller.

- F. We obtained a representation letter from Successor Agency management acknowledging their responsibility for the data provided to us and the data presented in the report and in any attachments to the report. Included in the representations, Management acknowledges that it 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.

Results: Obtained a representation letter from the Successor Agency management and no exceptions were identified.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE
CITY OF RIVERSIDE
RECONCILIATION WORKSHEET
APPENDIX A**

(in thousands)

| | Redevelopment Agency 12 Months Ended 6/30/2010 | Redevelopment Agency 12 Months Ended 6/30/2011 | Redevelopment Agency 7 Months Ended 1/31/2012 | Successor Agency 5 Months Ended 6/30/2012 |
|--|---|---|--|--|
| Assets (modified accrual basis) | | | | |
| Cash and investments | \$ 12,381 | \$ 11,071 | \$ 7,160 | \$ 7,387 |
| Cash and investments at fiscal agent | 197 | 192 | 192 | 190 |
| Interest receivable | 88 | 109 | 43 | 42 |
| Notes receivable | 12,596 | 15,844 | 19,609 | - |
| Advances to other funds | 17,062 | 20,571 | 20,571 | - |
| Land & improvements held for resale | 9,260 | - | 5,311 | - |
| Total Assets | \$ 51,584 | \$ 47,787 | \$ 52,886 | \$ 7,619 |
| Liabilities (modified accrual basis) | | | | |
| Accounts payable | \$ 45 | \$ 172 | \$ 4 | \$ 3 |
| Deferred revenue | 12,577 | 15,823 | 19,608 | - |
| Deposits | 26 | 26 | 26 | - |
| Due to other funds | 1 | - | - | - |
| Total Liabilities | \$ 12,649 | \$ 16,021 | \$ 19,638 | \$ 3 |
| Equity | 38,935 | 31,766 | 33,248 | 7,616 |
| Total Liabilities + Equity | \$ 51,584 | \$ 47,787 | \$ 52,886 | \$ 7,619 |
| Total Revenues: | 13,583 | 11,592 | 1,161 | 28 |
| Total Expenditures: | 3,968 | 5,559 | 718 | 46 |
| Total Transfers: | (4,699) | (13,202) | 1,039 | (25,614) |
| Net Change in Equity | 4,916 | (7,169) | 1,482 | (25,632) |
| Beginning Equity: | 34,019 | 38,935 | 31,766 | 33,248 |
| Ending Equity: | \$ 38,935 | \$ 31,766 | \$ 33,248 | \$ 7,616 |
| Other Information (show year-end balances for all three years presented): | | | | |
| Long-term debt as of end of year | \$ 35,705 | \$ 34,495 | \$ 33,239 | \$ 33,239 |

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF
THE CITY OF RIVERSIDE
SUMMARY OF BALANCES AVAILABLE FOR ALLOCATION
TO AFFECTED TAXING ENTITIES
APPENDIX B**

SUMMARY OF BALANCES AVAILABLE FOR ALLOCATION TO AFFECTED TAXING ENTITIES

| | | |
|--|----|------------------|
| Total amount of assets held by the Successor Agency as of June 30, 2012 (procedure 5) | \$ | 7,618,949 |
| Add the amount of any assets transferred to the Successor Agency or other parties for which an enforceable obligation with a third party requiring such transfer and obligating the use of the transferred assets did not exist (procedures 2 and 3) | | - |
| Less assets legally restricted for uses specified by debt covenants, grant restrictions, or restrictions imposed by other governments (procedure 6) | | (192,458) |
| Less assets that are not cash or cash equivalents (e.g., physical assets) - (procedure 7) | | (133,322) |
| Less balances that are legally restricted for the funding of an enforceable obligation (net of projected annual revenues available to fund those obligations) - (procedure 8) | | - |
| Less balances needed to satisfy ROPS for the 2012-13 fiscal year (procedure 9) | | (3,154,625) |
| Less the amount of payments made on July 12, 2012 to the County Auditor-Controller as directed by the California Department of Finance | | - |
| Amount from the Low/Moderate Income Housing funds of the Successor Agency to be remitted to the County for disbursement to taxing entities | \$ | <u>4,138,544</u> |