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Oversight Board of the Successor Agency of the former Redevelopment Agency  
of the City of National City  
1243 National City Blvd  
National City, CA 91950

**INDEPENDENT ACCOUNTANTS' REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**

We have performed the procedures enumerated below, which were agreed to by the Successor Agency of the former Redevelopment Agency of the City of National City (Successor Agency), the California Department of Finance, the California State Controller's Office, and the County Auditor-Controller's Office, solely to assist you in complying with the requirement for a due diligence review of the low and moderate income housing fund of the former Redevelopment Agency and the Successor Agency pursuant to Section 34179.5(c) of the California Health and Safety Code. Management of the Successor Agency is responsible for the Successor Agency's compliance with the California Health and Safety Code. This engagement to apply agreed-upon procedures was performed in accordance with the attestation standards established by the *American Institute of Public Accountants* for such engagements. The sufficiency of the procedures is solely the responsibility of the specified users of 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. We were not engaged to, and did not; perform an examination, the objective of which would be the expression of an opinion on the specified items. 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.

Our procedures and results were as follows:

1. We obtained from the Successor Agency a listing of all assets (at their recorded book values) 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.

Results: On February 1, 2012, \$17,102,218 of low and moderate income housing fund assets were transferred to the Successor Agency. See additional asset detail on EXHIBIT B.

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. We obtained 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.

Results: The State Controller's Office has not completed the review of transfers. The low and moderate income housing fund of the redevelopment agency transferred \$1,008,485 to the redevelopment agency debt service fund to service the debt for the 1999 TAB and 2005 TAB approved by the redevelopment commission. The low and moderate income housing fund of the redevelopment agency transferred \$1,025,182 to the Community Development

Commission of the City of National City housing fund to service the debt for the 2011 TAB which was approved by the redevelopment commission. Total transfers were \$2,033,667 for the period January 1, 2011 through January 31, 2012.

- b. We obtained 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.

Results: The Successor Agency transferred net amount of \$6,545,720 to the City of National City for the period February 1, 2012 through June 30, 2012. Transfers included accounts receivable of \$39,142 pertaining to activities prior to February 1, 2012, real property of \$360,000, and loans receivable of \$7,767,650, including deferred revenue associated with the loans of \$(1,621,072).

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

Results: For the transfer of \$39,142 made on February 1, 2012, there is no legal document forming the basis for the transfer. However, the transfer was made to reimburse the redevelopment agency of cash received after February 1, 2012. The transfers of real property and loans were allowed and were approved by the redevelopment commission and the Successor Agency board.

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. We 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.

Results: There were no transfers for the period from January 1, 2011 through January 31, 2012 to any other public agency or private party.

- b. We 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.

Results: There were no transfers for the period from February 1, 2012 through June 30, 2012 to any other public agency or private party.

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

Results: This step is not applicable.

4. 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 California State Controller's Office's procedures for the fiscal year ended June 30, 2010, the fiscal year ended June 30, 2011, the period July 1, 2011 through January 31, 2012, and the period February 1, 2012 through

June 30, 2012. For each period presented, we determined that the total of revenues, expenditures, and transfers accounted fully for the changes in equity from the previous fiscal period. We compared amounts in the schedule relevant to the fiscal year ending June 30, 2010 to the state controller's report filed for the Redevelopment Agency for that period.

Results: There were no exceptions as a result of our procedures. The schedule is presented at EXHIBIT B.

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. We also agreed the assets listed to recorded balances reflected in the accounting records of the Successor Agency.

Results: The listing of assets is included in EXHIBIT B. The only asset listed is cash. We obtained the Citywide bank reconciliation at June 30, 2012 and verified the cash balance in the low and moderate income housing fund agreed to the reconciled bank balance.

6. Obtain from the Successor Agency a listing of asset balances held on June 30, 2012 that are restricted for specific purposes and performed the following procedures:

- 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. 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.

Results: There are no low and moderate income housing unspent bond proceeds.

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

- i. We obtained the Successor Agency's computation of the restricted balances.
- 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 grant agreement that sets forth the restriction pertaining to these balances.

Results: There are no low and moderate income housing grant proceeds or program income.

- c. Other assets considered to be legally restricted:

- i. We obtained the Successor Agency's computation of the restricted balances (e.g., total proceeds less eligible project expenditures).
- 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: There are no other assets considered to be legally restricted.

- 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, we indicated in the report the period of time for which the restrictions are in effect.

Results: This procedure is not applicable.

7. 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.
  - a. If the assets listed at 7(a) were listed at purchase cost, we traced the amounts to a previously audited financial statement (or to the accounting records of the Successor Agency) and noted any differences.
  - b. 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.
  - c. If the assets listed at 7(a) were listed at recently estimated market value, we inspected the evidence (if any) supporting the value and noted the methodology used.

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

8. We performed the following procedures:

- a. For assets balance needed to be retained to satisfy enforceable obligations, we 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 and performed the following procedures:
  - i. We compared 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. We compared all current balances to the amounts reported in the accounting records of the Successor Agency or to an alternative computation.
  - iii. We compared the specified enforceable obligations to those that were included in the final Recognized Obligation Payment Schedule approved by the California Department of Finance.

- iv. We attached as an exhibit to the report the listing obtained from the Successor Agency. We also identified 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: There are no restricted resources held by the Successor Agency at June 30, 2012.

- b. For 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 obtained from the Successor Agency a schedule of approved enforceable obligations that included a projection of the annual spending requirements to satisfy each obligation and a projection of the annual revenues available to fund those requirements and performed the following procedures:
  - i. We compared the enforceable obligations to those that were approved by the California Department of Finance.
  - ii. We compared the forecasted annual spending requirements to the legal document supporting each enforceable obligation by obtaining 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, we obtained the assumptions for the forecasted annual revenues and disclosed the major assumptions associated with the projections.

Results: It is not practical to perform this procedure for low and moderate income housing obligations without performing an analysis of the entire Successor Agency. This procedure will be performed with the due diligence report that is due in December 2012.

- c. For projected property tax revenues and other general purpose revenues that were received by the Successor Agency are insufficient to pay bond debt service payments, we obtained from the Successor Agency a schedule demonstrating this insufficiency and applied the following procedures to the information reflected in that schedule:
  - i. We compared the timing and amounts of bond debt service payments to the related bond debt service schedules in the bond agreement.
  - ii. We obtained the assumptions for the forecasted property tax revenues and disclose major assumptions associated with the projections.
  - iii. We obtained the assumptions for the forecasted other general purpose revenues and disclose major assumptions associated with the projections.

Results: This procedure is not applicable.

- d. If procedures, A, B, or C were performed, we calculated the amount of current unrestricted balances necessary for retention in order to meet the enforceable obligations by performing the following procedures:

- i. We combined 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. We reduced the amount of total resources available by the amount forecasted for the annual spending requirements.

Results: This procedure is not applicable.

9. For cash balances as of June 30, 2012 that 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.

Results: EXHIBIT D demonstrates that all current balances cash balances are needed to be retained to pay enforceable obligations as they become due through June 30, 2013. Because it is not possible to split the RPTTF revenue between housing and non-housing, EXHIBIT D includes enforceable obligations for both housing and non-housing. We reviewed the correspondence received from the County of San Diego and agreed it to the projected property tax from RPTTF for ROPS 2 and ROPS 3 without exception. For housing obligations, we compared the total obligation for the period January 1, 2013 to June 30, 2013 to ROPS 3 without exception. The amounts listed for the period July 1, 2012 to December 31, 2012 agrees to the total reported on ROPS 2. We compared the forecasted annual spending requirements to the legal document supporting each enforceable obligation. We compared the total successor agency obligations to the total obligations on ROPS 2 and ROPS 3 and noted that the amounts shown in the exhibit do not exceed the amounts reported on ROPS 2 and ROPS 3.

10. We have included a schedule detailing the computation of the Balance Available for Allocation to Affected Taxing Entities.

Results: See EXHIBIT A.

11. We obtained a representation letter from 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.

Results: No exceptions noted as a result of this procedure.

This letter is intended solely for the information and use of the Oversight Board of the Successor Agency of the former Redevelopment Agency of the City of National City, the Successor Agency of the former Redevelopment Agency of the City of National City, the California Department of Finance, the California State Controller's Office, and the County of San Diego's Auditor-Controller's Office and is not intended to be and should not be used by anyone other than those specified parties.



Irvine, California  
October 16, 2012

SUCCESSOR AGENCY OF THE NATIONAL CITY REDEVELOPMENT AGENCY  
 Summary of Balances Available for Allocation of Affected Taxing Entities  
 June 30, 2012

SUMMARY OF BALANCES AVAILABLE FOR ALLOCATION TO AFFECTED TAXING ENTITIES

Total amount of low mod housing assets held by the successor agency as of June 30, 2012	\$ 8,418,206	EXHIBIT B
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)	-	
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	(15,873,200)	EXHIBIT D
Less balances needed to satisfy ROPS for future fiscal years <sup>(1)</sup>	-	
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	<u>-</u>	
Amount to be remitted to county for disbursement to taxing entities	<u>\$ (7,454,994)</u>	

*Note that separate computations are required for the Low and Moderate Income Housing Fund held by the Successor Agency and for all other funds held by the Successor Agency.*

NOTES: For each line shown above, an exhibit should be attached showing the composition of the summarized amount.

If the review finds that there are insufficient funds available to provide the full amount due, the cause of the insufficiency should be demonstrated in a separate schedule.

*(1) This balance will be calculated as part of the overall redevelopment agency due diligence review due in December 2012 because it is not practical to separately identify low and moderate income specific RPTTF funding.*

SUCCESSOR AGENCY OF THE FORMER NATIONAL CITY REDEVELOPMENT AGENCY  
Summary of Financial Transactions - Low/Mod  
6/30/2012

	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
<b>Assets:</b>				
Cash	\$ 7,598,805	9,586,932	8,928,640	8,413,601
Accounts receivable	-	30,565	39,142	-
Property tax receivable	49,691	37,191	-	-
Accrued interest receivable	12,544	10,043	6,786	4,605
Loans receivable	12,757,954	7,767,650	7,767,650	-
Land held for resale	360,000	360,000	360,000	-
<b>Total Assets</b>	<b>20,778,994</b>	<b>17,792,381</b>	<b>17,102,218</b>	<b>8,418,206</b>
<b>Liabilities:</b>				
Accounts payable	12,346	62,992	77,829	528,038
Other liabilities	2,790	3,670	1,621,072	-
Deposits payable	-	-	-	-
Due to other governments	-	-	-	-
Due to other funds	-	-	-	-
Advances from other funds	-	-	-	-
Deferred revenue	7,889,265	1,621,072	-	-
<b>Total Liabilities</b>	<b>7,904,401</b>	<b>1,687,734</b>	<b>1,698,901</b>	<b>528,038</b>
<b>Equity</b>	<b>12,874,593</b>	<b>16,104,647</b>	<b>15,403,317</b>	<b>7,890,168</b>
<b>Total Liabilities + Equity</b>	<b>\$ 20,778,994</b>	<b>17,792,381</b>	<b>17,102,218</b>	<b>8,418,206</b>
<b>Total Revenues:</b>	<b>\$ 3,060,735</b>	<b>3,045,036</b>	<b>1,603,314</b>	<b>17,666</b>
<b>Total Expenditures/Expenses:</b>	<b>670,912</b>	<b>384,247</b>	<b>270,977</b>	<b>985,095</b>
<b>Total Transfers:</b>	<b>(506,364)</b>	<b>(861,864)</b>	<b>(2,033,667)</b>	<b>(6,545,720)</b>
<b>Net change in equity</b>	<b>1,883,459</b>	<b>1,798,925</b>	<b>(701,330)</b>	<b>(7,513,149)</b>
<b>Beginning Equity:</b>	<b>10,991,134</b>	<b>12,874,593</b>	<b>16,104,647</b>	<b>15,403,317</b>
<b>Equity Adjustment</b>	<b>-</b>	<b>1,431,129</b>	<b>-</b>	<b>-</b>
<b>Ending Equity:</b>	<b>\$ 12,874,593</b>	<b>\$ 16,104,647</b>	<b>\$ 15,403,317</b>	<b>\$ 7,890,168</b>

**A** There was a prior period adjustment in 2011 to adjust notes receivable for notes previously not recorded and to adjust the balances for allowance for doubtful accounts.

SUCCESSOR AGENCY OF THE FORMER NATIONAL CITY REDEVELOPMENT AGENCY  
 Transfers to the Community Development Commission of City of National City  
 6/30/2012

<u>Asset/Liability Transferred</u>	<u>Transfers from 2/1/2012- 6/30/2012</u>	<u>Approved by CA DOF</u>	<u>Reason for Transfer</u>
Real property	\$ 360,000.00	Yes	For ongoing housing activities administered by the City.
Loans receivable	7,767,650.00	Yes	For ongoing housing activities administered by the City.
Accounts receivable	39,142.00	No <sup>(1)</sup>	For ongoing housing activities administered by the City.
Deferred Revenue	<u>(1,621,072.00)</u>	n/a	For ongoing housing activities administered by the City.
Total Transfers	<u>\$ 6,545,720.00</u>		

<sup>(1)</sup> Not listed on the Housing Asset Listing submitted to the California Department of Finance.  
 n/a - not applicable

**SUCCESSOR AGENCY OF THE NATIONAL CITY REDEVELOPMENT AGENCY**  
**Projected Funding and Obligations**

	ROPS 2 July - Dec 2012	ROPS 3 Jan - June 2013
RPTTF Distribution Date	1-Jun-12	2-Jan-13
<b>SA Funding Sources:</b>		
<b>Non-Housing:</b>		
Projected Property Tax from RPTTF (1)	5,493,592	6,160,399
Less: Est Admin Fees and pass-throughs (1)	(917,520)	(809,858)
Net Projected RPTTF available	4,576,072	5,350,541
Add'l RORF (non-housing) cash on hand at beginning of period	478,678	(12,126,973)
Revenue from interest and rents	50,000	50,000
<b>Total Non-Housing</b>	<b>5,104,750</b>	<b>(6,726,432)</b>
<b>Housing:</b>		
LMIHF Revenue (Investment earnings)	10,000	-
<b>Total Housing</b>	<b>10,000</b>	<b>-</b>
<b>Total SA Funding Sources</b>	<b>5,114,750</b>	<b>(6,726,432)</b>
<b>Less Obligations:</b>		
<b>Non-housing obligations: (2)</b>		
True-up payment - July 12, 2012 (3)	(4,272,833)	-
Various non-housing capital projects	(769,747)	(50,000)
Bond debt service	(5,982,523)	(1,940,070)
CYAC vs CDC	(1,000,000)	(1,000,000)
Sewer Fund Loan Repayment (last pmt 6/2013)	-	(420,000)
Loan Agreement with JPFA (police facility)	(320,000)	-
Admin Cost	(459,220)	(249,000)
Legal services	(628,965)	(335,600)
General Property Management	-	(30,000)
CDC Property Maintenance	(127,068)	(37,710)
Other Professional Services	(53,799)	(189,388)
<b>Total Non-Housing Obligations</b>	<b>(13,614,155)</b>	<b>(4,251,768)</b>
<b>Housing Obligations:</b>		
WI-TOD housing Project	(3,627,568)	(4,895,000)
<b>Total Housing Obligations</b>	<b>(3,627,568)</b>	<b>(4,895,000)</b>
<b>Total SA Obligations</b>	<b>(17,241,723)</b>	<b>(9,146,768)</b>
<b>Net of obligations (over)/under available funding</b>	<b>(12,126,973)</b>	<b>(15,873,200)</b>

## Notes

- Property tax, admin fees and pass through payments for ROPS 2 are the actual amounts reported by the County of San Diego at the time of the June 1, 2012 RPTTF distribution. The ROPS 3 amounts are based on estimates provided by the County on Oct. 1, 2012.
- Non-housing Obligations were not reviewed as a part of this due diligence review. However, amounts reported on this schedule do not exceed amounts reported on ROPS 2 and 3.
- Not a line item in ROPS 2, but shown here because it was an expense that occurred during the ROPS 2 period that affects the assets and cash of the SA.