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Oversight Board of the Successor Agency of the former Redevelopment Agency
Of the City of Upland
460 N Euclid Ave.
Upland, CA 91786

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 Upland (Successor Agency), the California Department of Finance, and the California State Controller's Office, solely to assist you in complying with the requirement for a due diligence review of the former Redevelopment Agency (excluding the Low and Moderate Income Housing Fund) 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 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, \$(23,491,941) of former redevelopment agency net assets (excluding low and moderate income housing fund assets) were transferred to the Successor Agency fund. We agreed balances of assets and liabilities on this date to the accounting records and other supporting documentation. 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 redevelopment agency (excluding the low and moderate income housing fund) did not make any transfers to the City 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 redevelopment agency (excluding the low and moderate income housing fund) did not make any transfers to the City from February 1, 2012 through June 30, 2012.

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

Results: This procedure is not applicable.

- 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: No transfers were made from the former redevelopment agency to any other public agency or to private parties 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 any other public agency or private parties for the period from February 1, 2012 through June 30, 2012.

Results: No transfers were made from the former redevelopment agency to any other public agency or to private parties for the period February 1, 2012 through June 30, 2012.

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

Results: No transfers were made from the former redevelopment agency to any other public agency or to private parties for the periods indicated above.

- 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 procedure. The schedule is presented at EXHIBIT B.

5. We obtained from the Successor Agency a listing of all as of June 30, 2012. We also agreed the assets so listed to recorded balances reflected in the accounting records of the Successor Agency.

Results: The listing of assets is included in EXHIBIT B. We agreed the asset balances to the recorded balances reflected in the accounting records of the Successor Agency.

6. We obtained 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/Debt service reserves:

- 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: EXHIBIT B reports cash and investments with fiscal agent of \$3,017,955, which represent unspent bond proceeds/debt service reserves. We agreed the cash and investment balance to the accounting records and the cash reconciliation at June 30, 2012. We verified that these balances relate to debt issuances that are listed on the approved ROPS and are supported by legal documents restricting the use of the balances. A summary of the balances by account is presented in EXHIBIT D.

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 grant proceeds or program income restricted by third parties.

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: See EXHIBIT D.

- 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. If the differences are due to additions, we inspected supporting documentation and noted the circumstance.
 - 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: The listing of assets that are not liquid are presented on EXHIBIT C. All amounts in the exhibit are reported at cost.

- 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 dedicated or restricted balances other than those included elsewhere in this report.

- 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: Management believes future revenues from RPTTF will be sufficient to pay enforceable obligations as they become due.

- 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: Management believes future revenues from RPTTF will be sufficient to pay enforceable obligations as they become due.

- 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 E summarizes the net enforceable obligations over/under available for funding for ROPS 2 (July 1, 2012 to December 31, 2012 and ROPS 3 (January 1, 2013 to June 30, 2013). We compared the projected property tax and estimated admin fees and pass throughs for ROPS 3 to documentation from the County of San Bernardino. \$2,888,825 of RPTTF was received to pay enforceable obligations on ROPS II for the period July 1, 2012 through December 31, 2012 while the obligations totaled \$4,202,679. These funds had not been disbursed as of June 30, 2012 and need to be retained to pay the enforceable obligations of ROPS II.

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

Results: See EXHIBIT A. No funds are available to be remitted to the County for disbursement to taxing entities.

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: Required representations were obtained from management.

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 Upland, the Successor Agency of the former Redevelopment Agency of the City of Upland, the California Department of Finance, the California State Controller's Office, and the County of San Bernardino's Auditor-Controller's Office and is not intended to be and should not be used by anyone other than those specified parties.

Mayer Hoffman McCann P.C.

SUCCESSOR AGENCY OF THE FORMER UPLAND 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
EXCLUDING THE LOW AND MODERATE INCOME HOUSING FUND

Total amount of assets held by the successor agency as of June 30, 2012	\$	16,937,563	EXHIBIT B
Less assets legally restricted for uses specified by debt covenants, grant restrictions, or restrictions imposed by other governments.		(2,451,508)	EXHIBIT D
Less assets that are not cash or cash equivalents (i.e. not liquid assets)		(5,150,963)	EXHIBIT C
Less balances that are dedicated or 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 2012-13 fiscal year (procedure 9)		<u>(6,694,241)</u>	EXHIBIT E
Amount to be remitted to county for disbursement to taxing entities	\$	<u>2,640,851</u>	

SUCCESSOR AGENCY OF THE FORMER UPLAND REDEVELOPMENT AGENCY
Reconciliation of Former RDA Funds
6/30/12

	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 6/30/12		
				Low and Moderate Income Housing	Non-Housing	Total
Assets:						
Cash and Investments	9,020,651	7,357,943	-	-	8,767,174	8,767,174
Cash and Investments with Fiscal Agent	3,919,593	4,256,407	-	1,502,869	3,017,955	4,520,824
Accounts Receivable	2,300	1,050	-	-	1,471	1,471
Accrued Interest	3,432	-	-	-	-	-
Due From Other Governments	115,706	436,002	-	-	-	-
Due from Other Funds	916,110	4,869,354	-	-	-	-
Notes Receivable	4,218,703	4,366,253	-	4,391,773	162,465 *	4,554,238
Deferred Charges	-	-	-	-	796,208	796,208
Property Held for Resale	4,738,278	5,204,278	-	1,731,389	2,742,889 *	4,474,278
Capital Assets, Net	-	-	-	-	1,449,401	1,449,401
Total Assets	22,934,773	26,491,287	-	7,626,031	16,937,563	24,563,594
Liabilities:						
Accounts Payable	1,416,751	1,048,728	-	-	3,278,374	3,278,374
Other Liabilities	203,281	30,035	-	4,413	576,105	580,518
Due to Other Funds	916,110	4,869,354	-	67,818	-	67,818
Deferred Revenue	4,091,935	4,241,107	-	4,391,773	-	4,391,773
Long-Term Liabilities	-	-	-	-	39,425,000	39,425,000
Total Liabilities	6,628,077	10,189,224	-	4,464,004	43,279,479	47,743,483
Equity	16,306,696	16,302,063	-	3,162,027	(26,341,916)	(23,179,889)
Total Liabilities + Equity	22,934,773	26,491,287	-	7,626,031	16,937,563	24,563,594
Total Revenues:	13,195,514	12,472,042	6,560,888	465,000	4,728,448	5,193,448
Total Expenditures/Expenses:	(16,907,490)	(11,760,675)	(5,503,845)	(110,190)	(6,815,423)	(6,925,613)
Total Transfers	(2,567,302)	(716,000)	-	(422,278)	-	(422,278)
Extraordinary Gain (Loss)**	-	-	(17,359,101)	3,229,495	(23,491,941)	(20,262,446)
Proceeds from Sale of Capital Assets	292,828	-	-	-	-	-
Net change in equity	(5,986,450)	(4,633)	(16,302,058)	3,162,027	(25,578,916)	(22,416,889)
Beginning Equity:	22,293,146	16,306,696	16,302,058	-	-	-
Ending Equity:	\$ 16,306,696	16,302,063	-	3,162,027	(25,578,916)	(22,416,889)
Capital Assets	11,951,897	11,640,165	-	-	-	-
Long Term Liabilities	60,947,387	59,291,012	-	-	-	-

* Subsequent to the issuance of the Comprehensive Audited Financial Report for the year ended June 30, 2012, it was determined by the Successor Agency that it no longer owned a parcel of property reported at cost of \$730,000 and a \$33,000 note receivable.

** The extraordinary gain/loss is due to the dissolution of the redevelopment agency. The difference between the amount reported in the 7 months ended 1/31/12 and the amount reported in the 5 months ended 6/30/12 is the full accrual adjustment.

SUCCESSOR AGENCY OF THE FORMER UPLAND REDEVELOPMENT AGENCY

Not Liquid Assets

June 30, 2012

Asset	Cost at 6/30/12	Audited Value at 6/30/2011	Difference
Capital assets	\$ 1,449,401	1,449,401	-
Notes Receivable	162,465	158,146	4,319 *
Deferred Charges	796,208	695,415	100,793 **
Land Held for Resale	<u>2,742,889</u>	<u>3,472,889</u>	<u>(730,000) ***</u>
Total Non Liquid Assets	<u>\$ 5,150,963</u>	<u>5,775,851</u>	<u>(624,888)</u>

* Difference is due to a correction from an existing loan.

** Difference is a result of an extraordinary gain/loss to dissolve the former RDA and set up the Successor Agency Trust Funds.

*** Difference is due to an error in the 6/30/12 financial statements. See further explanation on Exhibit B.

SUCCESSOR AGENCY OF THE FORMER UPLAND REDEVELOPMENT AGENCY
SCHEDULE OF UNSPENT BOND PROCEEDS/ BOND RESERVE FUNDS
JUNE 30, 2012

<u>Bond Description</u>	<u>Unspent Bond Proceeds & Bond Reserve Funds</u>	<u>On Approved ROPS</u>	<u>Maturity Date</u>
RDA Tax Allocation Refunding Bond 2007	\$ 10,176	No*	2037
RDA Tax Allocation Refunding Bond 1998**	1,700,668	Yes	2024
RDA Merged Tax Allocation Bond 2003**	1,087,695	Yes	2023
RDA Tax Allocation Refunding Bond 2006**	219,419	Yes	2037
	3,017,958		
Minus amounts relating to Housing funds***	(566,450)		
	<u>\$ 2,451,508</u>		

* These fiscal agent accounts relate to Housing Bonds that are paid and secured by rental income, not tax increment and are included in the \$566,450 backed out below.

** Required bond reserves pursuant to the Bond Indenture and Official Statements.

*** These amounts were reported on the Due Diligence reported dated October 25, 2012 and have been excluded as required by Due Diligence Review Procedures.

SUCCESSOR AGENCY OF THE FORMER UPLAND REDEVELOPMENT AGENCY
SA RORF Funding Sources and Obligations (Cash Flows)

Amounts for ROPS 2 are actuals or estimated actuals. Amounts for ROPS 3 conform to DOF letter dated October 18, 2012.

	ROPS 1	Pass-Through Payments Outstanding	ROPS 2	ROPS 3	
	Jan-June 2012	Jan-June 2012 (2)	July - Dec 2012 (3)	Jan - June 2013	Total FY 2012-13
SA RORF Funding Sources:					
Projected Property Tax from RPTTF (1)	-	-	-	5,561,259	5,561,259
Less: Est Admin Fees and pass-throughs (1)	-	-	-	(781,059)	(781,059)
Total Available Funding	-	-	-	4,780,200	4,780,200
Less: Obligations and payments (actual or estimated actual):					
RORF Obligations:					
Outstanding debt or obligations not disbursed as of 6/30/12	(199,269)	(3,046,085)	(4,202,679)	(4,026,408)	(11,474,441)
Total RORF Obligations	(199,269)	(3,046,085)	(4,202,679)	(4,026,408)	(11,474,441)
Net of RORF Obligations (over)/under available funding at end of each period	(199,269)	(3,046,085)	(4,202,679)	753,792	(6,694,241)

Notes:

1. Property tax, admin fees and pass through payments for ROPS 3 are based on estimates provided by the County of San Bernardino.
2. The Successor Agency did not make pass-through payments until 7/12/12 as such as of 6/30/12 the amounts were outstanding and not included in the cash balances reported on EXHIBIT A.
3. Rops 1 and 2 payments were collected prior to June 30, 2012. Unspent amounts are included in the cash balances reported on EXHIBITS A and B.