

Pursuant to the Redevelopment Agency Dissolution
Trailer Bill AB1484 of 2012 (Health and Safety §34179.5)

***Successor Agency to the City of Twentynine Palms
Redevelopment Agency
All other funds***

Independent Accountant's Report on
Applying Agreed-upon Procedures

**Successor Agency to the City of Twentynine Palms
Redevelopment Agency
Due Diligence Review AB1484 (Health and Safety §34179.5)**

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***Independent Accountant's Report on
Applying Agreed-upon Procedures***

We have performed the minimum required agreed-upon procedures enumerated in Attachment A, which were agreed to by the California State Controller's Office, the State of California Department of Finance (Agencies) and the Successor Agency of the Twentynine Palms Redevelopment Agency (Successor Agency) solely to assist you in ensuring that the dissolved redevelopment agency is complying with its statutory requirements with respect to AB1484 (Health and Safety §34179.5(a)). Management of the Successor Agency is responsible for the accounting records pertaining to statutory compliance pursuant to Health and Safety §34719.5(a).

This agreed-upon 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 agreed-upon procedures as set forth in Attachment A along with the findings noted as a result of the procedures performed.

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 after each procedure 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 applicable 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.

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Certified Public Accountants

February 19, 2013

These procedures were performed in accordance with Sections 34179.5(c)(1) through 34179.5(c)(3) and Sections 34179.5(c)(5) through 34179.5(c)(6) and were applied to all funds of the Successor Agency (excluding the Low and Moderate Income Housing Fund of the Housing Successor).

Our procedures and results are as follows:

Citation:

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.

Procedure:

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.

The amount transferred by the former redevelopment agency to the Successor Agency from the Redevelopment Agency was \$9,578,680.

Citation:

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 review shall provide documentation of any enforceable obligation that required the transfer.

Procedures:

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. For each transfer, the Successor Agency described 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. See Attachment 2A.

No exceptions noted were noted as a result of this procedure.

- 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. For each transfer, the Successor Agency described 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. See Attachment 2B.

On June 29, 2012, the Successor Agency transferred \$8,206,488 of bond proceeds held by a fiscal agent to the City of Twentynine Palms. The City contends that it had a legal enforceable agreement with the Successor Agency dated February 8, 2011, which was provided to us.

Subsequently, the State Department of Finance, in its letter dated December 18, 2012, reiterated its stance that it believes the Successor Agency is required to reverse the transfer of funds to the City.

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

See attachments 2A, 2B and the letter dated December 18, 2012 from the State Department of Finance.

Citation:

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.

Procedures:

- 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. For each transfer, the Successor Agency described 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. See Attachment 3A.

No exceptions were noted as a result of this procedure.

- B. Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from the Successor Agency to any other public agency or private parties for the period from February 1, 2012 through June 30, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements. See Attachment 3B.

No exceptions were noted as a result of this procedure.

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

See attachments 3A and 3B.

Citation:

34179.5(c)(4) The review shall provide expenditure and revenue accounting information and identify transfers and funding sources for the 2010–11 and 2011–12 fiscal years that reconciles balances, assets, and liabilities of the successor agency on June 30, 2012 to those reported to the Controller for the 2009–10 fiscal year.

Procedures:

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 (see Attachment 4A) for the fiscal periods indicated in the schedule. For purposes of this summary, the financial transactions were presented using the modified accrual basis of accounting. End of year balances for capital assets (in total) and long-term liabilities (in total) were presented at the bottom of this summary schedule for information purposes.

No exceptions were noted as a result of this procedure.

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

No exceptions were noted as a result of this procedure.

- 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.

No exceptions were noted as a result of this procedure.

- D. We compared amounts in the schedule for the other fiscal periods presented to account balances in the accounting records or other supporting schedules.

No exceptions noted. We utilized the former Redevelopment Agency's audited financial statements for the 2010 and 2011 fiscal years ended. We also utilized the former Redevelopment Agency's audited financial statements for the period ended January 31, 2012. For the Successor Agency, we used a preliminary financial statement provided by the Successor Agency.

Citation:

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.

Procedures:

5. We obtained from the Successor Agency a listing of all assets of all other funds of the Successor Agency (excluding the previously reported assets of the Low and Moderate Income Housing Fund) as of June 30, 2012. The attached schedule includes only those assets held by the Successor Agency. We agreed the assets listed to recorded balances reflected in the accounting records of the Successor Agency. See Attachment 5.

No exceptions were noted as a result of this procedure.

Citation:

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.

Procedures:

6. We obtained from the Successor Agency a listing of asset balances held on June 30, 2012 that were 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.) See attachment 6A.

No exceptions were noted as a result of this procedure.

- ii. We traced individual components of this computation to related account balances in the accounting records, or to other supporting documentation.

No exceptions were noted as a result of this procedure. We utilized the Successor Agency's trial balances provided by the Successor Agency.

- iii. We obtained from the Successor Agency a copy of the legal document that sets forth the restriction pertaining to these balances (If applicable, we noted in our report the absence of language restricting the use of the balances that were identified by the Successor Agency as restricted).

The document provided by Agency management was a copy of the official statement for the 2011 Series A and B Tax Allocation Bonds dated April 19, 2011. We noted in the bond document that the proceeds of the bonds are to be used by the Agency to fund redevelopment activities included in the Agency's 5-year Implementation Plan, "including public improvements relating to Project Phoenix".

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

- i. We obtained the Successor Agency's computation of the restricted balances (e.g., total proceeds less eligible project expenditures). See attachment 6B.

Not applicable – Per Agency management there were no grant proceeds or program income.

- ii. We traced individual components of this computation to related account balances in the accounting records, or to other supporting documentation.

Not applicable – Per Agency management there were no grant proceeds or program income.

- iii. We obtained from the Successor Agency a copy of the grant agreement that sets forth the restriction pertaining to these balances (if applicable, we noted in our report the absence of language restricting the use of the balances that were identified by the Successor Agency as restricted).

Not applicable – Per Agency management there were no 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). See attachment 6C.

Not applicable – Per Agency management there were no grant proceeds or program income.

- ii. We traced individual components of this computation to related account balances in the accounting records, or to other supporting documentation.

Not applicable – Per Agency management there were no grant proceeds or program income.

- iii. We obtained from the Successor Agency a copy of the legal document that sets forth the restriction pertaining to these balances (if applicable, we noted in our report the absence of language restricting the use of the balances that were identified by the Successor Agency as restricted).

Not applicable – Per Agency management there were no grant proceeds or program income.

- D. We attached the above mentioned Successor Agency prepared schedule(s) as an exhibit to our report. For each restriction identified on these schedules, the period of time for which the restrictions are in effect is noted. Restrictions in effect until the related assets are expended for their intended purpose are indicated in the schedules.

See attachments 6A, 6B and 6C.

Citation:

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.

Procedures:

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 we 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. See attachment 7A.

No exceptions were noted as a result of this procedure.

- B. 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.

No exceptions were noted as a result of this procedure.

- 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 were due to additions (this generally is not expected to occur), we inspected the supporting documentation and note the circumstances.

Not applicable.

- D. 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. If no evidence is available to support the value and/or methodology, we noted the lack of evidence.

No exceptions were noted as a result of this procedure.

Citation:

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.

Procedures:

8. We performed the following procedures:

A. If the Successor Agency believed that asset balances 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 perform the following procedures (the schedule identified 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). See attachment 8A.

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.

Not applicable – Per Agency management, there were no asset balances to be retained.

ii. We compared all current balances to the amounts reported in the accounting records of the Successor Agency or to an alternative computation.

Not applicable – Per Agency management, there were no asset balances to be retained.

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.

Not applicable – Per Agency management, there were no asset balances to be retained.

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.

Not applicable – Per Agency management, there were no asset balances to be retained.

- B. If the Successor Agency believed 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 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 and perform the following procedures:

Not applicable – Per Agency management, there is nothing to report under this section.

- 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.

Not applicable – Per Agency management, there is nothing to report under this section.

- 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.

Not applicable – Per Agency management, there is nothing to report under this section.

- 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.

Not applicable – Per Agency management, there is nothing to report under this section.

- 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 obtained from the Successor Agency a schedule demonstrating this insufficiency and apply the following procedures to the information reflected in that schedule.

Not applicable – Per Agency management, there is nothing to report under this section.

- i. Compare the timing and amounts of bond debt service payments to the related bond debt service schedules in the bond agreement.

Not applicable – Per Agency management, there is nothing to report under this section.

- ii. Obtain the assumptions for the forecasted property tax revenues and disclose major assumptions associated with the projections.

Not applicable – Per Agency management, there is nothing to report under this section.

- iii. Obtain the assumptions for the forecasted other general purpose revenues and disclose major assumptions associated with the projections.

Not applicable – Per Agency management, there is nothing to report under this section.

- 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.

Not applicable – Per Agency management, there is nothing to report under this section.

- 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.

Not applicable – Per Agency management, there is nothing to report under this section.

- 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.

Not applicable – Per Agency management, there is nothing to report under this section.

- iii. Include the calculation in the AUP report.

Not applicable – Per Agency management, there is nothing to report under this section.

Citation:

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.

Procedure:

- 9. 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, so 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 should add columns identifying (1) any dollar amounts of existing cash that are needed to satisfy that obligation and (2) the Successor Agency's explanation as to why the Successor Agency believes that such balances are needed to satisfy the obligation. Include this schedule as an attachment to the AUP report. See attachment 9.

Management of the Agency provided us with ROPS II and ROPS III and included items from each ROPS on Attachment 9. The items listed on the attachment have been approved by the Department of Finance in their letters dated April 27, 2012 and May 26, 2012.

Procedures:

10. We included (prepared by the Successor Agency) a schedule detailing the computation of the Balance Available for Allocation to Affected Taxing Entities. We agreed amounts included in the calculation to the results of the procedures performed in each section above. The schedule included 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 was agreed to evidence of payment. See Attachment 10.

No exceptions were noted as a result of this procedure.

Procedure:

11. We obtained a representation letter, dated February 19, 2013, from Successor Agency management acknowledging their responsibility for the data provided to us and the data presented in the report or in any attachments to the report.

No exceptions were noted as a result of this procedure.

2A. Transfers from former Redevelopment Agency to City/County January 1, 2011 through January 31, 2012

Transfer description	Transfer amount	Transfer date	City/County	Enforceable obligation	
				Required by	If yes, date
Negotiated pass through payment	\$ 12,192	02/09/2011	County Trans Dept	HSC Section 33670 (b)	09/10/1991
Negotiated pass through payment	19,871	02/09/2011	County of San Bernardino	HSC Section 33670 (b)	09/10/1991
Negotiated pass through payment	10,934	02/09/2011	County Free Library	HSC Section 33670 (b)	09/10/1991
Negotiated pass through payment	9,703	08/10/2011	County Trans Dept	HSC Section 33670 (b)	09/10/1991
Negotiated pass through payment	15,814	08/10/2011	County of San Bernardino	HSC Section 33670 (b)	09/10/1991
Negotiated pass through payment	8,702	08/10/2011	County Free Library	HSC Section 33670 (b)	09/10/1991
Negotiated pass through payments	13,752	02/09/11 - 08/10/12	County Superintendent of Schools	HSC Section 33670 (b)	09/10/1991
County Service Charges	6,884	Various	County of San Bernardino	For collecting taxes	Forever
Totals	\$ 97,852				

2B. Transfers from Successor Agency to City/County February 1, 2012 through June 30, 2012

Transfer description	Transfer amount	Transfer date	City/County	Enforceable obligation	
				Required by	If yes, date
Negotiated pass through payment	\$ 13,559	05/16/2012	County Trans Dept	HSC Section 33670 (b)	09/10/1991
Negotiated pass through payment	22,099	05/16/2012	County of San Bernardino	HSC Section 33670 (b)	09/10/1991
Negotiated pass through payment	12,160	05/16/2012	County Free Library	HSC Section 33670 (b)	09/10/1991
Negotiated pass through payments	8,517	05/16/2012	County Superintendent of Schools	HSC Section 33670 (b)	09/10/1991
Transfer of debt proceeds	7,406,486	06/29/2012	City of Twentynine Palms	Bond document	2011
Transfer of debt proceeds	800,002	06/29/2012	City of Twentynine Palms	Bond document	2011
Totals	\$ 8,262,823				

Schedules prepared by Successor Agency.

3A. Transfers from former Redevelopment Agency Other Public Agency/Private Parties January 1, 2011 through January 31, 2012

Transfer description	Transfer amount	No enforceable obligation	Transfer date	Other public agency or private parties	Enforceable obligation	
					Required by	If yes, date
Interest payment - 2011B TABS	\$ 75,088	\$ -	September '11	Bond holders	Bond document	2011
Interest payment - 2011A TABS	219,596	-	March '12	Bond holders	Bond document	2011
Negotiated pass through payments	38,052	-	02/09/11 - 08/10/12	Copper Mountain College	HSC Section 33670	09/10/1991
Negotiated pass through payments	23,973	-	02/09/11 - 08/10/12	Twentynine Palms Cemetery District	HSC Section 33670	09/10/1991
Negotiated pass through payments	185,008	-	02/09/11 - 08/10/12	Morongo Unified School District	HSC Section 33670	09/10/1991
Negotiated pass through payments	25,909	-	02/09/11 - 08/10/12	High Desert Medical Center	HSC Section 33670	09/10/1991
Totals	\$ 567,626	\$ -				

3B. Transfers from Successor Agency to Other Public Agency/Private Parties February 1, 2012 through June 30,2012

Transfer description	Transfer amount	No enforceable obligation	Transfer date	Other public agency or private parties	Enforceable obligation	
					Required by	If yes, date
Interest payment - 2011B TABS	\$ 109,892	\$ -	September '11	Bond holders	Bond document	2011
Interest payment - 2011A TABS	321,381	-	March '12	Bond holders	Bond document	2011
Negotiated pass through payments	23,565	-	05/16/2012	Copper Mountain College	HSC Section 33670	09/10/1991
Negotiated pass through payments	14,846	-	05/16/2012	Twentynine Palms Cemetery District	HSC Section 33670	09/10/1991
Negotiated pass through payments	114,571	-	05/16/2012	Morongo Unified School District	HSC Section 33670	09/10/1991
Negotiated pass through payments	16,045	-	05/16/2012	High Desert Medical Center	HSC Section 33670	09/10/1991
Totals	\$ 600,300	\$ -				

Schedules prepared by Successor Agency.

4A. Summary of financial transactions of the former Redevelopment Agency and Successor Agency

	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	HA - LMIH Asset Fund 5 Months Ended 6/30/2012
Assets					
Current assets					
Cash	\$ 4,818,063	\$ 3,154,497	\$ 3,429,998	\$ 847,977	\$ 2,214,728
Cash and investments restricted with fiscal agent	-	11,038,290	11,038,290	-	-
Receivables					
Accounts	2,500	-	-	-	-
Taxes	42,124	14,963	-	-	-
Land held for resale	54,639	126,850	126,850	126,850	-
Other	-	-	-	260,295	-
Capital assets	-	-	-	451,619	-
Total assets	\$ 4,917,326	\$ 14,334,600	\$ 14,595,138	\$ 1,686,741	\$ 2,214,728
Liabilities					
Current liabilities					
Accounts payable	\$ 291,755	\$ 176,070	\$ 274,251	\$ 207,203	\$ -
Accrued	-	-	-	219,490	-
Long-term, net	-	-	-	8,749,785	2,572,412
Total liabilities	291,755	176,070	274,251	9,176,478	2,572,412
Equity	4,625,571	14,158,530	14,320,887	(7,489,737)	(357,684)
Total liabilities and fund balance	\$ 4,917,326	\$ 14,334,600	\$ 14,595,138	\$ 1,686,741	\$ 2,214,728
	6/30/2010	6/30/2011	1/31/2012	6/30/2012	6/30/2012
Total revenues	\$ 1,958,084	\$ 1,832,769	\$ 1,116,244	\$ 213,040	\$ 150,328
Total expenses	2,734,082	3,612,978	967,731	9,051,327	2,951,500
Net other financing	2,000,000	11,313,168	13,844	1,348,550	2,443,488
Changes in net assets	1,224,002	9,532,959	162,357	(7,489,737)	(357,684)
Prior period adjustment	-	-	-	-	-
Gain/loss on dissolution	-	-	-	-	-
Beginning equity	3,401,569	4,625,571	14,158,530	-	-
Ending equity	\$ 4,625,571	\$ 14,158,530	\$ 14,320,887	\$ (7,489,737)	\$ (357,684)
Other Information (show year end balances for all three years presented), net:					
Capital assets, end of year	\$ 266,542	\$ -	\$ -	\$ -	\$ -
Compensated absences	-	-	-	-	-
Long-term debt, end of year	2,000,000	11,575,000	11,575,000	-	-

Schedule prepared by Successor Agency.

4C. Summary comparison of financial statements to the State Controllers Report

	Redevelopment Agency FS 6/30/2010	Redevelopment Agency SCR 6/30/2010	Difference
Assets			
Current assets			
Cash	\$ 4,818,063	\$ 4,818,063	\$ -
Cash and investments restricted with fiscal agent	-	-	-
Receivables			
Taxes	42,124	42,124	-
Accounts	2,500	2,500	-
Interest	-	-	-
Loans	-	-	-
Other assets	-	-	-
Land held for resale	54,639	54,639	-
Total assets	\$ 4,917,326	\$ 4,917,326	\$ -
Liabilities			
Current liabilities			
Accounts payable	\$ 291,755	\$ 291,755	\$ -
Other liabilities	-	-	-
Total liabilities	291,755	291,755	-
Equity	4,625,571	4,625,571	-
Total liabilities and fund balance	\$ 4,917,326	\$ 4,917,326	\$ -
Total revenues	\$ 1,958,084	\$ 1,958,084	\$ -
Total expenses	2,734,082	2,734,082	-
Net other financing	2,000,000	2,000,000	-
Changes in net assets	1,224,002	1,224,002	-
Prior period adjustment	-	-	-
Beginning equity	3,401,569	3,401,569	-
Ending equity	\$ 4,625,571	\$ 4,625,571	\$ -
Other Information (show year end balances for all three years presented):			
Capital assets as of end of year	\$ 266,542	\$ -	\$ 266,542
Compensated absences	-	-	-
Long-term debt as of end of year	2,000,000	2,000,000	-

Schedule prepared by Successor Agency.

5. Listing of assets of the Successor Agency as of June 30, 2012

General ledger as of June 30, 2012			
<u>Fund</u>	<u>GL Account</u>	<u>Asset description</u>	<u>Successor Agency</u>
76	1114	Cash SARORF non-housing	\$ 3,505
76	1170	Land held for resale	126,850
74	1100	Cash US Bank	687
74	1106	Cash Pacific Western payroll	(80,686)
74	1107	Cash Pacific Western general	924,471
74	1184	Ongoing project costs	198,123
76		Capital assets, net	253,496
76		Deferred charges - COI	260,295
			\$ 1,686,741

Schedule prepared by Successor Agency.

6A. Listing of unspent bond proceeds as of June 30, 2012

<u>Account #</u>	<u>Account Name</u>	<u>Description</u>	<u>Amount</u>	<u>Restriction</u>
78-1110	Cash with fiscal agent - 2011 TABS	Cash with fiscal agent	\$ 7,406,486	Bond document*
76-1108	Cash with fiscal agent - 2011 TABS	Bond reserve with fiscal agent	800,002	Bond document*
Total unspent bond proceeds - restricted			\$ 8,206,488	

Restrictions are in effect until the bond issues are no longer outstanding.

*The bond official statement is dated April 19, 2011.

6B. Listing of grant proceeds and program income as of June 30, 2012

There are no grant proceeds or program income in the Successor Agency.

6C. Listing of other assets - restricted as of June 30, 2012

There are no other assets in the Successor Agency.

Schedules prepared by Successor Agency.

7. Listing of assets not liquid or available for distribution as of June 30, 2012

Asset Information			Successor
Fund	GL	Description	Agency
76	1170	Land held for resale	\$ 126,850
74	1184	Ongoing project costs	198,123
76	various	Capital assets, net	253,496
76	various	Deferred charges - COI	260,295
Total			\$ 838,764

Schedule prepared by Successor Agency.

**8. Schedule of asset balances of the Low and Moderate Housing Fund - restricted/dedicated
as of June 30, 2012**

8A. None

8B. None

8C. None

8D. Not applicable

Schedule prepared by the Successor Agency.

9. Cash balances as of June 30, 2012 needed to satisfy ROPS for the period July 1, 2012 - June 30, 2013

ROPS #/ ROPS Ln#	Contract/ agreement execution date	Contract/ agreement termination date	Payee	Description	Total outstanding debt or obligation	Total due in FY 2012-13	Amount needed to satisfy debt	Funding source		Total
								Debt Service	Capital projects	
NA	NA	NA	Various	Accounts payable at June 30, 2012	\$ 12,178	\$ 12,178	\$ 12,178	\$ -	\$ 12,178	\$ 12,178
ROPS II - line 1	03/01/11	09/01/42	Bond holders	Interest payments	23,158,113	642,763	321,381	321,381	-	321,381
ROPS II - line 9	01/13/09	open	Hogle-Ireland	General plan update	-	-	-	-	-	-
ROPS III - line 1	03/01/11	09/01/42	Bond holders	Interest payments	-	-	321,381	321,381	-	321,381
Total cash balances retained					\$ 23,170,291	\$ 654,941	\$ 654,940	\$ 642,762	\$ 12,178	\$ 654,940

Amounts are needed to satisfy continuing debt service, contracts and projects since the agency believes the RPTTF funds will be insufficient.

Schedule prepared by Successor Agency.

10. 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)	\$ 1,686,741
Add the amount of any assets transferred to the city 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)	8,206,488
Less assets legally restricted for uses specified by debt covenants, grant restrictions, or restrictions imposed by other governments (procedure 6)	(8,206,488)
Less assets that are not cash or cash equivalents (e.g., physical assets) - (procedure 7)	(838,764)
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)	(654,940)
Less the amount of payments made on July 12, 2012 to the County Auditor-Controller as directed by the California Department of Finance	<u>(193,037)</u>
Amount to be remitted to county for disbursement to taxing entities	<u><u>\$ -</u></u>



December 18, 2012

Mr. Richard Warne, City Manager
Twentynine Palms Successor Agency
6136 Adobe Road
Twentynine Palms, CA 92277

Dear Mr. Warne:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 7, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Twentynine Palms Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 23, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 7, 2012. Subsequently, the Agency requested a Meet and Confer session on one or more of the items denied by Finance. The Meet and Confer session was held on November 16, 2012.

Based on a review of additional information and documentation provided to Finance during the Meet and Confer process, Finance has completed its review of the specific item being disputed.

Items 1 and 2 – 2011 Tax Allocation Bonds Series A and B totaling \$30.4 million. The principal and interest payments due on those bonds are enforceable obligations. However, the transfer of bond proceeds without an enforceable obligation is unallowable. The Series A and B Bonds were issued to fund Project Phoenix, which is not an approved enforceable obligation. Specifically, it is our understanding that in May 2012 the Agency transferred the bond proceeds and spending authority to the City of Twentynine Palms (City) to allow Project Phoenix to go forward. On April 27, 2012, Finance issued a letter to inform the Agency about our review results of the Agency's ROPS for the periods January through June 2012 and July through December 2012. In our letter, Finance denied Project Phoenix, totaling \$11.6 million bond proceeds because there were no contracts in place prior to June 28, 2011. HSC section 34177.3 (c) prohibits the successor agency from transferring revenues or powers to any other public entity except pursuant to enforceable obligation on an approved ROPS. Any such transfers of authority or revenues are "void". Therefore, the Agency is required to reverse the improper transfer and recover the bond funds from the City.

The Agency contends the items are enforceable obligations because the Bond Proceeds Agreement is an enforceable obligation since Finance did not exercise its right to review the Oversight Board's approval of the agreement, which was lawfully entered into under HSC section 34180 (h). While HSC section 34180 (h) authorizes successor agencies to enter or reenter into agreements, any agreement entered into cannot conflict with the requirements set

forth in HSC 34171 (d), as ABx1 26 did not specifically carve out an exception to the definition of an enforceable obligation nor did HSC section 34180 (h) not withstand HSC section 34171 (d). Therefore, the Oversight Board had no legal basis to approve an action that directly conflicted with and violated the definition of an enforceable obligation. Even if Finance did not object to the specific Oversight Board action authorizing the Agency to enter or reenter into an agreement, the statute as a whole prohibits such an action from being validated if it conflicts with the definition of an enforceable obligation. Additionally, Finance has clearly defined authority under HSC section 34177 and 34179 (h) to review any items on ROPS to determine whether or not successor agencies are responsible for the obligation listed on their ROPS. Even if an Oversight Board approved an action that created an enforceable obligation, Finance has the authority to review the enforceable obligation for compliance with HSC section 34171 (d) or for compliance with any other statutory requirements contained in Chapter 26, statutes of 2012 (AB 1484). At no time can an Oversight Board action eliminate Finance's authority to review an enforceable obligation as part of a ROPS review.

We note that pursuant to HSC section 34191.4 (c), successor agencies that have been issued a Finding of Completion by Finance will be allowed to use excess proceeds from bonds issued prior to December 31, 2010, for the purposes for which the bonds were issued. Successor Agencies are required to defease or repurchase on the open market for cancellation any bonds that cannot be used for the purpose they were issued or if they were issued after December 31, 2010. The bond proceeds requested for use were issued on April 19, 2011. Therefore, the items are not enforceable obligations.

Furthermore, as authorized in HSC section 34177.3 (c), the State Controller may audit any transfer of authority or revenues prohibited and may order the prompt return of any money from the receiving party.

In addition, per Finance's ROPS letter dated October 7, 2012, the following item not disputed by the Agency continues to reclassify the following administrative cost:

Item 3 – Agreed Upon Procedures Audit in the amount of 10,000. Although this reclassification increased administrative costs to \$135,000, the administrative cost allowance has not been exceeded.

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is \$786,273 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2013	
Total RPTTF funding requested for obligations	\$ 661,273
Less: Six-month total for item reclassified as administrative cost Item No. 3	\$ 10,000
Total approved RPTTF for enforceable obligations	<u>\$ 651,273</u>
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	<u>\$ 135,000</u>
Total RPTTF approved:	\$ 786,273

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS III form the estimated obligations and actual payments associated with the January through June 2012 period. The amount of RPTTF approved in the above table will be adjusted by the county auditor-controller to account for differences between actual payments and past estimated

obligations. Additionally, these estimates and accounts are subject to audit by the county auditor-controller and the State Controller.

The amount available from the RPTTF is the same as the property tax increment that was available prior to enactment of ABx1 26 and AB 1484. This amount is not and never was an unlimited funding source. Therefore, as a practical matter, the ability to fund the items on the ROPS with property tax is limited to the amount of funding available to the successor agency in the RPTTF.

Except for items disallowed as noted above, Finance is not objecting to the remaining items listed in your ROPS III. Obligations deemed not to be enforceable shall be removed from your ROPS. This is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2013. Finance's determination is effective for this time period only and should not be conclusively relied upon for future periods. All items listed on a future ROPS are subject to a subsequent review and may be denied even if it was or was not questioned on this ROPS or a preceding ROPS.

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. Ron Peck, Finance Director, City of Twentynine Palms
Ms. Vanessa Doyle, Auditor Controller Manager, San Bernardino County
California State Controller's Office