



County of San Luis Obispo

**Report on Applying Agreed-Upon-Procedures to the
City of Arroyo Grande Redevelopment and Successor
Agencies**

For the period July 1, 2011 through January 31, 2012

**Gere W. Sibbach, CPA, Auditor-Controller
July 16, 2012**

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County of San Luis Obispo

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Oversight Board of the Successor Agency
City of Arroyo Grande, CA

ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

We have performed the required agreed-upon procedures enumerated in Attachment A, which were agreed to by the California State Controller's Office, Department of Finance, and the San Luis Obispo County Auditor-Controller, solely to assist you in ensuring that the dissolved Arroyo Grande Redevelopment Agency is complying with its statutory requirements with respect to ABX1 26. Management of the City of Arroyo Grande Successor Agency and the San Luis Obispo County Auditor-Controller's Office are responsible for the accounting records pertaining to statutory compliance pursuant to Health and Safety Code section 34182(a)(1). This agreed-upon procedures engagement was conducted using 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 and additional procedures identified by the San Luis Obispo County Auditor-Controller as set forth in Attachment A.

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 detailed 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.

As pass-through calculations for redevelopment agencies located in San Luis Obispo County have traditionally been calculated and paid by County Auditor-Controller staff, we were not independent in our performance of the procedures relating to pass-throughs.

We would like to thank your staff for their courtesy and cooperation throughout the agreed-upon procedures process.

This report is intended solely for the information and use of the San Luis Obispo County Auditor-Controller, the successor agency, and applicable State agencies, and is not intended to be, and should not be, used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

A handwritten signature in black ink, appearing to read "Gere W. Sibbach".

Gere W. Sibbach, CPA, San Luis Obispo County Auditor-Controller
San Luis Obispo, California
July 16, 2012

Executive Summary City of Arroyo Grande Successor Agency

Overall our review supports the status of the individual items presented on the Successor Agency's final Required Obligation Payment Schedule (ROPS) approved by the Oversight Board with the exceptions indicated in the narrative below.

We determined that one obligation, **City Loan entered into on 7-25-06** for \$919,797 did not meet the criteria in ABX1 26 to be enforceable, and we noted that the Department of Finance made the same determination.

Additionally, the Housing Set-Aside obligation is a projection of the 20% obligation to the Low and Moderate Housing Income Fund should the amount become obligated from future property tax revenues. Because the housing set-aside was eliminated with the dissolution of the RDA's, we did not consider this obligation in our report.

We disagreed with some individual obligation balances presented by the Successor Agency. We found some instances where the Successor Agency did not reduce the balance by the amount of previous payments. We have identified those differences, when possible, in the accompanying report; however, some payments may have been outside of our agreed-upon-procedures period. We believe the Oversight Board should instruct the Successor Agency to establish correct balances by beginning with the contract or estimated amounts and reducing them by all previous payments.

We calculated the total obligation amount of non-administrative obligations in the final Oversight Board Approved ROPS to be \$14,074,664 which is \$322,050 less than the total non-administrative obligation amounts listed by the Successor Agency. The \$322,050 difference relates to timing issues and oversights in completing the report. We were able to trace the actual individual payment amounts to the supporting documentation for the total amount of \$190,652 without exception.

We determined that a successor agency and oversight board were appropriately established, and that a transfer of funds, including the Low and Moderate Income Housing Fund occurred along with a transfer of housing activities. We obtained listings that support the asset figures in the audited financial statements as of June 30, 2010, June 30, 2011 and January 31, 2012 as determined by the successor agency. We summarized the listings and have included the summary as Attachment B to this report.

We also obtained a list of pass-through obligations and compared them to payments made without exception.

We have included a table that summarizes the detail in the accompanying Attachment A:

	Initial EOPS	Amended EOPS	Draft ROPS	Final ROPS (OB Approved)	Final ROPS (DOF Approved)
Period	8/1/11 – 12/31/11	1/1/12 – 6/30/12	1/1/12 – 6/30/12	1/1/12 – 6/30/12	1/1/12 – 6/30/12
# of obligations	20	24	19	17	16
\$ of obligations	\$14,933,059	\$24,676,418	\$24,564,157	\$15,023,724	\$14,103,927
Payments made on reported obligations at date of report	\$539,822	\$190,562	\$190,562	\$190,562	Not tested
Observations	We disagree with some of the balances presented by the Successor Agency	Estimate of continuing Low & Moderate Income Housing Obligation of \$9,490,433 added. We disagree with some of the balances presented by the Successor Agency	We disagree with some of the balances presented by the Successor Agency	Estimate of continuing Low & Moderate Income Housing Obligation of \$9,490,433 removed. We disagree with some of the balances presented by the Successor Agency	City Loan removed for \$919,797. Loan considered unenforceable. We disagree with some of the balances presented by the Successor Agency

ATTACHMENT A AGREED-UPON PROCEDURES & RESULTS

Purpose: To establish the Arroyo Grande Redevelopment Agency's (RDA) assets and liabilities, to document and determine the Arroyo Grande RDA's pass-through payment obligations to other taxing agencies, and to document and determine both the amount and the terms of any indebtedness incurred by the Arroyo Grande RDA and certify the initial recognized obligation payment schedule. [Health and Safety Code section 34182(a)(2)]

In conformity with attestation standards, the language in each separate report for each agency will need to be specific as to the type of documents that were examined in performing the procedure.

A. RDA Dissolution and Restrictions

For the Arroyo Grande Redevelopment Agency dissolved, perform the following:

1. Obtain a copy of the enforceable obligation payment schedule (EOPS) for the period of August 1, 2011, through December 31, 2011. Trace the project name associated with the obligation, the payee, a description of the nature of the work/service agreed to, and the amount of payments made by month through December 31, 2011, and compare it to the legal document that forms the basis for the obligation.

Results: We obtained a copy of the EOPS for the period of August 1, 2011 through December 31, 2011 and traced the project name associated with the obligation, the payee, a description of the nature of the work/service agreed to, and the amount of payments made by month through December 31, 2011. We also compared the obligations listed on the EOPS to the legal document(s) that form the basis for the obligations.

All obligations listed on the EOPS agreed in all material respects to the supporting legal documentation with the following notations/exceptions:

- Item 4 Lease of Parking lot from Gutierrez
 - The lease for the parking lot is between the City and the lessor; however, the staff report and subsequent City Council minutes indicate that the City Council/Redevelopment Agency intended the obligation to be an RDA obligation. We noted that the Department of Finance considered this obligation to be enforceable.
 - The outstanding lease amount of \$240,000 listed on the initial EOPS is \$12,000 greater than the total obligation amount of \$228,000

calculated by the auditors based on the lease agreement. Management states that the total obligation amount on the initial EOPS was miscalculated based on timing issues.

- Item 5 Lease of Parking lot from Jacobson
 - The lease for the parking lot is between the City and the lessor; however, the staff report and subsequent City Council minutes indicate that the City Council/Redevelopment Agency intended the obligation to be an RDA obligation. We noted that the Department of Finance considered this obligation to be enforceable.
 - The outstanding lease amount of \$46,800 listed on the initial EOPS is \$1,950 greater than the total obligation amount of \$44,850 calculated by the auditors based on the lease agreement. Management states that the total obligation amount on the initial EOPS was miscalculated based on timing issues.
- Items 6 & 7 Employee Costs
 - The total obligation amount of \$290,496 listed on the initial EOPS is \$46,123 greater than the total obligation amount of \$244,373 calculated by the auditors based on the documentation provided by the successor agency. Management states that the obligation amount was based on estimated monthly costs.
- Items 8 & 9 Contract for Legal Services with Rutan & Tucker
 - Per management the \$25,000 total obligation amount is an estimate.
- Items 10 & 11 Cost Allocation Costs
 - The total obligation amount of \$81,675 listed on the initial EOPS is \$2,074 less than the total obligation of \$83,749 calculated by the auditors based on documentation provided by the successor agency. Management states that the obligation amount was based on estimated monthly costs
- Item 12 Purchase of Land from People's Self-Help
 - The contract and associated staff report indicate that the obligation is for assistance with the development of the project rather than for a purchase of land.
- Item 13 Police Station Contract with BFGC architects
 - The contract is between the City and BFGC architects; however, the staff reports and subsequent City Council minutes indicate that the City Council/Redevelopment Agency intended the obligation to be an

RDA obligation. We noted that the Department of Finance considered this obligation to be enforceable.

- The total obligation amount of \$160,000 listed on the initial EOPS is \$8,469.26 greater than the \$151,530.74 amount calculated by the auditor based on information provided by the successor agency. Management stated that FY 10-11 payments had inadvertently not been subtracted from the total obligation amount.
- Item 14 Contract for construction with Brough Construction.
 - The contract with Brough Construction dated June 15, 2011 is between the City of Arroyo Grande and Brough Construction for the El Camino Real Rehabilitation Project. The City and the RDA executed an agreement for the RDA to contribute \$50,000 toward the project; however, the agreement was dated May 24, 2011 making the obligation unenforceable as it is outside of two years of the date of the agency's formation on August 27, 1996 and was not prior to December 31, 2010 and for the sole purpose of securing or repaying indebtedness obligations. We noted that the Department of Finance considered this obligation to be enforceable.
- Item 15 Redevelopment Audit contract with Moss, Levy and Hartzheim CPAs
 - The total obligation amount of \$2,800 listed on the initial EOPS is \$775 greater than the \$2,025 amount calculated by the auditor based on documentation provided by the successor agency. Management stated that the amount on the initial EOPS was an estimate.
- Items 16 & 17 Contract for Consulting Services with Tierra West Advisors.
 - The \$25,000 amount recorded in the contract agrees to the \$25,000 amount reported in the initial EOPS; however, we did not determine if payments had been made on the contract prior to July 1, 2011 that might have reduced the obligation amount.
- Items 18 and 19 Agency insurance and utility costs
 - The total obligation amount of \$27,700 listed on the initial EOPS is \$4,499 greater than the total obligation amount of \$23,201 calculated by the auditors based on documentation provided by the successor agency. We understood that as of February 1, 2012 the successor agency began operating within the parameters of an administrative allowance for the fiscal year; however, in order to estimate an obligation based on available information, we have used the successor agency's original cost estimates for the entire year. We noted that the agency broke out the January obligations and the remaining

administrative cost allowance obligations on both the draft and final ROPS.

- Item 20 Affordable Housing Project with the County of San Luis Obispo.
 - The \$50,000 amount recorded in the Affordable Housing Agreement with the County of SLO agrees to the \$50,000 amount reported in the initial EOPS; however, we did not determine if payments had been made on the contract prior to July 1, 2011 that might have reduced the obligation amount. We noted that this obligation was removed from the final ROPS.
- 2. Obtain a copy of all amended EOPS filed during the period of January 1, 2012, through June 30, 2012. Trace the project name associated with the obligation, the payee, a description of the nature of the work/service agreed to, and the amount of payments to be made by month through June 30, 2012, and compare it to the legal document that forms the basis for the obligation.

Results: We obtained a copy of the amended EOPS for the period of January 1 through June 30, 2012 and traced the project name associated with the obligation, the payee, a description of the nature of the work/service agreed to, and the amount of payments made by month through May 31, 2012. We also compared the obligations listed on the EOPS to the legal document(s) that form the basis for the obligations.

All obligations listed on the amended EOPS agreed in all material respects to the supporting legal documentation with the following notations/exceptions:

- Items 1 & 2 2007 Tax Allocation Bonds
 - The outstanding bond amount of \$12,120,914 listed on the amended EOPS is \$280,908 greater than the total obligation amount of \$11,840,006 calculated by the auditors based on the bond payment schedule. The difference is due to the September 2011 payment which was not subtracted from the total obligation amount on the amended EOPS.
- Item 4 Lease of Parking lot from Gutierrez
 - The lease for the parking lot is between the City and the lessor; however, the staff report and subsequent City Council minutes indicate that the City Council/Redevelopment Agency intended the obligation to be an RDA obligation. We noted that the Department of Finance considered this obligation to be enforceable.
 - The outstanding lease amount of \$240,000 listed on the amended EOPS is \$22,000 greater than the total obligation amount of \$218,000

calculated by the auditors based on the lease agreement. Management states that the total obligation amount on the amended EOPS was miscalculated based on timing issues.

- Item 5 Lease of Parking lot from Jacobson
 - The lease for the parking lot is between the City and the lessor; however, the staff report and subsequent City Council minutes indicate that the City Council/Redevelopment Agency intended the obligation to be an RDA obligation. We noted that the Department of Finance considered this obligation to be enforceable.
 - The outstanding lease amount of \$46,800 listed on the amended EOPS is \$3,900 greater than the total obligation amount of \$42,900 calculated by the auditors based on the lease agreement. Management states that the total obligation amount on the amended EOPS was miscalculated based on timing issues.
- Items 6 & 7 Employee Costs
 - The total obligation amount of \$292,496 listed on the amended EOPS is \$176,936 greater than the total obligation amount of \$115,560 calculated by the auditors based on the documentation provided by the successor agency. Management states that the obligation amount was based on estimated monthly costs
- Items 8 & 9 Contract for Legal Services with Rutan & Tucker
 - Per management the \$25,000 total obligation amount is an estimate.
- Item 12 Purchase of Land from People's Self-Help
 - The contract and associated staff report indicate that the obligation is for assistance with the development of the project rather than for a purchase of land.
- Item 13 Police Station Contract with BFGC architects
 - The contract is between the City and BFGC architects; however, the staff reports and subsequent City Council minutes indicate that the City Council/Redevelopment Agency intended the obligation to be an RDA obligation. We noted that the Department of Finance considered this obligation to be enforceable.
 - The outstanding obligation amount of \$160,000 listed on the amended EOPS is \$20,521 greater than the total obligation amount of \$139,479 calculated by the auditors based on the documentation provided. The difference is due to prior payments, which were not subtracted from the total obligation amount on the amended EOPS.

- Item 14 Contract for construction with Brough Construction.
 - The contract with Brough Construction dated June 15, 2011 is between the City of Arroyo Grande and Brough Construction for the El Camino Real Rehabilitation Project. The City and the RDA executed an agreement for the RDA to contribute \$50,000 toward the project; however, the agreement was dated May 24, 2011 making the obligation unenforceable as it is outside of two years of the date of the agency's formation on August 27, 1996 and was not prior to December 31, 2010 and for the sole purpose of securing or repaying indebtedness obligations. We noted that the Department of Finance considered this obligation to be enforceable.
 - The outstanding obligation amount of \$50,000 listed on the amended EOPS was paid in December 2011; therefore, the outstanding obligation amount should be zero. Management states that the obligation was inadvertently carried forward to the amended EOPS.
- Item 15 Redevelopment Audit contract with Moss, Levy and Hartzheim CPAs
 - The total obligation amount of \$2,800 listed on the amended EOPS is \$2,700 greater than the \$100 amount calculated by the auditor based on documentation provided by the successor agency. The difference is primarily due to July-December payments which were not subtracted from the total obligation amount.
- Items 16 & 17 Contract for Consulting Services with Tierra West Advisors.
 - The \$25,000 amount recorded in the contract agrees to the \$25,000 amount reported in the amended EOPS; however, we did not determine if payments had been made on the contract prior to July 1, 2011 that might have reduced the obligation amount.
- Item 20 Affordable Housing Project with the County of San Luis Obispo.
 - The \$50,000 amount recorded in the Affordable Housing Agreement with the County of SLO agrees to the \$50,000 amount reported in the amended EOPS; however, we did not determine if payments had been made on the contract prior to July 1, 2011 that might have reduced the obligation amount. We noted that this obligation was removed from the final ROPS.
- Item 21 Contract for Legal Services with Carmel and Naccasha, LLP
 - Per management the \$12,100 obligation amount was estimated.

- Item 22 Historic Context Statement contract with Page & Turnball
 - The contract is between the City and Page & Turnball; however, the staff reports and subsequent City Council minutes indicate that the City Council/Redevelopment Agency intended the obligation to be an RDA obligation.
 - The total obligation amount of \$29,800 listed on the amended EOPS is \$2,077 greater than the \$27,723 amount calculated by the auditor based on documentation provided by the successor agency. The difference is due to a November 2011 payment which was not subtracted from the total obligation amount on the amended EOPS.
 - Item 23 Habitat for Humanity Project
 - This item is a receivable to the RDA from Habitat for Humanity.
3. Identify any obligations listed on the EOPS that were entered into after June 29, 2011, by inspecting the date of incurrence specified on Form A of the Statement of Indebtedness filed with the County Auditor-Controller, which was filed on or before October 1, 2011.

Results: All items that were listed on the initial and amended EOPS, and on Form A of the Statement of Indebtedness were incurred prior to June 29, 2011.

4. Inquire and specifically state in the report the manner in which the agency did or did not execute a transfer of the Low and Moderate Income Housing Fund to the redevelopment successor agency by February 1, 2012. Procedures to accomplish this might include changing the name of the accounting fund and related bank accounts that are holding these assets for the successor agency.

Results: We determined that a transfer of the Low and Moderate Income Housing Fund occurred on February 1, 2012 from the former redevelopment agency to the successor agency through changing the name of the accounting fund that is holding assets, liabilities and fund balance for the successor agency. We noted that in transferring the funds:

- the RDA transferred Land held for Resale of \$825,129 from the RDA Operating Fund to the Successor Agency Low and Moderate Income Housing Fund
- the RDA transferred a Loan payable of \$919,797 due to the City from the RDA Operating Fund to the Successor Agency Low and Moderate Income Housing Fund
- the RDA Low and Moderate Income Housing Fund transferred \$1,454,195 of cash to the Successor Agency Operating Fund.

5. Inquire and specifically state in the report how housing activities (assets and functions, rights, powers, duties, and obligations) were transferred and the manner in which this agency did or did not execute a transfer. Procedures to accomplish this might include changing the name of the accounting fund and related bank accounts that are holding these assets for the other agency. An examination of bank statements and re-recording of titles evidencing such transfers will be sufficient.

Results: On January 10, 2012 the Arroyo Grande City Council adopted Resolution 4421 determining that "the City of Arroyo Grande shall retain the housing assets and functions of the dissolved redevelopment agency of the City of Arroyo Grande pursuant to Health and Safety Code Section 34176". We determined that a transfer of the housing activities appropriately occurred on February 1, 2012 from the former redevelopment agency to the successor agency through changing the name of the accounting fund that is holding assets, liabilities and fund balance for the successor agency.

B. Successor Agency

1. Inspect evidence that a successor agency (A) has been established by February 1, 2012; and (B) the successor agency oversight board has been appointed, with names of the successor agency oversight board members, which must be submitted to the Department of Finance by May 1, 2012.

Results: We inspected the City of Arroyo Grande Resolution 4420, dated January 10, 2012 which established the City of Arroyo Grande Successor Agency to the former Arroyo Grande Redevelopment Agency. We also inspected an email to the Department of Finance dated April 12, 2012 submitting the names of the seven Successor Agency oversight board members to the Department of Finance.

2. Inquire regarding the procedures accomplished and specifically state in the report the manner in which this agency did or did not execute a transfer of operations to the successor agency, which was due by February 1, 2012. Procedures to accomplish this might include changing the name of the accounting fund and related bank accounts that are holding these assets for the successor agency.

Results: We determined that a transfer of operations occurred on February 1, 2012 from the former redevelopment agency to the successor agency through changing the names of the accounting funds that are holding assets, liabilities and fund balance for the successor agency with the exception of the Debt Services Fund. Management elected to retain the debt service fund balances in the former RDA fund until the amount to be deposited into the Redevelopment Obligation Retirement Fund could be determined.

3. Ascertain that the successor agency has established the Redevelopment Obligation Retirement Fund(s) in its accounting system.

Results: We ascertained that the successor agency has established the Redevelopment Obligation Retirement Fund (RORF) in its accounting system by viewing a trial balance report for the RORF fund.

4. Inspect the EOPS and ROPS and identify the payments that were due to be paid through the date of the Agreed-Upon Procedures (AUP) report. Select a sample (based on a dollar amount and/or percentage amount as determined by the San Luis Obispo County Auditor-Controller) and compare the payments that were due to be paid through the date of the AUP report to a copy of the cancelled check or other documentation supporting the payment.

Results: All payments listed on the EOPS and the ROPS that were due to be paid through July 16, 2012 agreed in all material respects to the supporting documentation with the following notations/exceptions:

- Initial EOPS (August – December 2011 payments)
 - Item 12 People’s Self Help purchase of land – No payments were made on this obligation for the August – December 2011 time period. The payment amount of \$892,877 and timing listed on the initial EOPS appear to be an estimate.
 - Item 13 BFGC Architects payment of \$12,052 was \$62,948 less than the payment amount of \$75,000 listed on the initial EOPS. The monthly payment amounts totaling \$17,050 and timing listed on the initial EOPS appears to be an estimate.
 - Item 20 County of San Luis Obispo for development of an affordable housing project - No payments were made on this \$50,000 obligation for the August – December 2011 time period. Per management, the County has not yet completed work which would trigger the payment. We noted that this obligation was removed from the final ROPS.
- Amended EOPS (January – May 2012 Payments)
 - Items 6 and 7 Employee Payments - a credit of \$17,954 was posted which caused the actual payments to be \$152,099 less than the payment amounts of \$134,145 listed on the amended EOPS. Per management, the credit was posted due to the RDA Administration fund running low on fund balance.

- Item 10 City of Arroyo Grande Cost Allocation cost payment of \$6,034 was \$27,216 less than the \$33,250 payment amount listed on the amended EOPS.
- Item 13 Police station contract with BFGC Architects - No payments were made on this obligation for the January - May 2012 time period. The monthly payment amounts totaling \$17,050 and timing listed on the amended EOPS appear to be an estimate.
- Item 14 The Brough Construction contract for construction obligation was paid to the City in December 2011. The obligation was inadvertently carried forward to the amended EOPS.
- Items 16 and 17 consulting services contract with Tierra West - No payments were made on this obligation for the January – May 2012 time period. The monthly payment amounts and timing listed on the amended EOPS appear to be an estimate.
- Draft ROPS (January – May 2012 Payments)
 - Item 1 2007 Tax Allocation Bonds payment of \$173,122 was \$62,323 more than the \$110,799 payment amount listed on the draft ROPS because the \$62,323 amount was inadvertently not carried forward from the amended EOPS.
 - Item 6 Police station contract with BFGC Architects - No payments were made on this obligation for the January – May 2012 time period. The monthly payment amounts totaling \$17,052 and timing listed on the draft ROPS appears to be an estimate.
 - Item 7 The Brough Construction contract for construction obligation was paid to the City in December 2011. The obligation was inadvertently carried forward to the draft ROPS.
 - Item 12 Administrative Costs payment of \$7,993 was \$75,343 less than the \$83,336 payment amount listed on the draft ROPS.
 - Item 13 Employee Payments - a credit of \$17,954 was posted which caused the actual payments to be \$42,040 less than the total payment amount of \$24,086 listed on the draft ROPS. Per management, the credit was posted due to the RDA Administration fund running low on fund balance.

- Final ROPS (January – May 2012 Payments)
 - Item 1 2007 Tax Allocation Bonds payment of \$173,122 was \$62,323 more than the \$110,799 payment amount listed on the final ROPS because the \$62,323 amount was inadvertently not carried forward from the amended EOPS.
 - Item 6 Police station contract with BFGC Architects - No payments were made on this obligation for the January – May 2012 time period. The monthly payment amounts totaling \$12,052 and timing listed on the final ROPS appears to be an estimate.
 - Item 7 The Brough Construction contract for construction obligation was paid to the City in December 2011. The obligation was inadvertently carried forward to the final ROPS.
 - Item 10 Administrative Costs payment of \$7,993 was \$75,343 less than the \$83,336 payment amount listed on the final ROPS.
 - Item 11 Employee Payments - a credit of \$17,954 was posted which caused the actual payments to be \$42,040 less than the total payment amount of \$24,086 listed on the final ROPS. Per management, the credit was posted due to the RDA Administration fund running low on fund balance.

5. Obtain listings that supports the asset figures in the audited financial statements as of June 30, 2010, June 30, 2011, and as of January 31, 2012, as determined by the successor agency and include as an attachment to the AUP report.

Results: We obtained listings that support the asset figure in the audited financial statements as of June 30, 2010, June 30, 2011 and as of January 31, 2012 as determined by the successor agency. We summarized the listings and have included them as Attachment B to this report.

6. Review Board minutes to identify any assets not recorded.

Results: We reviewed City Council/Redevelopment Agency minutes from June 22, 2010 through May 8, 2012. We did not note any assets not recorded.

7. Confirm the existence of the Successor Agency's capital assets.

Results: We confirmed the existence of the Successors Agency's capital assets through physical inspection and observation.

8. Obtain fund balance detail for the former RDA for fiscal years ending June 30, 2009, 2010, and 2011, and determine whether significant, unexplained changes occurred.

Results: We obtained fund balance detail for the former RDA for fiscal years ending June 30, 2009, 2010 and 2011. We did not note any significant, unexplained changes in the RDA's funds balances.

C. Recognized Obligation Payment Schedule (ROPS)

- Obtain a copy of the initial draft of the ROPS from the Successor Agency.

1. Inspect evidence that the initial draft of the ROPS was prepared by March 1, 2012.

Results: The City of Arroyo Grande Successor Agency minutes indicate that the initial draft of the ROPS was prepared by February 28, 2012.

2. Note in the minutes of the Oversight Board that the certified draft ROPS has been approved by the Oversight Board. If the Oversight Board has not yet approved the draft ROPS as of the date of the AUP, this should be mentioned in the AUP report.

Results: The draft ROPS was approved by the Oversight Board on April 11, 2012.

3. Inspect evidence that a copy of the draft ROPS was submitted to the County Auditor-Controller, State Controller, and Department of Finance.

Results: We determined that the draft ROPS was submitted to the San Luis Obispo County Auditor-Controller; however, the Successor Agency was unable to provide evidence that a copy of the draft ROPS was submitted to the State Controller, and Department of Finance.

4. Inspect evidence that the draft ROPS includes dates and amounts of scheduled payments for each enforceable obligation for the current six-month reporting time period.

Results: The draft ROPS includes dates and amounts of scheduled payments for each enforceable obligation for the period January through June 2012.

5. Select a sample (based on dollar amount and/or percentage amount as determined by the San Luis Obispo County Auditor-Controller) and trace enforceable obligations listed on the draft ROPS to the legal document that forms the basis for the obligation.

All obligations listed on the draft ROPS agreed in all material respects to the

supporting legal documentation with the following notations/exceptions:

- Items 1 2007 Tax Allocation Bonds
 - The outstanding bond amount of \$12,120,914 listed on the draft ROPS is \$280,908 greater than the total obligation amount of \$11,840,006 calculated by the auditors based on the bond payment schedule. The difference is due to the September 2011 payment which was not subtracted from the total obligation amount on the draft ROPS.

- Item 3 Lease of Parking lot from Gutierrez
 - The lease for the parking lot is between the City and the lessor; however, the staff report and subsequent City Council minutes indicate that the City Council/Redevelopment Agency intended the obligation to be an RDA obligation. We noted that the Department of Finance considered this obligation to be enforceable.

 - The outstanding lease amount of \$230,000 listed on the draft ROPS is \$12,000 greater than the total obligation amount of \$218,000 calculated by the auditors based on the lease agreement. Management states that the total obligation amount on the draft ROPS was miscalculated based on timing issues.

- Item 4 Lease of Parking lot from Jacobson
 - The lease for the parking lot is between the City and the lessor; however, the staff report and subsequent City Council minutes indicate that the City Council/Redevelopment Agency intended the obligation to be an RDA obligation. We noted that the Department of Finance considered this obligation to be enforceable.

 - The outstanding lease amount of \$46,800 listed on the draft ROPS is \$3,900 greater than the total obligation amount of \$42,900 calculated by the auditors based on the lease agreement. Management states that the total obligation amount on the draft ROPS was miscalculated based on timing issues.

- Item 5 Purchase of Land from People's Self-Help
 - The contract and associated staff report indicate that the obligation is for assistance with the development of the project rather than for a purchase of land.

- Item 6 Police Station Contract with BFGC architects
 - The contract is between the City and BFGC architects; however, the staff reports and subsequent City Council minutes indicate that the

City Council/Redevelopment Agency intended the obligation to be an RDA obligation. We noted that the Department of Finance considered this obligation to be enforceable.

- The outstanding obligation amount of \$123,190 listed on the draft ROPS is \$16,289 less than the total obligation amount of \$139,479 calculated by the auditors based on the documentation provided. The difference is due to prior payments, which were not subtracted from the total obligation amount on the draft ROPS.
- Item 7 Contract for construction with Brough Construction
 - The contract with Brough Construction dated June 15, 2011 is between the City of Arroyo Grande and Brough Construction for the El Camino Real Rehabilitation Project. The City and the RDA executed an agreement for the RDA to contribute \$50,000 toward the project; however, the agreement was dated May 24, 2011 making the obligation unenforceable as it is outside of two years of the date of the agency's formation on August 27, 1996 and was not prior to December 31, 2010 and for the sole purpose of securing or repaying indebtedness obligations. We noted that the Department of Finance considered this obligation to be enforceable.
 - The outstanding obligation amount of \$50,000 listed on the draft ROPS was paid in December 2011; therefore, the outstanding obligation amount should be zero. Management states that the obligation was inadvertently carried forward to the draft ROPS.
- Item 8 Affordable Housing Project with the County of San Luis Obispo.
 - The \$50,000 amount recorded in the Affordable Housing Agreement with the County of SLO agrees to the \$50,000 amount reported in the draft ROPS; however, we did not determine if payments had been made on the contract prior to July 1, 2011 that might have reduced the obligation amount. We noted that this obligation was removed from the final ROPS.
- Item 9 Historic Context Statement contract with Page & Turnbull
 - The contract is between the City and Page & Turnbull; however, the staff reports and subsequent City Council minutes indicate that the City Council/Redevelopment Agency intended the obligation to be an RDA obligation. We noted that the Department of Finance considered this obligation to be enforceable.
 - The \$29,800 obligation listed on the draft ROPS agrees to the supporting documentation obligation amount; however, we noted the

amount was reported in the incorrect column "Total Due During Fiscal Year" on the draft ROPS.

- Item 10 Habitat for Humanity Project
 - This item is a receivable to the RDA from Habitat for Humanity.
 - Item 13 (Employee Admin Costs), Item 14 (Cost Allocation Costs), Item 15 (Redevelopment Audit), Item 17 (Agency Operating Utility Costs), Item 18 (Legal Costs) and Item 19 (Agency Insurance Costs)
 - Management states the obligations on for these items were intended to reflect the January 2012 obligation amounts for the RDA; however, due to confusion over the reporting requirements, total obligation amounts listed on the draft ROPS do not accurately reflect the January 2012 obligations.
 - Item 16 Contract for Consulting Services with Tierra West Advisors.
 - The \$25,000 amount recorded in the contract agrees to the \$25,000 amount reported in the draft ROPS; however, we did not determine if payments had been made on the contract prior to July 1, 2011 that might have reduced the obligation amount.
6. Trace the obligations enumerated on the draft ROPS to the obligations enumerated on the EOPS (including amendments) and note any material differences as agreed to by the San Luis Obispo County Auditor-Controller.

Results: There were no material differences between obligations listed on the amended EOPS and the obligations listed on the draft ROPS.

We noted the addition of Habitat for Humanity obligation of \$260,000 and Low and Moderate Income Housing obligation of \$9,490,433 to the amended EOPS. Management states these items were not included on the initial EOPS, and were added to the amended EOPS as the successor agency's understanding of the definition of obligations changed over time.

We also noted that the Low and Moderate Income Housing obligation, which is an estimate of future potential 20% set-aside obligations, should such an obligation be re-imposed, was removed on the final ROPS.

- Obtain a copy of the final ROPS (January 1, 2012, through June 30, 2012) from the successor agency.
1. Inspect evidence that the final ROPS was submitted to the County Auditor-Controller, the State Controller, and Department of Finance by April 15, 2012, and is

posted on the website of the successor agency (Health and Safety Code section 34177 (2)(C)).

Results: We inspected emails that show the final ROPS was submitted to the County Auditor-Controller, the State Controller, and the Department of Finance on February 12, 2012. The final ROPS is posted on the website of the City of Arroyo Grande (http://www.arroyogrande.org/static/uploads/pdfs/document-center/rda-successor-agency/rops_jan-jun_12.pdf)

2. Inspect the final ROPS and identify the payments that were due to be paid through the date of the Agreed-Upon Procedures report. For payments on the ROPS that were identified as being due through the date of the Agreed-Upon Procedures report, inspect evidence of payment and determine that amounts agree to the purpose of the obligation as amounts could be estimated.

Results: All payments listed on the final ROPS that were due to be paid through July 16, 2012 agreed in all material respects to the supporting documentation with the notations/exceptions reported in Section B, Successor Agency, Procedure 4 above.

3. Select a sample (based on a dollar amount and/or percentage amount as determined by the parties agreeing to the procedures) and trace enforceable obligations listed on the final ROPS to the legal agreement or document that forms the basis for the obligation.

Results: All obligations listed on the final ROPS agreed in all material respects to the supporting legal documentation with the following notations/exceptions:

- Items 1 2007 Tax Allocation Bonds
 - The outstanding bond amount of \$12,120,914 listed on the final ROPS is \$280,908 greater than the total obligation amount of \$11,840,006 calculated by the auditors based on the bond payment schedule. The difference is due to the September 2011 payment which was not subtracted from the total obligation amount on the final ROPS.
- Item 3 Lease of Parking lot from Gutierrez
 - The lease for the parking lot is between the City and the lessor; however, the staff report and subsequent City Council minutes indicate that the City Council/Redevelopment Agency intended the obligation to be an RDA obligation. We noted that the Department of Finance considered this obligation to be enforceable.
 - The outstanding lease amount of \$230,000 listed on the final ROPS is \$12,000 greater than the total obligation amount of \$218,000 calculated by the auditors based on the lease agreement.

Management states that the total obligation amount on the final ROPS was miscalculated based on timing issues.

- Item 4 Lease of Parking lot from Jacobson
 - The lease for the parking lot is between the City and the lessor; however, the staff report and subsequent City Council minutes indicate that the City Council/Redevelopment Agency intended the obligation to be an RDA obligation. We noted that the Department of Finance considered this obligation to be enforceable.
 - The outstanding lease amount of \$46,800 listed on the final ROPS is \$3,900 greater than the total obligation amount of \$42,900 calculated by the auditors based on the lease agreement. Management states that the total obligation amount on the final ROPS was miscalculated based on timing issues.
- Item 5 Purchase of Land from People's Self-Help
 - The contract and associated staff report indicate that the obligation is for assistance with the development of the project rather than for a purchase of land.
- Item 6 Police Station Contract with BFGC architects
 - The contract is between the City and BFGC architects; however, the staff reports and subsequent City Council minutes indicate that the City Council/Redevelopment Agency intended the obligation to be an RDA obligation. We noted that the Department of Finance considered this obligation to be enforceable.
 - The outstanding obligation amount of \$123,190 listed on the draft ROPS is \$16,289 less than the total obligation amount of \$139,479 calculated by the auditors based on the documentation provided. The difference is due to prior payments, which were not subtracted from the total obligation amount on the draft ROPS.
- Item 7 Contract for construction with Brough Construction
 - The contract with Brough Construction dated June 15, 2011 is between the City of Arroyo Grande and Brough Construction for the El Camino Real Rehabilitation Project. The City and the RDA executed an agreement for the RDA to contribute \$50,000 toward the project; however, the agreement was dated May 24, 2011 making the obligation unenforceable as it is outside of two years of the date of the agency's formation on August 27, 1996 and was not prior to December 31, 2010 and for the sole purpose of securing or repaying

indebtedness obligations. We noted that the Department of Finance considered this obligation to be enforceable.

- The outstanding obligation amount of \$50,000 listed on the final ROPS was paid in December 2011; therefore, the outstanding obligation amount should be zero. Management states that the obligation was inadvertently carried forward to the final ROPS.
- Item 8 Historic Context Statement contract with Page & Turnball
 - The contract is between the City and Page & Turnball; however, the staff reports and subsequent City Council minutes indicate that the City Council/Redevelopment Agency intended the obligation to be an RDA obligation. We noted that the Department of Finance considered this obligation to be enforceable.
 - The \$29,800 obligation listed on the final ROPS agrees to the supporting documentation obligation amount; however, we noted the amount was reported in the incorrect column "Total Due During Fiscal Year" on the draft ROPS.
- Item 9 Habitat for Humanity Project
 - This item is a receivable to the RDA from Habitat for Humanity.
- Item 11 (Employee Admin Costs), Item 12 (Cost Allocation Costs), Item 13 (Redevelopment Audit), Item 15 (Agency Operating Utility Costs), Item 16 (Legal Costs) and Item 17 (Agency Insurance Costs)
 - Management states the obligations on for these items were intended to reflect the January 2012 obligation amounts for the RDA; however, due to confusion over the reporting requirements, total obligation amounts listed on the final ROPS do not accurately reflect the January 2012 obligations.
- Items 14 Contract for Consulting Services with Tierra West Advisors.
 - The \$25,000 amount recorded in the contract agrees to the \$25,000 amount reported in the amended EOPS; however, we did not determine if payments had been made on the contract prior to July 1, 2011 that might have reduced the obligation amount.

D. Other Procedures

- Obtain a list of pass-through obligations and payment schedules.
1. Obtain a list of pass-through obligations from the successor agency from July 1, 2011 through January 31, 2012. Obtain a list of pass-through payments made

between July 1, 2011, and January 31, 2012, and inspect evidence of payment. Identify any differences from the list of pass-through obligations.

Results: The SLO County Auditor-Controller's Office has traditionally calculated and distributed pass-through payments on behalf of the former RDAs in April and December. We obtained a list of pass-through payments made December 6, 2011 and inspected evidence of payment. There were no differences between the list of pass-through payments and the actual payments made.

- Issue Agreed-Upon Procedures Report and distribute to the California State Controller by October 1, 2012.

Results: The Agreed-Upon Procedures report was issued and distributed to the California State Controller by October 1, 2012.

**ATTACHMENT B
CITY OF ARROYO GRANDE SUCCESSOR AGENCY
ASSET LISTING**

	Assets as of January 31, 2012	Assets as of June 30, 2011	Assets as of June 30, 2010
Cash and investments	\$2,202,888	\$2,268,218	\$3,132,350
Accounts receivable	-	-	-
Interest receivable	65	2,170	4,370
Taxes receivable	-	34,728	26,524
Note receivable	452,327	315,500	55,500
Prepaid expenses	-	800	1,157
Inventory - Land held for resale	860,928	860,928	860,928
Bond issuance costs, net of accumulated amortization	264,375	270,443	280,845
Capital assets			
Nondepreciable - Land	1,849,345	1,849,345	1,849,345
Construction in Progress	386,058	386,058	-
Accumulated depreciation	-	-	-
<i>Total capital assets, net</i>	2,235,403	2,235,403	1,849,345
Total Assets	\$6,015,987	\$5,988,190	\$6,211,019