



November 6, 2013

Mr. Jeff Kiser, City Manager  
City of Anderson  
1887 Howard Street  
Anderson, CA 96007

Dear Mr. Kiser:

Subject: Other Funds and Accounts Due Diligence Review

This letter supersedes the California Department of Finance's (Finance) original Other Funds and Accounts (OFA) Due Diligence Review (DDR) determination letter dated August 29, 2013. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Anderson Successor Agency (Agency) submitted an oversight board approved OFA DDR to Finance on November 6, 2012. Finance originally overlooked that OFA balances were included in the DDR because the submitted DDR did not separately report OFA balances. Instead, the DDR submitted included all funds, including the Low-Moderate Income Housing Fund (LMIHF). A separate LMIHF DDR determination letter was issued on November 9, 2012. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Finance issued an OFA DDR determination letter on August 29, 2013. Subsequently, the Agency requested a Meet and Confer session on one or more items adjusted by Finance. The Meet and Confer session was held on October 2, 2013.

To obtain the OFA balances, Finance initially took the difference between the total funds reported and LMIHF; this process was applied to each procedure in the DDR review. However, based on further review during the Meet and Confer process, Finance and the Agency determined that the amounts reported for the LMIHF were incomplete, which resulted in the OFA assets and cash balances being overstated. Finance worked with the Agency to fully segregate the OFA and LMIHF assets. A separate letter will be issued to account for the revisions completed on the LMIHF DDR.

Based on a review of additional information and documentation provided to Finance during the Meet and Confer process, Finance has completed its review of those specific items being disputed. Specifically, the following adjustments were made:

- Total amount of assets held as of June 30, 2012 (Procedure 5 of the DDR) in the amount of \$2,726,128 was originally increased to \$2,761,297; however, based on further review during the Meet and Confer process, the amount should be decreased by \$1,206,416 to \$1,519,712. The OFA available balance has been adjusted as follows:

During the initial review it was determined that a balance of \$160,865 from the LMIHF was erroneously included and a balance in the amount of \$196,034 from the 2005 Bond

Funds (Fund 446) was inadvertently left off the total amount of assets balance. As a result, the OFA balances available for distribution to the taxing entities was increased by \$35,169 (\$196,034 - \$160,865).

Based upon further review during the Meet and Confer process, it was determined that that beginning balance included other LMIHF assets that were originally not included in the LMIHF beginning balance. Total OFA assets should be \$1,519,712, which consists of the following amounts as reported in the June 30, 2012 balance sheet:

- o Fund 330 - \$49,171
- o Fund 223 - \$94,432
- o Fund 446 - \$196,035
- o Fund 447 - \$1,180,074

Therefore, the OFA balance available for distribution to the taxing entities will be decreased by \$1,206,416 (\$1,519,712 - \$2,726,128).

- Balances legally restricted (Procedure 6 of the DDR) in the amount of \$1,203,386 was originally increased to \$1,374,725; however, based on further review during the Meet and Confer process, the amount should be \$1,357,799. Therefore, the OFA balance available will be decreased by \$154,413, as follows:

During the initial review, it was determined that a balance of \$182,578 from Fund 446 was erroneously excluded from the DDR. Additionally, the DDR reported restricted assets in the amount of \$1,203,386; however, the accounting records provided by the Agency show a balance in the amount of \$1,192,147. As a result, the legally-restricted balances were increased by \$171,339 [ $\$182,578 - (\$1,203,386 - \$1,192,147)$ ].

Based on further review during the Meet and Confer process, we determined the legally restricted balances should be \$1,357,799, which consists of \$177,725 in Fund 446 (2005 bond proceeds) and \$1,180,074 in Fund 447 (2008 bond proceeds). Therefore, the OFA balance available for distribution to the taxing entities will be decreased by \$154,413 ( $\$1,203,386 - \$1,357,799$ ).

- Non-cash asset balances (Procedure 7 of the DDR) in the DDR totaling \$1,274,848 are overstated. Included in this amount is \$1,223,124 from the LMIHF that should not be included in the OFA DDR. Also, land in the amount of \$13,456 from Fund 446 was not restricted in the total balance and is considered a non-cash asset. During the Meet and Confer process, we determined land in the amount of \$16,406 from Fund 330 was transferred to the City of Anderson pursuant to an enforceable obligation with a third party. Therefore, the non-cash asset balance should be \$48,774 ( $\$1,274,848 - \$1,223,124 + \$13,456 - \$16,406$ ) and OFA balances available for distribution to the taxing entities will be increased by \$1,226,074 ( $\$1,274,848 - \$48,774$ ).

The Agency did not object to the following adjustment made by Finance during the Meet and Confer process. HSC section 34179.6 (d) authorizes Finance to make adjustments. We maintain that the following adjustment is appropriate:

- Balances requested to satisfy enforceable obligations on the Recognized Obligation Payment Schedules (ROPS) for the 2012-13 fiscal year (Procedure 9 of the DDR) in the amount of \$247,894 are partially denied. Although the Agency requested to retain

\$247,894, included in this amount is \$33,906 from the LMIHF that should have not been included in the OFA DDR. Therefore, the Agency is limited to retaining \$213,998 for ROPS enforceable obligations. As such, the OFA balance available for distribution to the taxing entities will be increased by \$33,906.

The Agency's OFA balance available for distribution to the affected taxing entities is \$0 (see table below).

<b>OFA Balances Available For Distribution To Taxing Entities</b>	
Available Balance per DDR:	\$ -
Finance Adjustments	
Add:	
Adjustment to the June 30, 2012 balance:	\$ (1,206,416)
Adjustment to legally restricted balance:	\$ (154,413)
Adjustment to non-cash asset balance:	\$ 1,226,074
Adjustment to balance needed to be retained:	\$ 33,906
<b>Total OFA available to be distributed:</b>	<b>\$ (100,849)</b>

This is Finance's final determination of the OFA balances available for distribution to the taxing entities.

Pursuant to HSC sections 34167.5 and 34178.8, the California State Controller's Office (Controller) has the authority to claw back assets that were inappropriately transferred to the city, county, or any other public agency. Determinations outlined in this letter do not in any way eliminate the Controller's authority.

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

Sincerely,



JUSTYN HOWARD  
Assistant Program Budget Manager

cc: Ms. Liz Cottrell, Finance Director/Treasurer, City of Anderson  
Ms. Connie Regnell, County Auditor Controller, Shasta County  
Ms. Sheri Jenkins, Managing Accountant Auditor, Shasta County  
California State Controller's Office