



March 25, 2013

Mr. Scott McBride, Acting Community Development Director
City of Atwater
750 Bellevue Road
Atwater, CA 95301

Dear Mr. McBride:

Subject: Other Funds and Accounts Due Diligence Review

Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Atwater Successor Agency (Agency) submitted an oversight board approved Other Funds and Accounts (OFA) Due Diligence Review (DDR) to the California Department of Finance (Finance) on January 14, 2013. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Pursuant to HSC section 34179.6 (d), Finance has completed its review of your DDR, which may have included obtaining clarification for various items.

HSC section 34179.6 (d) authorizes Finance to adjust the DDR's stated balance of OFA available for distribution to the taxing entities. Based on our review of your DDR, the following adjustments were made:

- Assets in the amount of \$234,147. Review of the accounting records provided by the Agency indicates the total amount of cash held as of June 30, 2012 should be \$232,997 instead the negative \$1,150 reported on the DDR. As such, the amount has been adjusted by \$234,147 ($\$232,997 + \$1,150$).
- Receivables in the amount of \$49,084. The Agency was not able to provide documentation to support a financial assistance provided to a developer. HSC section 34179.5 (b) (1) states that "cash" and "cash equivalents" includes payables on demand. Since the Agency was not able to provide the loan agreement and repayment terms, the amount of the receivable becomes payable on demand and may not be retained in the non-cash or cash equivalents balance.
- Capital assets in the amount of \$457,421. Our review of supporting documentation provided by the Agency noted the following four properties owned by the Agency that were not included in the DDR:
 - 1100 Atwater Blvd valued at \$293,424
 - Sycamore Ave valued at \$163,905
 - Parking Lot at Atwater Blvd & 4th Street valued at \$49
 - Parking Lot at Cedar Ave & 4th Street valued at \$43

Since property is not considered cash or cash-equivalent asset, adjustments made by Finance did not impact the available balance reported in the DDR. The Agency should include these properties in its Long Range Property Management Plan which is to be submitted to Finance pursuant to HSC section 34191.5.

If you disagree with Finance's adjusted amount of OFA balances available for distribution to the taxing entities, you may request a Meet and Confer within five business days of the date of this letter. The Meet and Confer process and guidelines are available at Finance's website below:

http://www.dof.ca.gov/redevelopment/meet_and_confer/

The Agency's OFA balance available for distribution to the affected taxing entities is \$282,081 (see table below).

Available Balance per DDR:	\$	(1,150)
Finance Adjustments		
Adjustment to the June 30, 2012 cash balance	\$	234,147
Retained non-cash balance not supported		49,084
Total OFA available to be distributed:	\$	282,081

Absent a Meet and Confer request, HSC section 34179.6 (f) requires successor agencies to transmit to the county auditor-controller the amount of funds identified in the above table within five working days, plus any interest those sums accumulated while in the possession of the recipient. Upon submission of payment, please provide proof of payment to Finance within five business days.

If funds identified for transmission are in the possession of the successor agency, and if the successor agency is operated by the city or county that created the former redevelopment agency, then failure to transmit the identified funds may result in offsets to the city's or the county's sales and use tax allocation, as well as its property tax allocation. If funds identified for transmission are in the possession of another taxing entity, the successor agency is required to take diligent efforts to recover such funds. A failure to recover and remit those funds may result in offsets to the other taxing entity's sales and use tax allocation or to its property tax allocation. If funds identified for transmission are in the possession of a private entity, HSC 34179.6 (h) (1) (B) states that any remittance related to unallowable transfers to a private party may also be subject to a 10 percent penalty if not remitted within 60 days.

Failure to transmit the identified funds will also prevent the Agency from being able to receive a finding of completion from Finance. Without a finding of completion, the Agency will be unable to take advantage of the provisions detailed in HSC section 34191.4. Specifically, these provisions allow certain loan agreements between the former redevelopment agency (RDA) and the city, county, or city and county that created the RDA to be considered enforceable obligations. These provisions also allow certain bond proceeds to be used for the purposes in which they were sold and allows for the transfer of real property and interests into the Community Redevelopment Property Trust Fund once Finance approves the Agency's long-range property management plan.

In addition to the consequences above, willful failure to return assets that were deemed an unallowable transfer or failure to remit the funds identified above could expose certain individuals to criminal penalties under existing law.

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Pursuant to HSC section 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 Beliz Chappuie, Supervisor or Todd Vermillion, Lead Analyst at (916) 445-1546.

Sincerely,

A handwritten signature in black ink, appearing to read 'Steve Szalay', with a stylized flourish extending from the end of the signature.

STEVE SZALAY
Local Government Consultant

cc: Ms. Lori Waterman, Grants Manager, City of Atwater
Ms. Sylvia Sanchez, Supervising Accountant, County of Merced
California State Controller's Office