



April 10, 2013

Ms. Laurie A. Smith, Administrative Services Officer
City of Modesto
1010 Tenth Street
Modesto, CA 95354

Dear Ms. Smith:

Subject: Other Funds and Accounts Due Diligence Review

The City of Modesto 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 28, 2013. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Since the Agency did not meet the January 15, 2013 submittal deadline pursuant to HSC section 34179.6 (c), Finance is not bound to completing its review and making a determination by the April 1, 2013 deadline pursuant to HSC section 34179.6 (d). However, 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:

Balances requested to be retained in the amount of \$3,522,721 for fiscal year 2012-13 obligations are partially denied. The Stanislaus County Auditor Controller reported distributing \$1,702,819 for the July through December 2012 Recognized Obligation Payment Schedule (ROPS II) period. The Agency failed to provide sufficient documentation to show that additional OFA funding was required beyond what was distributed for the ROPS II period. However, this adjustment does not affect the amount to be remitted to the taxing entities because even after his adjustment, the Agency does not have any unencumbered OFA balances.

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 remains at zero (see table next page).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ (2,586,952)
Finance Adjustments	
Add:	
Requested retained balance not supported:	2,059,204
Total OFA available to be distributed:	\$ (527,748)

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 Wendy Griffe, Supervisor or Jenny DeAngelis, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. Stephen Christensen, Acting Budget Manager, City of Modesto
Ms. Lauren Klein, CPA, Auditor-Controller, Stanislaus County
California State Controller's Office