

PURSUANT TO THE STATE OF CALIFORNIA
HEALTH AND SAFETY CODE SECTION 34179.5

CITY OF CAPITOLA
AS THE SUCCESSOR AGENCY
TO THE FORMER
CAPITOLA REDEVELOPMENT AGENCY

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
TO
ALL OTHER FUNDS EXCEPT THE LOW AND MODERATE
INCOME HOUSING FUND

**CAPITOLA REDEVELOPMENT AGENCY
DUE DILIGENCE REVIEW PURSUANT H&S CODE SECTION 34179.5
ALL OTHER FUNDS AGREED-UPON PROCEDURES**

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**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

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We have performed the minimum required agreed-upon procedures enumerated in Attachment "A", which were agreed to by the Oversight Board of the Successor Agency to the Capitola Redevelopment Agency, the California State Controller's Office and the State of California Department of Finance (Agencies) solely to assist you to determine unobligated balances available for transfer to taxing entities in "All funds except the Low and Moderate Income Housing Fund (All Other Funds)(DDR II)" complying with statutory requirements pursuant to the California Health and Safety Code section 34179.5. Management of the Successor Agency is 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 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 supersedes our report dated December 14, 2012. The December 14, 2012 report was amended in order to include building and improvements transferred to the Successor agency on January 31, 2012 and to reflect items denied by the Department of Finance on letter dated December 18, 2012.

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.

MEMBERS

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Certified Public Accountants

January 8, 2013

**CAPITOLA REDEVELOPMENT AGENCY
DUE DILIGENCE REVIEW PURSUANT H&S CODE SECTION 34179.5
ALL OTHER FUNDS AGREED-UPON PROCEDURES**

Attachment A

Purpose: To determine the unobligated balances available for transfer to taxing entities of “all funds except the Low and Moderate Income Housing Fund (All Other Funds)” [Health and Safety Code section 34179.5]

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.

1. Obtain 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. Agree the amounts on this listing to account balances established in the accounting records of the Successor Agency. Identify in the Agreed-Upon Procedures (AUP) report the amount of the assets transferred to the Successor Agency as of that date.

Results:

We obtained from the Successor Agency a listing of all assets that were transferred from the former redevelopment agency (excluding Low and Moderate Income Housing Fund) 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.

We noted that \$3,685,562 in assets were transferred from the former redevelopment agency to the Successor Agency as of February 1, 2012. We have included below the individual assets balances identified by the Successor Agency.

Assets	Debt Service Fund
Cash	\$ 2,334,868
Capital Assets:	
Land	1,038,880
Buildings and Improvements	311,814
Total Assets Transferred	\$ 3,685,562

**CAPITOLA REDEVELOPMENT AGENCY
DUE DILIGENCE REVIEW PURSUANT H&S CODE SECTION 34179.5
ALL OTHER FUNDS AGREED-UPON PROCEDURES**

Attachment A

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.

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. Obtain 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 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. Provide this listing as an attachment to the AUP report.

Results:

See Attachment 2 for listing obtained from the Successor Agency.

- B. Obtain 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 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. Provide this listing as an attachment to the AUP report.

Results:

See Attachment 2 for listing obtained from the Successor Agency.

- 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.

Results:

See Attachment 2 for results of procedure 2.C.

**CAPITOLA REDEVELOPMENT AGENCY
DUE DILIGENCE REVIEW PURSUANT H&S CODE SECTION 34179.5
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Attachment A

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.

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. Obtain 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 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. Provide this listing as an attachment to the AUP report.

Results:

See Attachment 3 for listing obtained from the Successor Agency.

- 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. Provide this listing as an attachment to the AUP report.

Results:

See Attachment 3 for listing obtained from the Successor Agency.

- 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.

Results:

See Attachment 3 for results of procedure 3.C.

**CAPITOLA REDEVELOPMENT AGENCY
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Attachment A

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.

4. Perform the following procedures:

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

Results:

We obtained from the Successor Agency a summary of the financial transactions of the Redevelopment Agency and the Successor Agency for the fiscal periods requested using the modified accrual basis of accounting. The summary includes the requested long-term liabilities and capital asset information as indicated in the procedure.

See Attachment 4 for the summary of financial transactions of the Community Redevelopment Agency and the Successor Agency.

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

Results:

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

- C. Compare 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.

Results:

We compared the stated amounts to the June 30, 2010 State Controller's Report and noted the variances shown in the attached schedule 4.C.

- D. Compare amounts in the schedule for the other fiscal periods presented to account balances in the accounting records or other supporting schedules. Describe in the report the type of support provided for each fiscal period.

Results:

We agreed the stated amounts for the year ended June 30, 2011 to the Audited Financial Statements and Trial Balances for the same period and noted no variances.

We agreed the stated amounts for the seven months ended January 31, 2012 and the five months ended June 30, 2012 to the former Redevelopment Agency and Successor Agency trial balances and noted no variances.

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Attachment A

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.

5. Obtain from the Successor Agency a listing of all assets of the Low and Moderate Income Housing Fund as of June 30, 2012 for the report that is due October 1, 2012 and a listing of all assets of all other funds of the Successor Agency as of June 30, 2012 (excluding the previously reported assets of the Low and Moderate Income Housing Fund) for the report that is due December 15, 2012. When this procedure is applied to the Low and Moderate Income Housing Fund, the schedule attached as an exhibit will include only those assets of the Low and Moderate Income Housing Fund that were held by the Successor Agency as of June 30, 2012 and will exclude all assets held by the entity that assumed the housing function previously performed by the former redevelopment agency. Agree the assets so listed to recorded balances reflected in the accounting records of the Successor Agency. The listings should be attached as an exhibit to the appropriate AUP report.

Results:

We obtained from the Successor Agency a listing of assets of "All Other Funds" as of June 30, 2012 for the report that is due December 15, 2012. The listing excludes those assets of the Low and Moderate Income Housing Fund that were held by the Successor Agency as of June 30, 2012. We agreed the assets so listed to recorded balances reflected in the accounting records of the Successor Agency.

Below is the listing, obtained from the Successor Agency, of all assets that were held by the Successor Agency as of June 30, 2012.

Assets	Successor Agency 6/30/2012
Cash and Investments	\$ 1,829,993
Due from Other Governments	823
Capital Assets:	
Land	1,038,880
Building and Improvements	311,814
Total Assets	\$ 3,181,510

**CAPITOLA REDEVELOPMENT AGENCY
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Attachment A

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.

6. Obtain from the Successor Agency a listing of asset balances held on June 30, 2012 that are restricted for the following purposes:

A. Unspent bond proceeds:

- i. Obtain 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.)
- ii. Trace individual components of this computation to related account balances in the accounting records, or to other supporting documentation (specify in the AUP report a description of such documentation).
- iii. Obtain from the Successor Agency a copy of the legal document that sets forth the restriction pertaining to these balances. Note in the AUP report the absence of language restricting the use of the balances that were identified by the Successor Agency as restricted.

Results:

According to Successor Agency, there were no Unspent Bond Proceeds held by the Successor Agency at June 30, 2012.

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

- i. Obtain the Successor Agency's computation of the restricted balances (e.g., total proceeds less eligible project expenditures).
- ii. Trace individual components of this computation to related account balances in the accounting records, or to other supporting documentation (specify in the AUP report a description of such documentation).
- iii. Obtain from the Successor Agency a copy of the grant agreement that sets forth the restriction pertaining to these balances. Note in the AUP report the absence of language restricting the use of the balances that were identified by the Successor Agency as restricted.

Results:

According to Successor Agency, there were no Grant Proceeds or Program Income held by the Successor Agency at June 30, 2012 that are restricted.

C. Other assets considered to be legally restricted:

- i. Obtain the Successor Agency's computation of the restricted balances (e.g., total proceeds less eligible project expenditures).
- ii. Trace individual components of this computation to related account balances in the accounting records, or to other supporting documentation (specify in the AUP report a description of such documentation).
- iii. Obtain from the Successor Agency a copy of the legal document that sets forth the restriction pertaining to these balances. Note in the AUP report the absence of language restricting the use of the balances that were identified by the Successor Agency as restricted.

Results:

According to Successor Agency, there were no other assets considered to be legally restricted held by the Successor Agency at June 30, 2012.

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Attachment A

- D. Attach the above mentioned Successor Agency prepared schedule(s) as an exhibit to the AUP report. For each restriction identified on these schedules, indicate in the report the period of time for which the restrictions are in effect. If the restrictions are in effect until the related assets are expended for their intended purpose, this should be indicated in the report.

Results:

No schedule is attached, as the above mention procedures were not applicable to this Agency.

**CAPITOLA REDEVELOPMENT AGENCY
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Attachment A

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.

7. Perform the following procedures:

- A. Obtain 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 ascertain 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.

Results:

We obtained from the Successor Agency a listing of assets as of June 30, 2012 that are not liquid or otherwise available for distribution. The assets, as stated, are based on book value as reflected in the accounting records of the Successor Agency.

See Attachment 7 for listing of assets obtained from the Successor Agency.

- B. If the assets listed at 7.A are listed at purchase cost, trace the amounts to a previously audited financial statement (or to the accounting records of the Successor Agency) and note any differences.

Results:

We traced the listed amounts to the Audited Financial Statement for the Successor Agency for the period ending June 30, 2012 and noted no differences.

- C. For any differences noted in 7.B, inspect evidence of disposal of the asset and ascertain that the proceeds were deposited into the Successor Agency trust fund. If the differences are due to additions (this generally is not expected to occur), inspect the supporting documentation and note the circumstances.

Results:

We noted no differences in Procedure 7.B.

- D. If the assets listed at 7.A are listed at recently estimated market value, inspect the evidence (if any) supporting the value and note the methodology used. If no evidence is available to support the value and/or methodology, note the lack of evidence.

Results:

Procedure 7.D is not applicable since the assets identified in procedure 7.A are listed at book value (purchase cost).

**CAPITOLA REDEVELOPMENT AGENCY
DUE DILIGENCE REVIEW PURSUANT H&S CODE SECTION 34179.5
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Attachment A

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.

8. Perform the following procedures:

- A. If the Successor Agency believes that asset balances need to be retained to satisfy enforceable obligations, obtain 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 should identify 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.
 - i. Compare all information on the schedule to the legal documents that form the basis for the dedication or restriction of the resource balance in question.
 - ii. Compare all current balances to the amounts reported in the accounting records of the Successor Agency or to an alternative computation.
 - iii. Compare the specified enforceable obligations to those that were included in the final Recognized Obligation Payment Schedule approved by the California Department of Finance.
 - 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.

Results:

The Successor Agency believes retention of assets under this procedure is not required.

**CAPITOLA REDEVELOPMENT AGENCY
DUE DILIGENCE REVIEW PURSUANT H&S CODE SECTION 34179.5
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Attachment A

- B. If the Successor Agency believes 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, obtain 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:
- 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.
 - 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.
 - 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.

Results:

The Successor Agency believes retention of current balances under this procedure is not required.

- 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), obtain from the Successor Agency a schedule demonstrating this insufficiency and apply the following procedures to the information reflected in that schedule.
- i. Compare the timing and amounts of bond debt service payments to the related bond debt service schedules in the bond agreement.
 - ii. Obtain the assumptions for the forecasted property tax revenues and disclose major assumptions associated with the projections.
 - iii. Obtain the assumptions for the forecasted other general purpose revenues and disclose major assumptions associated with the projections.

Results

The Successor Agency believes that items under this procedure are not applicable.

**CAPITOLA REDEVELOPMENT AGENCY
DUE DILIGENCE REVIEW PURSUANT H&S CODE SECTION 34179.5
ALL OTHER FUNDS AGREED-UPON PROCEDURES**

Attachment A

- 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.
- 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.
 - 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.
 - iii. Include the calculation in the AUP report.

Results:

This procedure is not applicable since procedures 8.A, 8.B, nor 8.C were not performed.

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Attachment A

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.

9. If 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, obtain 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.

Results:

See Attachment 9 for the explanations from the Successor Agency Officials of the cash balances that need to be retained to pay for ROPS 2 and ROPS 3 items.

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Attachment A

Citation: 34179.5(c)(6) The review shall total the net balances available after deducting the total amounts described in subparagraphs (B) to (E), inclusive, of paragraph (5). The review shall add any amounts that were transferred as identified in paragraphs (2) and (3) of subdivision (c) if an enforceable obligation to make that transfer did not exist. The resulting sum shall be available for allocation to affected taxing entities pursuant to Section 34179.6. It shall be a rebuttable presumption that cash and cash equivalent balances available to the successor agency are available and sufficient to disburse the amount determined in this paragraph to taxing entities. If the review finds that there are insufficient cash balances to transfer or that cash or cash equivalents are specifically obligated to the purposes described in subparagraphs (B), (D), and (E) of paragraph (5) in such amounts that there is insufficient cash to provide the full amount determined pursuant to this paragraph, that amount shall be demonstrated in an additional itemized schedule.

10. Include (or present) a schedule detailing the computation of the Balance Available for Allocation to Affected Taxing Entities. Amounts included in the calculation should agree to the results of the procedures performed in each section above. The schedule should also include 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 should be agreed to evidence of payment. The attached example summary schedule may be considered for this purpose. Separate schedules should be completed for the Low and Moderate Income Housing Fund and for all other funds combined (excluding the Low and Moderate Income Housing Fund).

Results:

We have included (prepared by the Successor Agency) a schedule detailing the computation of the Balance Available for Allocation to Affected Taxing Entities. We agreed the amounts included in the calculation below to the results of the procedures performed in each section of the report. There were no residual payments made as directed by the California Department of Finance on July 12, 2012.

See below attachment for the complete calculation obtained from Management of the Successor Agency.

SUMMARY OF BALANCES AVAILABLE FOR ALLOCATION TO AFFECTED TAXING ENTITIES	
Total amount of assets held by the Successor Agency as of June 30, 2012 (See Procedure 5 for detailed composition)	\$ 3,181,510
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 (See Procedures 2 and 3 for detailed composition)	-
Less: assets legally restricted for uses specified by debt covenants, grant restrictions, or restrictions imposed by other governments (See Procedure 6 for detailed composition)	-
Less: assets that are not cash or cash equivalents (e.g., physical assets) - (See Procedure 7 for detailed composition)	(1,351,517)
Less: balances that are legally restricted for the funding of an enforceable obligation (net of projected annual revenues available to fund those obligations) - (See Procedure 8.A for detailed composition)	-
Less: balances needed to satisfy ROPS for the 2012-13 fiscal year (See Procedure 9 for detailed composition)	(1,740,457)
Less: the amount of payments made on July 12, 2012 to the County Auditor-Controller as directed by the California Department of Finance	-
Amount to be remitted to county for disbursement to taxing entities	\$ 89,536

**CAPITOLA REDEVELOPMENT AGENCY
DUE DILIGENCE REVIEW PURSUANT H&S CODE SECTION 34179.5
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Attachment A

11. Obtain a representation letter from Successor Agency management acknowledging their responsibility for the data provided to the practitioner and the data presented in the report or in any attachments to the report. Included in the representations should be an acknowledgment that management is not aware of any transfers (as defined by Section 34179.5) from either the former redevelopment agency or the Successor Agency to other parties for the period from January 1, 2011 through June 30, 2012 that have not been properly identified in the AUP report and its related exhibits. Management's refusal to sign the representation letter should be noted in the AUP report as required by attestation standards.

Results:

We obtained a representation letter dated December 14, 2012 from the Successor Agency's management acknowledging their responsibility for the data provided to us and the data presented in the report and in all attachments to the report. Included in the representations there is an acknowledgment that management is not aware of any transfers (as defined by Section 34179.5) from either the former Redevelopment Agency or the Successor Agency to any other parties for the period from January 1, 2011 through June 30, 2012 that have not been properly identified in the agreed-upon procedures report and its related exhibits.

**CAPITOLA REDEVELOPMENT AGENCY
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Attachment 2**

2 A. Transfers from former Redevelopment Agency to City/County from January 1, 2011 through January 31, 2012					
TRANSFER DESCRIPTION	TRANSFER AMOUNT	TRANSFER DATE	CITY/COUNTY	Enforceable Obligation or Other Legal Requirement	Procedure 2.C Results
				Required by	
Tax Increment Pass-through	\$ 105,161	02/18/2011	City of Capitola	California Health and Safety Code	<i>Document provided in support of this transfer consisted of the Pass-through agreement.</i>
Construction in Progress Reimbursement	2,400,000	03/02/2011	City of Capitola	RDA Resolution 2011-2	<i>The document provided consisted of a Journal Posting referencing RDA Resolution 2011-2. Per Successor Agency Officials, the funds were later returned to the Redevelopment Agency on March 2011. Documentation was provided to the Independent Accountant supporting the transfer back into the Redevelopment Agency as stated. This transfer was denied by the DOF on letter dated December 18, 2012.</i>
General Plan per Co-op Agreement	186,270	03/02/2011	City of Capitola	RDA Resolution 2011-2	<i>The document provided consisted of a Journal Posting referencing RDA Resolution 2011-2. Per Successor Agency Officials, the funds were later returned to the Redevelopment Agency on March 2011. Documentation was provided to the Independent Accountant supporting the transfer back into the Redevelopment Agency as stated.</i>
Tax Increment Pass-through	2,475	03/04/2011	City of Capitola	California Health and Safety Code	<i>Document provided in support of this transfer consisted of the Pass-through agreement.</i>
Co-op transfer to City	442,800	03/18/2011	City of Capitola	N/A	<i>The document provided consisted of a Letter dated March 18, 2011, signed by the Executive Director of the Former Redevelopment Agency and the City Manager, the same person at the time, to transfer the funds from the Redevelopment Agency to the City's General Fund, pursuant a "Cooperation Agreement" between the City and the Agency dated February 24, 2011. Per Successor Agency Officials, the funds were later returned to the Redevelopment Agency on April 28, 2011. Documentation was provided to the Independent Accountant supporting the transfer back into the Redevelopment Agency as stated.</i>
Tax Increment Pass Thru	98,966	04/22/2011	City of Capitola	California Health and Safety Code	<i>Document provided in support of this transfer consisted of the Pass-through agreement.</i>
FY 2010-11 prepaid annual interest	47,895	04/22/2011	City of Capitola	Loan and Repayment Agreement between the City and former RDA	<i>Document provided consisted of the Loan and repayment agreement, Redevelopment Agency of the City of Capitola, Capitola Redevelopment Project Area, dated December 13, 2001 .</i>
Total Transfers	\$ 3,283,567				

**CAPITOLA REDEVELOPMENT AGENCY
DUE DILIGENCE REVIEW PURSUANT H&S CODE SECTION 34179.5
ALL OTHER FUNDS AGREED-UPON PROCEDURES
Attachment 2 Continued**

2 A. Transfers from former Redevelopment Agency to City/County from January 1, 2011 through January 31, 2012					
TRANSFER DESCRIPTION	TRANSFER AMOUNT	TRANSFER DATE	CITY/COUNTY	Enforceable Obligation or Other Legal Requirement	Procedure 2.C Results
				Required by	
Quarterly Interest on Loan	26,156	04/22/2011	City of Capitola	Promissory Note with the City, Dated July 24, 2003	<i>Document provided consisted of a Promissory Note with the City related to the purchase of property known as the Rispin Mansion Property .</i>
Tax Increment Pass-through	585	04/22/2011	City of Capitola	California Health and Safety Code	<i>Document provided in support of this transfer consisted of the Pass-through agreement.</i>
Quarterly Interest on Loan	26,156	04/22/2011	City of Capitola	Promissory Note with the City, Dated July 24, 2003	<i>Document provided consisted of a Promissory Note with the City related to the purchase of property known as the Rispin Mansion Property .</i>
Tax Increment Pass-through	1,097	06/24/2011	City of Capitola	California Health and Safety Code	<i>Document provided in support of this transfer consisted of the Pass-through agreement.</i>
Tax Increment Pass-through	6,261	08/12/2011	City of Capitola	California Health and Safety Code	<i>Document provided in support of this transfer consisted of the Pass-through agreement.</i>
Tax Increment Pass-through	353	08/26/2011	City of Capitola	California Health and Safety Code	<i>Document provided in support of this transfer consisted of the Pass-through agreement.</i>
Tax Increment Pass-through	3,402	11/04/2011	City of Capitola	California Health and Safety Code	<i>Document provided in support of this transfer consisted of the Pass-through agreement.</i>
Rispin purchase agreement and Co-op interest	152,520	04/22/2011	City of Capitola	Rispin Agreement	<i>Documents provided consisted of agreements and ordinances of the City and the former redevelopment agency for the purchase and conveyance of the Rispin property. This transfer was denied by the DOF on letter dated December 18, 2012.</i>
Tax Increment Pass-through	103,240	01/13/2012	City of Capitola	California Health and Safety Code	<i>Document provided in support of this transfer consisted of the Pass-through agreement.</i>
Tax Increment Pass-through	619	01/27/2012	City of Capitola	California Health and Safety Code	<i>Document provided in support of this transfer consisted of the Pass-through agreement.</i>
Total Transfers	\$ 4,011,548				

**CAPITOLA REDEVELOPMENT AGENCY
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ALL OTHER FUNDS AGREED-UPON PROCEDURES
Attachment 2 Continued**

2 B. Transfers from the Successor Agency to City/County from February 1, 2012 through June 30, 2012					
TRANSFER DESCRIPTION	TRANSFER AMOUNT	TRANSFER DATE	CITY/COUNTY	Enforceable Obligation or Other Legal Requirement	Procedure 2.C Results
				Required by	
Tax Increment Pass-through	\$ 1,301	06/08/2012	City of Capitola	California Health and Safety Code	<i>Document provided in support of this transfer consisted of the Pass-through agreement.</i>
Total Transfers	<u>\$ 1,301</u>				

**CAPITOLA REDEVELOPMENT AGENCY
DUE DILIGENCE REVIEW PURSUANT H&S CODE SECTION 34179.5
ALL OTHER FUNDS AGREED-UPON PROCEDURES
Attachment 3**

3 A. Transfers from the former Redevelopment Agency to Other Public Agency/Private Parties from January 1, 2011 through January 31, 2012						
TRANSFER DESCRIPTION	TRANSFER AMOUNT	TRANSFER DATE	OTHER PUBLIC AGENCY OR PRIVATE PARTIES	Enforceable Obligation or Other Legal Requirement		Procedure 3.C Results
				Required by	IF YES, DATE	
Capitola Branch Library Trust Annual Payment	\$ 162,900	01/21/2011	Santa Cruz County Auditor-Controller	First Implementation Agreement to Redevelopment Pass-Through Agreement and Library Agreement	08/17/2004	Document provided consisted of a copy of the First Implementation Agreement to Redevelopment Pass-Through Agreement and Library Agreement
2010-11 SERAF Payment	144,616	05/06/2011	Santa Cruz County Auditor-Controller	Health & Safety Code 33690		Document provided consisted of a calculation prepared by the California Redevelopment Association and the payment submitted to the County-Auditor Controller.
2010-11 SERAF Payment	136	05/10/2011	Santa Cruz County Auditor-Controller	Difference between Santa Cruz County Auditor Controller and State Controllers Office		Document provided consisted of a calculation prepared by the California Redevelopment Association and the payment submitted to the County-Auditor Controller.
Santa Cruz County Library/Special District Tax Increment Pass-through	\$ 66,026	06/24/2011	Santa Cruz County Auditor-Controller	Pass-through Agreement		Document provided in support of this transfer consisted of the Pass-through agreement.
Capitola Branch Library Trust Annual Payment	\$ 179,502	01/13/2012	Santa Cruz County Auditor-Controller	First Implementation Agreement to Redevelopment Pass-Through Agreement and Library Agreement	08/17/2004	Document provided consisted of a copy of the First Implementation Agreement to Redevelopment Pass-Through Agreement and Library Agreement
Total Transfers	\$ 553,180					

3 B. Transfers from the Successor Agency to Other Public Agency/Private Parties from February 1, 2012 through June 30, 2012						
TRANSFER DESCRIPTION	TRANSFER AMOUNT	TRANSFER DATE	OTHER PUBLIC AGENCY OR PRIVATE PARTIES	Enforceable Obligation or Other Legal Requirement		Procedure 3.C Results
				Required by	IF YES, DATE	
Santa Cruz County Library/Special District Tax Increment Pass-through	\$ 66,028	06/15/2012	Santa Cruz County Auditor-Controller	Approved EOPS I, Lines 6 & 7		Document provided in support of this transfer consisted of the Pass-through agreement.
Sub-total transfers	\$ 66,028					

**CAPITOLA REDEVELOPMENT AGENCY
DUE DILIGENCE REVIEW PURSUANT H&S CODE SECTION 34179.5
ALL OTHER FUNDS AGREED-UPON PROCEDURES
Attachment 4**

	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
Assets (modified accrual basis)				
Cash and Investments	\$ 3,709,379	\$ 3,188,461	\$ 2,334,868	\$ 1,830,873
Due from Other Governments	208,153	51,325	-	3,285,176
Accounts Receivable	-	-	940,000	-
Accrued Interest Receivable	22,735	17,046	-	-
Loans Receivable	2,100,485	2,167,879	2,326,549	-
Prepaid	108,700	108,700	-	-
Total Assets	\$ 6,149,452	\$ 5,533,411	\$ 5,601,417	\$ 5,116,049
Liabilities (modified accrual basis)				
Accounts Payable	\$ 61,427	\$ 68,789	\$ 176,564	\$ -
Loan Payable	2,100,485	2,167,879	-	1,968,028
Deferred Revenue	-	-	3,266,548	3,283,806
Total Liabilities	2,161,912	2,236,668	3,443,112	5,251,834
Equity	3,987,540	3,296,743	2,158,305	(135,785)
Total Liabilities + Equity	\$ 6,149,452	\$ 5,533,411	\$ 5,601,417	\$ 5,116,049
Total Revenues:	\$ 2,453,284	\$ 2,464,992	\$ 1,220,318	\$ 18,780
Total Expenditures:	2,629,110	3,155,789	2,235,464	344,842
Net change in equity	(175,826)	(690,797)	(1,015,146)	(326,062)
Beginning Equity:	4,163,366	3,987,540	3,173,451	190,277
Ending Equity:	\$ 3,987,540	\$ 3,296,743	\$ 2,158,305	\$ (135,785)
Other Information (show year end balances for all three years presented):				
Capital assets as of end of year	\$ 1,038,880	\$ -	\$ 1,350,694	\$ 1,350,694
Long-term debt as of end of year	4,736,874	4,597,288	2,543,565	2,477,537

**CAPITOLA REDEVELOPMENT AGENCY
DUE DILIGENCE REVIEW PURSUANT H&S CODE SECTION 34179.5
ALL OTHER FUNDS AGREED-UPON PROCEDURES
Attachment 4.C**

Procedure 4.C Results		
	Redevelopment Agency SCO 2010	Variance with 6/30/2010 Procedure 4
Assets (modified accrual basis)		
Cash and Investments	\$ 3,709,379	\$ -
Due from Other Governments	316,853	(108,700)
Accounts Receivable	-	-
Accrued Interest Receivable	22,735	-
Loans Receivable	2,100,485	-
Prepaid	-	108,700
Total Assets	\$ 6,149,452	\$ -
Liabilities (modified accrual basis)		
Accounts Payable	\$ 173,794	\$ (112,367)
Loan Payable	2,100,485	-
Deferred Revenue	-	-
Total Liabilities	2,274,279	(112,367)
Equity	3,875,173	112,367
Total Liabilities + Equity	\$ 6,149,452	\$ -
Total Revenues:	\$ 2,453,284	\$ -
Total Expenditures:	2,741,477	(112,367)
Net change in equity	(288,193)	112,367
Beginning Equity:	4,163,366	-
Ending Equity:	\$ 3,875,173	\$ 112,367
Other Information (show year end balances for all three years presented):		
Capital assets as of end of year	\$ 1,038,880	\$ -
Long-term debt as of end of year	4,651,791	85,083

Note: Per Successor Agency Management: "The variance between the balance in Accounts Payable is due to unrecorded liabilities found by the auditors at the time of performing audit procedures for the Fiscal Year 2010 audit. The SCO report was filed before the audit fieldwork was finalized."

**CAPITOLA REDEVELOPMENT AGENCY
DUE DILIGENCE REVIEW PURSUANT H&S CODE SECTION 34179.5
ALL OTHER FUNDS AGREED-UPON PROCEDURES
Attachment 7**

7. Listing of Assets Not Liquid or Available for Distribution as of June 30, 2012

Assets Not Liquid	Successor Agency 6/30/2012
Capital Assets:	
Land	\$ 1,038,880
Building and Improvements	311,814
Due from Other Governments	823
Total Assets Not Liquid	\$ 1,351,517

**CAPITOLA REDEVELOPMENT AGENCY
DUE DILIGENCE REVIEW PURSUANT H&S CODE SECTION 34179.5
ALL OTHER FUNDS AGREED-UPON PROCEDURES
Attachment 9**

9. Balances Needed to be retained to satisfy future ROPS					
Item number on ROPS 2	Project Name / Debt Obligation	Payee	Amount due from July 1, 2012 to December 31, 2012	(1) dollar amounts of existing cash that are needed to satisfy that obligation	(2) explanation as to why the Successor Agency believes that such balances are needed to satisfy the obligation
1	Tax Allocation Note	Chase NYC	\$ 1,000,000	\$ 1,000,000	Approved ROPS 2 line item. Because the Capitola Successor Agency had cash on hand at the time of dissolution, the County Auditor-Controller had the Successor Agency retain the funds and apply any scheduled distribution of funds against the cash on hand. As of today, the Successor Agency has not received any cash distribution of funds from the County.
4	76-126 Capitola Library Trust	Santa Cruz County	200,000	200,000	Approved ROPS 2 line item. Because the Capitola Successor Agency had cash on hand at the time of dissolution, the County Auditor-Controller had the Successor Agency retain the funds and apply any scheduled distribution of funds against the cash on hand. As of today, the Successor Agency has not received any cash distribution of funds from the County.
4a	76-126 Capitola Library Trust	Santa Cruz County	290,000	290,000	Approved ROPS 2 line item. Because the Capitola Successor Agency had cash on hand at the time of dissolution, the County Auditor-Controller had the Successor Agency retain the funds and apply any scheduled distribution of funds against the cash on hand. As of today, the Successor Agency has not received any cash distribution of funds from the County.
8	Housing Rental Subsidy	Santa Cruz Housing Authority	51,012	51,012	Approved ROPS 2 line item. Because the Capitola Successor Agency had cash on hand at the time of dissolution, the County Auditor-Controller had the Successor Agency retain the funds and apply any scheduled distribution of funds against the cash on hand. As of today, the Successor Agency has not received any cash distribution of funds from the County.
9	Castle MHP/Millennium Housing	Millennium Housing	50,000	50,000	Approved ROPS 2 line item. Because the Capitola Successor Agency had cash on hand at the time of dissolution, the County Auditor-Controller had the Successor Agency retain the funds and apply any scheduled distribution of funds against the cash on hand. As of today, the Successor Agency has not received any cash distribution of funds from the County.
10a	Administrative Reimbursement	Successor Agency	125,000	125,000	Approved ROPS 2 line item. Because the Capitola Successor Agency had cash on hand at the time of dissolution, the County Auditor-Controller had the Successor Agency retain the funds and apply any scheduled distribution of funds against the cash on hand. As of today, the Successor Agency has not received any cash distribution of funds from the County.
Total to be retained to pay for ROPS 2 enforceable obligations:				\$ 1,716,012	
Item number on ROPS 3	Project Name / Debt Obligation	Payee	Amount due from January 1, 2013 to June 30, 2013	(1) dollar amounts of existing cash that are needed to satisfy that obligation	(2) explanation as to why the Successor Agency believes that such balances are needed to satisfy the obligation
10	Administrative Allowance	Capitola City Treasurer	\$ 126,000	\$ 24,445	ROPS 3 line item. Because the Capitola Successor Agency had cash on hand at the time of dissolution, the County Auditor-Controller had the Successor Agency retain the funds and apply any scheduled distribution of funds against the cash on hand. As of today, the Successor Agency has not received any cash distribution of funds from the County.
Total to be retained to pay for ROPS 3 enforceable obligations:				\$ 24,445	
Total to be retained to pay for ROPS 2 & ROPS 3 enforceable obligations:				\$ 1,740,457	