Monday, October 1, 2012

Hon. John Chiang, State Controller
P.O. Box 942850
Sacramento, CA 94250

Ms. Ana Matosantos, Director
Department of Finance
915 L Street
Sacramento, CA 95814

Oversight Board for the Town of Los Gatos Successor Agency
110 E. Main Street
P.O. Box 949
Los Gatos, CA 95030

Town of Los Gatos Successor Agency
110 E. Main Street
P.O. Box 949
Los Gatos, CA 95030

Re: Los Gatos Successor Agency Due Diligence Review for Low and Moderate Income Housing Funds Pursuant to Health and Safety Code Section 34179.5

Dear State Controller, Department of Finance, Oversight Board, and Successor Agency:

We present this Due Diligence Report for the Los Gatos Successor Agency ("Agency") in accordance with Health and Safety Code section 34179.5. The agreed upon procedures were completed by Macias Gini & O'Connell, retained under contract by the Santa Clara County Finance Agency. Management of the Successor Agency is responsible for the accounting records.

The information presented in this report meets the requirements of Health and Safety Code section 34179.5 for the Low and Moderate Income Housing Funds of the Agency. The County Finance Agency has verified all information with the establishment of assets and liabilities per the agreed upon procedures report issued on September 27, 2012, pursuant to Health and Safety Code section 34182.
The amount to be remitted to the Auditor-Controller for distribution to taxing entities pursuant to Health and Safety Code section 34179.6 is shown in Attachment B as $6,431,339 as of June 30, 2012, plus interest earned on the unallowable transfers from the date of transfers through June 30, 2012, plus interest earned on the entire amount from June 30, 2012, through the date of remittance.

Respectfully submitted,

Irene Liu, Controller-Treasurer

Vinod K. Sharma, C.P.A.
Director of Finance
County of Santa Clara

Attachments:
Attachment A – Agreed-Upon Procedures and Findings
Attachment B – Summary of Balances Available for Allocation
Attachment C – Asset Transfers for January 1, 2011 to January 31, 2012
Attachment D – Asset Transfers for February 1, 2012 to June 30, 2012
The agreed-upon procedures, as it relates to the Low and Moderate Income Housing Funds of the former Agency and the Successor Agency, and findings are as follows:

1. Obtain from the Successor Agency a listing of all assets that were transferred from the former redevelopment agency to the Successor Agency on or about 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.

   **Finding:** We obtained from the Successor Agency a listing of all assets that were transferred from the former redevelopment agency to the Successor Agency on or about February 1, 2012 and agreed the amounts which totaled $7,005,780 as of February 1, 2012 to the account balances established in the accounting records of the Successor Agency.

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.

   **Finding:** The State Controller’s Office has not completed its review of transfers required under both Sections 34167.5 and 34178.8 nor issued its report regarding such review.

   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.

      **Finding:** We obtained a listing prepared by the Successor Agency of transfers from the former redevelopment agency to the Town and noted that the former Agency transferred cash in the amount of $5,198,333 to the Town that was not required by one of the Agency’s enforceable obligations or other legal requirements, as itemized in Attachment C.

   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.

      **Finding:** We obtained a listing prepared by the Successor Agency of transfers and noted that the Successor Agency transferred assets in the amount of $5,803,420 during the period from February 1, 2012 through June 30, 2012 to the Town as Housing Successor, as itemized in Attachment D.
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.

**Findings:** As noted in Procedure 2A above, the asset transfers of $5,198,333 by the former Agency were not required by enforceable obligations or other legal requirements, and therefore, should be returned to the Successor Agency. As noted in Procedure 2B above, the housing asset transfers of $5,803,420 by the Successor Agency were permitted by the Health and Safety Code, and not an enforceable obligation. We obtained documentation indicating that the California State Department of Finance approved the transfer of housing assets to the Town, as Housing Successor.

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.

**Finding:** The State Controller’s Office has not completed its review of transfers required under both Sections 34167.5 and 34178.8 nor issued its report regarding such review.

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.

**Finding:** We obtained a listing prepared by the Successor Agency of transfers from the former redevelopment agency to any other public agency or to private parties and noted that the Successor Agency did not list any transfers during the period from January 1, 2011 through January 31, 2012.

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.

**Finding:** We obtained a listing prepared by the Successor Agency of transfers from the Successor Agency to any other public agency or to private parties and noted that the Successor Agency did not list any transfers during the period from February 1, 2012 through June 30, 2012.
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.

**Findings:** The procedure is not applicable. The Successor Agency did not list any transfer any assets to any other public agency or private party during the period from January 1, 2011 through June 30, 2012.

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.

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.

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.

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.

**Finding:** This procedure pertains to the Successor Agency as a whole as such this procedure will be addressed in the agreed-upon procedures report that is due on December 15, 2012, pursuant to guidance provided by the DOF.

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.

**Finding:** We obtained from the Successor Agency a listing of all assets of the Low and Moderate Income Housing Fund as of June 30, 2012 and agreed the assets listed to the recorded balances reflected in the accounting records of the Successor Agency. The Successor Agency reported cash and cash equivalents in the amount of $1,233,006 at June 30, 2012.
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.

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.

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 Successor the Agency as restricted.

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.

**Finding:** We noted the Successor Agency did not report restricted asset balances held on June 30, 2012.

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.

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.
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.

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.

Finding: We noted the Successor Agency did not report asset balances that were not liquid or otherwise available for distribution as of June 30, 2012.

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.

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.

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.

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.

**Finding:** We noted the Successor Agency did not report asset balances as of June 30, 2012 that need to be retained to satisfy enforceable obligations.

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.

**Finding:** We noted the Successor Agency does not have cash balances as of June 30, 2012 that need to be retained to satisfy obligations on the Recognized Obligation Payment Schedule for the period of July 1, 2012 through June 30, 2013.

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).
**Finding:** See Attachment B for the results of this procedure for the Low and Moderate Income Housing Funds.

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.

**Finding:** No exceptions noted as a result of this procedure.
Town of Los Gatos, Successor Agency to the
Town of Los Gatos Redevelopment Agency

Attachment B - Low and Moderate Income Housing Funds
Assets Transferred to the Successor Agency That Are Available to Distribute to Affected Taxing Entities

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total amount of assets held by the successor agency as of June 30, 2012</td>
<td>$ 1,233,006</td>
</tr>
<tr>
<td>Add the amount of any assets transferred to the city or other parties for</td>
<td>5,198,333</td>
</tr>
<tr>
<td>which an enforceable obligation with a third party requiring such transfer</td>
<td></td>
</tr>
<tr>
<td>and obligating the use of the transferred assets did not exist</td>
<td></td>
</tr>
<tr>
<td>Less assets legally restricted for uses specified by debt covenants, grant</td>
<td></td>
</tr>
<tr>
<td>restrictions, or restrictions imposed by other governments</td>
<td></td>
</tr>
<tr>
<td>Less assets that are not cash or cash equivalents (e.g., physical assets)</td>
<td></td>
</tr>
<tr>
<td>Less balances that are legally restricted for the funding of an enforceable</td>
<td></td>
</tr>
<tr>
<td>obligation (net of projected annual revenues available to fund those</td>
<td></td>
</tr>
<tr>
<td>obligations)</td>
<td></td>
</tr>
<tr>
<td>Less balances needed to satisfy ROPS for the 2012-13 fiscal year</td>
<td></td>
</tr>
<tr>
<td>Less the amount of payments made on July 12, 2012 to the County Auditor-</td>
<td></td>
</tr>
<tr>
<td>Controller as directed by the California Department of Finance</td>
<td></td>
</tr>
<tr>
<td>Amount to be remitted to county for disbursement to taxing entities</td>
<td>$ 6,431,339</td>
</tr>
</tbody>
</table>
## Asset Transfers to the Housing Successor (Town of Los Gatos) for the Period January 1, 2011 Through January 31, 2012

<table>
<thead>
<tr>
<th>Asset Description</th>
<th>Name of the recipient</th>
<th>Date of Transfer</th>
<th>Book value of asset at date of transfer</th>
<th>Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>Town of Los Gatos</td>
<td>3/8/2011</td>
<td>$5,100,000</td>
<td>Transfer was based on the low-mod housing co-op agreement entered in January 2011. As discussed in the County Auditor-Controller AUP Report of September 27, 2012, this transfer of assets should be reversed and returned to the Successor Agency pursuant to AB x1 26 and AB 1484.</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>Town of Los Gatos</td>
<td>12/31/2011</td>
<td>$98,333</td>
<td>Transfer represents administrative costs for the period February 2012 through June 2012 which was transferred in December 2011. As discussed in the County Auditor-Controller AUP Report of September 27, 2012, this transfer of assets should be reversed and returned to the Successor Agency pursuant to AB x1 26 and AB 1484.</td>
</tr>
</tbody>
</table>

**Total Assets**

$5,198,333
Town of Los Gatos, Successor Agency to the Town of Los Gatos

Attachment D - Low and Moderate Income Housing Funds

Asset Transfers to the Housing Successor (Town of Los Gatos) for the Period February 1, 2012 Through June 30, 2012

<table>
<thead>
<tr>
<th>Asset Description</th>
<th>Name of the recipient</th>
<th>Date of Transfer</th>
<th>Book value of asset at date of transfer</th>
<th>Describe the purpose of the transfer and specify the enforceable obligation or other legal requirement requiring such transfer and the date of such requirement.</th>
<th>Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Land:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 224 W. Main Street</td>
<td>Housing Successor (City)</td>
<td>2/1/2012</td>
<td>$1,489,778</td>
<td>Per AB1X 26 and Town resolution 2012-001, the Town elected to become Successor to the former RDA's housing assets, liabilities and functions. No exceptions were noted as a result of this procedure.</td>
<td></td>
</tr>
<tr>
<td>2 20 Dittos Lane</td>
<td>Housing Successor (City)</td>
<td>2/1/2012</td>
<td>3,831,529</td>
<td>Per AB1X 26 and Town resolution 2012-001, the Town elected to become Successor to the former RDA's housing assets, liabilities and functions. No exceptions were noted as a result of this procedure.</td>
<td></td>
</tr>
<tr>
<td><strong>Notes receivable:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Project Match</td>
<td>Housing Successor (City)</td>
<td>2/1/2012</td>
<td>$482,113</td>
<td>Per AB1X 26 and Town resolution 2012-001, the Town elected to become Successor to the former RDA's housing assets, liabilities and functions. No exceptions were noted as a result of this procedure.</td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td></td>
<td></td>
<td><strong>$5,803,420</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>