COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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September 22, 2010

To: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: Wendy L. Watanabe
Auditor-Controller

Subject: **CHIEF EXECUTIVE OFFICE REQUESTED RANCHO BUSINESS CENTER FINANCIAL/COMPLIANCE AUDIT**

At the request of the Chief Executive Office (CEO), we contracted with a Certified Public Accounting firm, Thompson, Cobb, Bazilio & Associates, PC (TCBA), to audit the County's lease and development agreements with Fremont Rancho, Ltd. (Fremont). The County's agreements with Fremont allow the company to develop and sublease commercial space south of Rancho Los Amigos National Rehabilitation Center. The agreements require Fremont to pay the County a minimum rent, percentage rent and, if applicable, additional rent for the use of the property.

TCBA's report (attached) indicates that Fremont paid the County $4,158,210 in rent from July 1, 2006 through June 30, 2009. The report also indicates that Fremont miscalculated rents due and underpaid the County $6,254 for the same three-year period. TCBA discussed the results of their review with Fremont. Fremont agreed with the findings and paid the total amount due.

Please call me if you have any questions, or your staff may call Jim Schneiderman at (213) 253-0101.

MLW:MMO:JLS:MP

Attachment

c: William T Fujioka, Chief Executive Officer
Andrea Sheridan Ordin, County Counsel
Audit Committee
Public Information Office

Attachment 1

2009 CHIEF EXECUTIVE OFFICE RANCHO BUSINESS CENTER FINANCIAL/COMPLIANCE AUDIT

INDEPENDENT AUDITOR' S REPORT ON COMPLIANCE WITH GROUND LEASE AND DEVELOPMENT AGREEMENTS OF THE RANCHO BUSINESS CENTER PHASE I, II AND IIIA

FOR THE PERIOD JULY 1, 2006 THROUGH JUNE 30, 2009

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2009 CHIEF EXECUTIVE OFFICE RANCHO BUSINESS CENTER
FINANCIAL/COMPLIANCE/AUDIT OF THE GROUND LEASE AND DEVELOPMENT AGREEMENTS OF THE RANCHO BUSINESS CENTER PHASES I, II AND IIIA FOR THE PERIOD JULY 1, 2006 THROUGH JUNE 30, 2009

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THOMPSON, COBB, BAZILIO & ASSOCIATES, PC

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INDEPENDENT AUDITORS' REPORT

Ms. Wendy L. Watanabe
Auditor-Controller
County of Los Angeles
Los Angeles, California

We have examined Fremont Rancho, Ltd's. ("Fremont") compliance with the requirements of Articles 3.02 through 3.06 and its subsequent amendments of the three (3) Ground Lease and Development Agreements ("Lease"), between the County of Los Angeles (County) for the use and development of County property referred to in the lease agreement as the Rancho Business Center Phases I, II and IIIA, for the period July 1, 2006 through June 30, 2009. Fremont's management is responsible for compliance with those requirements. Our responsibility is to express an opinion on Fremont's compliance based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about Fremont's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a basis for our opinion. Our examination does not provide a legal determination on Fremont's compliance with specified requirements.

Our examination disclosed the following material noncompliance with Articles 3.02 and 3.04 of the lease agreements applicable to Fremont during the period July 1, 2006 through June 30, 2009:

1. Fremont underpaid Phase I and Phase II minimum rent due to the County by $3,096. This underpayment is summarized in pages 4 and 5 of this report.

2. Fremont underpaid Phase I and Phase II percentage rent due to the County by $3,258. This underpayment is summarized on page 8 of this report.

In our opinion, except for the noncompliance described in the preceding paragraph, Fremont complied, in all material respects, with the aforementioned requirements of Articles 3.02 through 3.06 and its subsequent amendments of the lease agreements for the period July 1, 2006 through June 30, 2009.

This report is intended solely for the information and use of the County of Los Angeles and the management of Fremont and is not intended to be and should not be used by anyone other than these specified parties.

Torrance, California
May 27, 2010

Thompson, Cobb, Bazilio & Associates, PC

RANCHO BUSINESS CENTER PHASES I, II AND IIIA
SUMMARY OF AMOUNT DUE TO COUNTY
FOR THE PERIOD JULY 1, 2006 THROUGH JUNE 30, 2009

	Amount Due	Amount Paid	Amount Due To County
Minimum Rent			
Phase I and II	$ 2,970,252	$ 2,967,156	$ 3,096
Phase IIIA	421,848	421,848	-
	3,392,100	3,389,004	3,096
Percentage Rent			
Phase I and II	664,931	661,673	3,258
Phase IIIA	107,433	107,533	(100)
	772,364	769,206	3,158
Additional Rent			
Phase I and II	-	-	-
Phase IIIA	-	-	-
	-	-	-
Grand Total	$ 4,164,464	$ 4,158,210	$ 6,254

RANCHO BUSINESS CENTER PHASE I AND II
SCHEDULE OF MINIMUM AND ADJUSTED RENT
FOR THE PERIOD JULY 1, 2006 THROUGH JUNE 30, 2009

Payment for Period:	Minimum Rent Due	Minimum Rent Paid	Amount Due to County
Jul-06	$ 82,507	$ 82,421	$ 86
Aug-06	82,507	82,421	86
Sep-06	82,507	82,421	86
Oct-06	82,507	82,421	86
Nov-06	82,507	82,421	86
Dec-06	82,507	82,421	86
Jan-07	82,507	82,421	86
Feb-07	82,507	82,421	86
Mar-07	82,507	82,421	86
Apr-07	82,507	82,421	86
May-07	82,507	82,421	86
Jun-07	82,507	82,421	86
Jul-07	82,507	82,421	86
Aug-07	82,507	82,421	86
Sep-07	82,507	82,421	86
Oct-07	82,507	82,421	86
Nov-07	82,507	82,421	86
Dec-07	82,507	82,421	86
Jan-08	82,507	82,421	86
Feb-08	82,507	82,421	86
Mar-08	82,507	82,421	86
Apr-08	82,507	82,421	86
May-08	82,507	82,421	86
Jun-08	82,507	82,421	86
Jul-08	82,507	82,421	86
Aug-08	82,507	82,421	86
Sep-08	82,507	82,421	86
Oct-08	82,507	82,421	86
Nov-08	82,507	82,421	86
Dec-08	82,507	82,421	86
Jan-09	82,507	82,421	86
Feb-09	82,507	82,421	86
Mar-09	82,507	82,421	86

Payment for Period:	Minimum Rent Due	Minimum Rent Paid	Amount Due to County
Apr-09	82,507	82,421	86
May-09	82,507	82,421	86
Jun-09	82,507	82,421	86
	Total		**$ 3,096**

RANCHO BUSINESS CENTER PHASE IIIA
SCHEDULE OF MINIMUM AND ADJUSTED RENT
FOR THE PERIOD JULY 1, 2006 THROUGH JUNE 30, 2009

Payment for Period:	Minimum Rent Due	Minimum Rent Paid	Amount Due To County
Jul-06	$ 11,718	$ 11,718	$ -
Aug-06	11,718	11,718	-
Sep-06	11,718	11,718	-
Oct-06	11,718	11,718	-
Nov-06	11,718	11,718	-
Dec-06	11,718	11,718	-
Jan-07	11,718	11,718	-
Feb-07	11,718	11,718	-
Mar-07	11,718	11,718	-
Apr-07	11,718	11,718	-
May-07	11,718	11,718	-
Jun-07	11,718	11,718	-
Jul-07	11,718	11,718	-
Aug-07	11,718	11,718	-
Sep-07	11,718	11,718	-
Oct-07	11,718	11,718	-
Nov-07	11,718	11,718	-
Dec-07	11,718	11,718	-
Jan-08	11,718	11,718	-
Feb-08	11,718	11,718	-
Mar-08	11,718	11,718	-
Apr-08	11,718	11,718	-
May-08	11,718	11,718	-
Jun-08	11,718	11,718	-
Jul-08	11,718	11,718	-
Aug-08	11,718	11,718	-
Sep-08	11,718	11,718	-
Oct-08	11,718	11,718	-
Nov-08	11,718	11,718	-
Dec-08	11,718	11,718	-
Jan-09	11,718	11,718	-
Feb-09	11,718	11,718	-
Mar-09	11,718	11,718	-

Payment for Period:	Minimum Rent Due	Minimum Rent Paid	Amount Due To County
Apr-09	11,718	11,718	-
May-09	11,718	11,718	-
Jun-09	11,718	11,718	-
	Total		$ -

RANCHO BUSINESS CENTER PHASE I AND II
SCHEDULE OF PERCENTAGE RENT
FOR THE PERIOD JULY 1, 2006 THROUGH JUNE 30, 2009

	July 2006 to December 2006	January 2007 to December 2007	January 2008 to December 2008	January 2009 to June 2009	Grand Total
Rental Income	$ 2,285,200	$ 4,723,193	$ 4,780,729	$ 2,213,092	$ 14,002,214
Tenants' Reimbursements	288,182	675,189	655,875	317,559	1,936,805
Gross Rental Income	2,573,382	5,398,382	5,436,604	2,530,651	15,939,019
Operating Expenses	331,520	710,905	813,572	385,915	2,241,912
Property Management Fee (2.5% Rental Income)	64,335	134,960	135,915	63,266	398,476
Less: Allowable Expenditures	395,855	845,865	949,487	449,181	2,640,388
Rental Income Net of Allowable Expenditures	2,177,527	4,552,517	4,487,117	2,081,470	13,298,631
Multiply by Rent Percentage Per Contract	5%	5%	5%	5%	5%
Percentage Rent Due to County of Los Angeles	108,876	227,626	224,356	104,073	664,931
Amount Paid by Fremont	114,318	216,263	214,848	116,244	661,673
Amount Payable to County of Los Angeles	$ (5,442)	$ 11,363	$ 9,508	$ (12,171)	$ 3,258

RANCHO BUSINESS CENTER PHASE IIIA
SCHEDULE OF PERCENTAGE RENT
FOR THE PERIOD JULY 1, 2006 THROUGH JUNE 30, 2009

	July 2006 to December 2006	January 2007 to December 2007	January 2008 to December 2008	January 2009 to June 2009	Grand Total
Rental Income	$ 342,942	$ 747,504	$ 760,716	$ 376,959	$ 2,228,121
Tenants' Reimbursements	41,099	94,989	95,993	42,417	274,498
Gross Rental Income	384,041	842,493	856,709	419,376	2,502,619
Operating Expenses	41,649	97,724	97,747	54,268	291,388
Property Management Fee (2.5% Rental Income)	9,601	21,062	21,418	10,484	62,565
Less: Allowable Expenditures	51,250	118,786	119,165	64,752	353,953
Rental Income Net of Allowable Expenditures	332,791	723,707	737,544	354,624	2,148,666
Multiply by Rent Percentage Per Contract	5%	5%	5%	5%	5%
Percentage Rent Due to County of Los Angeles	16,640	36,185	36,877	17,731	107,433
Amount Paid by Fremont	16,955	36,273	36,574	17,731	107,533
Amount Payable to County of Los Angeles	$ (315)	$ (88)	$ 303	$ -	$ (100)

RANCHO BUSINESS CENTER PHASES I, II AND IIIA
SCHEDULE OF ADDITIONAL RENT
FOR THE PERIOD JULY 1, 2006 THROUGH JUNE 30, 2009

	July 2006 to December 2006	January 2007 to December 2007	January 2008 to December 2008	January 2009 to June 2009	Grand Total
Amount Due to County	$ -	$ -	$ -	$ -	$ -
Amount Paid by Fremont	-	-	-	-	-
Amount Payable to County of Los Angeles	$ -	$ -	$ -	$ -	$ -

2009 CHIEF EXECUTIVE OFFICE RANCHO BUSINESS CENTER
FINANCIAL/COMPLIANCE/AUDIT OF THE GROUND LEASE AND DEVELOPMENT AGREEMENTS SUMMARY OF FINDINGS, RECOMMENDATIONS AND FREMONT MANAGEMENT'S RESPONSE
For the Period July 1, 2006 through June 30, 2009

1. **Minimum Rent Due**

Finding

Fremont underpaid Phase I and Phase II minimum rent due to the County by $3,096. This is due to an $86 difference per month between our audited adjusted minimum rent calculated according to the method in the contracts and the adjusted minimum rent calculated and paid by Fremont. The prior audit report also included this difference, and the error carried over into our audit period. Fremont agrees with the calculation error. The underpayments of Phase I and Phase II minimum rent are summarized in pages 4 and 5 of this report.

Recommendations

1. Fremont pay the County the total amount due to the County for minimum rent underpayment.
2. Fremont use our audited minimum rent as a basis for calculating the next minimum rent increase to avoid future underpayments.

Fremont Management's Response

Fremont agrees with the finding and has paid the amount due.

2. **Percentage Rent Due**

Finding

Fremont underpaid percentage rent due to the County for Phase I & II by $3,259. This is due to a difference between our audited percentage rent due to the County, which was calculated according to the method in the contract using rental income & operating expense amounts supported by Fremont's general ledger, and the percentage rent calculated and paid by Fremont. These underpayments are summarized in page 8 of this report.

Recommendation

3. Fremont pay the County the total amount due for the percentage rent underpayment.

Fremont Management's Response

Fremont agrees with the finding and has paid the amount due.