

REDEVELOPMENT AGENCY
OF THE
CITY OF HUNTINGTON BEACH, CALIFORNIA



COMPONENT UNIT FINANCIAL REPORT
WITH REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

For the Year Ended September 30, 2007

CITY OF HUNTINGTON BEACH, CALIFORNIA



**COMPONENT UNIT FINANCIAL REPORT
WITH REPORT OF INDEPENDENT CERTIFIED PUBLIC
ACCOUNTANTS**

FOR THE YEAR ENDED SEPTEMBER 30, 2007

Prepared by the Finance Department

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February 21, 2008

INDEPENDENT AUDITORS' REPORT

Board of Directors
 Redevelopment Agency of the
 City of Huntington Beach
 Huntington Beach, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Huntington Beach, a component unit of the City of Huntington Beach, California as of and for the year ended September 30, 2007, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Controller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of September 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with Government Auditing Standards, we have also issued our report dated February 21, 2008 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The information identified in the accompanying table of contents as management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The calculation of the excess surplus of the Low-Moderate Income Housing Fund is presented for additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole

D'ent, Evans and Company, LLP



Redevelopment Agency of the City of Huntington Beach Management's Discussion and Analysis For the Year Ended September 30, 2007

This discussion and analysis of the Redevelopment Agency of the City of Huntington Beach's (the Agency) financial performance provides an overview of the Agency's financial activities for the fiscal year ended September 30, 2007. Please read it in conjunction with the accompanying basic financial statements and the notes to those financial statements.

THE FINANCIAL STATEMENTS

The financial statements presented include activities of the Agency using the integrated approach as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*.

The financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. Notes to the financial statements, required supplementary information, including this section support these statements. All sections must be considered together to obtain a complete understanding of the financial position of the Agency.

Statement of Net Assets – The Statement of Net Assets includes all assets and liabilities of the Agency, with the difference between the two reported as net assets. Assets and Liabilities are reported at their book value on an accrual basis, as of the statement date. It also identifies major categories of restrictions on the net assets of the Agency.

Statement of Activities and Changes in Net Assets – The Statement of Activities and Changes in Net Assets presents the revenues earned and expenses incurred during the year on an accrual basis.

These two statements report the Agency's *net assets* and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure the financial health, or *financial position*.

FUND FINANCIAL STATEMENTS

The Agency uses fund accounting. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. Funds are established in order to comply with State law; bond covenants; other special regulations, restrictions, limitations or legal responsibilities; or simply as a tool for management to control and manage the Agency's resources.

The fund financial statements provide detailed information about the most significant funds – not the Agency as a whole. These funds are reported using the modified accrual basis of accounting, rather than on the full accrual basis. In the modified accrual basis, revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current period. Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due.



Redevelopment Agency of the City of Huntington Beach Management's Discussion and Analysis For the Year Ended September 30, 2007

The primary revenue sources, which have been treated as susceptible to accrual by the Agency are, property tax, other taxes, investment income, and other income. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The differences of results in the Governmental Fund financial statements to those in the Government-Wide financial statements are explained in a reconciliation following each Governmental Fund financial statement.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Agency's combined net assets for the year ended September 30, 2007 were a negative \$(81,594,000). Under state law, Redevelopment Agencies' primary source of revenue is from tax increments that are derived from the increase in public and private investments due to the improvements in the properties that fall within the boundaries of a redevelopment project. These tax increment revenues are not sufficient to finance the activities of the Agency therefore the Agency issues bonds. These bonds are to be repaid over time solely from tax increments revenues. Redevelopment Agencies can only collect property tax increments to the extent it has debt on its books. Below is a summary of key items in the Government-Wide financial analysis (in thousands):

	<u>2007 Amount</u>	<u>2006 Amount</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Assets				
Current and Other Assets	\$ 47,870	\$ 44,701	\$ 3,169	7.1%
Capital Assets	19,835	17,153	2,682	15.6%
Total Assets	<u>67,705</u>	<u>61,854</u>	<u>5,851</u>	<u>9.5%</u>
Liabilities				
Current Liabilities	12,072	12,238	(166)	-1.4%
Debt Payable to City of Huntington Beach	85,369	85,103	266	0.3%
Long-Term Liabilities Payable within one year	1,480	1,415	65	4.6%
Long-Term Liabilities	50,378	53,079	(2,701)	-5.1%
Total Liabilities	<u>149,299</u>	<u>151,835</u>	<u>(2,536)</u>	<u>-1.7%</u>
Net Assets				
Invested in Capital Assets -				
Net of Related Debt	17,153	17,153	-	0.0%
Restricted	10,135	18,513	(8,378)	-45.3%
Unrestricted	(108,882)	(125,647)	16,765	-13.3%
Total Net Assets	<u>(81,594)</u>	<u>(89,981)</u>	<u>8,387</u>	<u>-9.3%</u>
Expenses				
Economic Development	5,182	6,340	(1,158)	-18.3%
City Attorney	88	41	47	114.6%
Public Works	179	-	179	N/A
Non-departmental and Transfers	198	1,134	(936)	-82.5%
Interest	7,739	4,982	2,757	55.3%
Total Expenses	<u>13,386</u>	<u>12,497</u>	<u>889</u>	<u>7.1%</u>
Revenues				
Property Taxes	17,510	12,236	5,274	43.1%
Use of Money and Property	2,690	1,940	750	38.7%
Participation Payments	1,564	6,260	(4,696)	-75.0%
Other	9	2	7	350.0%
Total Revenue	<u>21,773</u>	<u>20,438</u>	<u>1,335</u>	<u>6.5%</u>
Excess of Revenue over Expense	<u>8,387</u>	<u>7,941</u>	<u>446</u>	<u>5.6%</u>
Transfers	-	(15,520)	15,520	-100.0%
Net Assets - Beginning of Year	(89,981)	(82,402)	(7,579)	9.2%
Net Assets - End of Year	<u>\$ (81,594)</u>	<u>\$ (89,981)</u>	<u>\$ 8,387</u>	<u>-9.3%</u>



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2007**

FUND FINANCIAL ANALYSIS

Below is an analysis of the Agency's various fund financial activities (in thousands):

	<u>2007 Amount</u>	<u>2006 Amount</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Huntington Beach Project Area #1				
Total Assets	\$ 24,384	\$ 24,274	\$ 110	0.5%
Total Liabilities	2,437	3,830	(1,393)	-36.4%
Net Assets	21,947	20,444	1,503	7.4%
Revenues	3,390	7,795	(4,405)	-56.5%
Expenditures	1,886	4,333	(2,447)	-56.5%
Southeast Coastal Project Area				
Total Assets	-	-	-	N/A
Total Liabilities	190	179	11	6.1%
Net Assets	(190)	(179)	(11)	6.1%
Revenues	-	-	-	N/A
Expenditures	11	46	(35)	-76.1%
Low - Income Housing Fund				
Total Assets	24,119	20,703	3,416	16.5%
Total Liabilities	11,453	10,201	1,252	12.3%
Net Assets	12,666	10,502	2,164	20.6%
Revenues	641	385	256	66.5%
Expenditures	1,539	871	668	76.7%
Debt Service Fund - Huntington Beach Project Area #1				
Total Assets	6,511	5,100	1,411	27.7%
Total Liabilities	5,972	3,985	1,987	49.9%
Net Assets	539	1,115	(576)	-51.7%
Revenues	15,204	13,732	1,472	10.7%
Expenditures	12,270	17,270	(5,000)	-29.0%
Debt Service Fund - Southeast Coastal Project Area				
Total Assets	1,147	919	228	24.8%
Total Liabilities	305	808	(503)	-62.3%
Net Assets	842	111	731	658.6%
Revenues	337	187	150	80.2%
Expenditures	56	50	6	12.0%

DEBT ADMINISTRATION

A summary of the Agency's debt at year-end is (in thousands):

	<u>2007 Amount</u>	<u>2006 Amount</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Debt Payable to City of Huntington Beach	\$ 85,369	\$ 85,103	\$ 266	0.3%
Bonds Payable	39,740	41,065	(1,325)	-3.2%
Notes Payable	4,980	5,215	(235)	-4.5%
Disposition and Development Agreement	7,101	8,197	(1,096)	-13.4%
Other Debt	37	17	20	117.6%
Total Debt	\$ 137,227	\$ 139,597	\$ (2,370)	-1.7%



Redevelopment Agency of the City of Huntington Beach Management's Discussion and Analysis For the Year Ended September 30, 2007

CAPITAL ASSETS

The Agency's capital assets consist of land of \$17,153,000. This amount is recorded as part of the net capital assets of the Agency in the Government-Wide financial statements.

OTHER INFORMATION

Below is a description of the some of the Agency's activities during the year.

Huntington Beach (Merged Project Area)

The Strand is a multi-use project developed by CIM Group on a 3-acre site in the downtown core. With views of Huntington Beach and the pier it is located on Pacific Coast Highway, north of Main Street. A Sixth Implementation Agreement and the 33433 Report are scheduled to be presented to the Redevelopment Agency in spring 2008. The Strand's four distinct buildings will be linked by open-air pedestrian walkways. The Strand will offer approximately 110,000 square feet of retail and office space. The Shorebreak Hotel is a 157 room luxury boutique hotel operated by Joie de Vivre Hospitality. Ample parking will be provided in a subterranean structure. Retail tenants include Forever 21/Forever Love, CVS, and Active Ride Shop. Dining options include Johnny Rockets, RA Sushi, New Zealand Natural Ice Cream, and Coffee Bean & Tea Leaf. The development is scheduled to open in the fall of 2008.

Pacific City is being developed by Makar Properties on a 31 acre site at Pacific Coast Highway and First Street. A Community Facilities District is proposed to fund the majority of the street enhancements and Regional Urban Runoff Treatment System for the residential portion of the project. There will be 516 upscale residential housing units built in four phases, ranging from 969 to 2,500 square feet. The residential village, totaling 17.2 acres and consisting of four distinct styles, will act as the cornerstone of Pacific City, allowing residents close access to shops, restaurants with 48,900 square feet of restaurant space and 30,000 square feet of office space. This community will encompass 191,000 square feet of the retail center featuring luxurious retail brands, prime office space, dining and entertainment. Pacific City is expected to open in late 2009. The "W" is the hotel operator for the boutique hotel that will feature 157 rooms and is expected to open by 2010.

Surf City Nights is a street fair/farmer's market that takes place from 5-9 p.m. on Tuesday nights in the first three blocks of downtown Main Street between Pacific Coast Highway and Orange Avenue. Surf City Nights began as a three-month trial street closure of Main Street and developed into a weekly, year-round event. The fair was created and maintained in partnership between the City of Huntington Beach and the Downtown Business Improvement District. Historically, Tuesdays had been the slowest evening in the downtown. Due to the success of the event, residents and visitors regularly take an evening stroll and dine at local restaurants. The street fair includes a farmer's market, live entertainment, children's activities, retail sales, food,



Redevelopment Agency of the City of Huntington Beach Management's Discussion and Analysis For the Year Ended September 30, 2007

arts and crafts. Surf City Nights headlined as the second biggest story of the year in the Orange County Register and local LA Times December issue.

Bella Terra, formerly known as Huntington Center which was an outdated 56.5-acre retail property, has been transformed into an entertainment/life style center. In 2005, while the mall was still under construction, Bella Terra Associates LLC, a partnership between DJM Capital and Jh Snyder, purchased the property. The Redevelopment Agency approved Bella Terra Associates LLC to assume the rights and responsibilities of the Owner Participation Agreement in order to complete the project. The First Implementation Agreement to the OPA terminated the vacant Montgomery Wards parcel from the OPA and provided for a \$1.5 million implementation fee to the Agency. With the approval of the Second Implementation Agreement on September 17, 2007, the Agency was required to commence payment of its obligation of \$15 million to the developer. The Redevelopment Agency has paid \$2,207,000 towards its obligation to the developer leaving an estimated balance of \$14,855,000 as of September 30, 2007. The approximate 1,532 space public parking garage, funded by the Community Facilities District 2003-1 (Huntington Center), opened on October 1, 2005. Bella Terra Associates LLC also purchased the former Montgomery Wards 13.5 acre portion of the site that has been left vacant for a number of years. Negotiations are commencing to develop the parcel within the next three years. The environmental review process has begun for the proposed mix-use project that will consist of 156,000 square feet of retail and 503-700 residential units.

Specific and Economic Revitalization Plan for Beach Boulevard and Edinger Corridor -- On December 18, 2006 the Agency approved a professional services agreement with Tierra West Advisors, LLC for the preparation of an Economic Revitalization Strategic Plan to enhance and maximize the potential of these major thoroughfares. A real estate market analysis of existing conditions along the corridors has begun. This analysis will support the rationale for possible land-use changes that are based upon economic trends and community goals. In support of long range planning efforts, the work is being conducted in conjunction with planning firm Freedman, Tung and Bottomley (FTB) for the Specific Plan and Land Use/Planning aspects. Four community meetings have been held. The preliminary results of those meetings were presented at a City Council Study Session on January 7, 2008. The Revitalization Strategic Plan and Specific Plans for the corridors are expected to be completed in late 2008.

Downtown Specific Plan (DTSP) and Downtown Parking Master Plan -- On July 16, 2007 the Agency approved professional services contracts with RRM Design Group and Kimley-Horn and Associates, Inc. (KHA) to provide consulting services for the update to the Downtown Specific Plan (DTSP) and Downtown Parking Master Plan (DPMP). RRM Design Group is responsible for developing land use provisions and urban design guidelines that support and encourage a mixed-use development community. The planning consultant is working with KHA, a traffic/parking consultant that specializes in the analysis of parking in a downtown setting, who has the responsibility of amending the DPMP. To accomplish this, KHA will utilize "shared



Redevelopment Agency of the City of Huntington Beach Management's Discussion and Analysis For the Year Ended September 30, 2007

use" parking strategies and other innovative approaches used in regulating downtown parking. The first community work shop was held on November 27, 2007.

The Hyatt Regency Huntington Beach Resort and Spa -- The 517-room Hyatt Regency Huntington Beach Resort & Spa and its Conference Center opened for business on January 19, 2003. Developer's Advance Loan Balance is estimated at \$7,215,729 as of December 2007. The hotel paid its second Participation Payment to the Agency during this past year. The project also pays lease payments to the Agency on an annual basis.

Capital Improvements/Facilities -- The one time revenue of \$19 Million from the Redevelopment Agency's participation payments from the Waterfront Residential project is funding various public improvements within the City's Merged Redevelopment Project Area. The revenue received during 2004-2006 will be expended over several years through the City's Capital Improvement Program (CIP). Through the CIP, approximately \$16 Million has been allocated for capital projects that include the Civic Center seismic retrofit (matched with FEMA funds), drainage improvements, concrete and asphalt replacement, streetlight replacements, restrooms north of the pier, permanent buildings on the pier and a visitor's kiosk at the Pier Plaza, internal building modifications for the Main Street Library, and fire station renovations. The Surf City Nights project is also funded through this revenue source.

Southeast Coastal Project Area

Utility Undergrounding -- Southern California Edison is taking the lead in doing the design work for under-grounding the Edison utilities along PCH and is working with City staff, CalTrans, and the California State Beaches Department.

Seawater Desalination Facility -- The Redevelopment Agency approved an Owner Participation Agreement (OPA), dated February 27, 2006, with Poseidon Resources Corporation to provide for the development of a seawater desalination plant on property leased from the AES Corporation. The Agreement containing the covenants affecting the real property was recorded on June 8, 2006. AES is in the process of removing storage tanks on this property.

Magnolia Street Sidewalk & Lighting -- The construction of a sidewalk and installation of pedestrian lighting on both sides of Magnolia Street was included in the Capital Improvement Program (CIP) budget for \$500,000.

Housing Activities

Habitat for Humanity (Patterson Delaware site) -- The Redevelopment Agency has acquired a vacant parcel at 1854 Patterson Lane for \$522,500 using Housing Set Aside funds for a Habitat for Humanity project. Two single family homes will be built on the site. The original plan was to install two manufactured homes on the site however the company offering the homes withdrew their offer due to economic reasons. The homes will now be conventional built homes following the Habitat for Humanity model of the homeowners contributing sweat equity.



Redevelopment Agency of the City of Huntington Beach Management's Discussion and Analysis For the Year Ended September 30, 2007

Jamboree Housing I, II, and III -- The Agency and City of Huntington Beach assisted Jamboree Housing Corporation, an Orange County based non-profit housing developer and designated CHDO (*Community Housing Development Organization*), to acquire and rehabilitate two five-plex apartment buildings in the Oakview sub-area. This represents the first acquisition/rehab projects developed in the City of Huntington Beach by Jamboree and one of several housing projects planned for the Oakview sub-area using HOME and redevelopment housing set-aside funds. The City and Agency are also in the process of assisting Jamboree with the acquisition of a third property, a four-unit building that will close escrow after the 2006-07 fiscal year. Jamboree will provide on-site management and tenant services for the tenants they serve as more properties are acquired and rehabilitated.

Garfield and Delaware Affordable Housing Project -- The City of Huntington Beach acquired property at the northeast corner of Delaware St. and Garfield Ave. as part of a street widening project. It is expected that the Agency will purchase the property from the City and thereafter develop affordable housing on the parcel. It is anticipated that the project will be presented to the Agency and City Council sometime during fiscal year 2008/2009.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need any additional financial information, please contact the Finance Department: at 2000 Main Street, Huntington Beach, California, 92648, phone (714) 536-5360, or e-mail cgonzales@surfcity-hb.org. You can also visit the City's website at www.surfcity-hb.org for additional copies of this report.

**REDEVELOPMENT AGENCY OF THE
CITY OF HUNTINGTON BEACH
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007
(In Thousands)**

	Governmental Activities
ASSETS	
Current Assets:	
Cash and Investments	\$ 28,612
Restricted Cash with Fiscal Agent	2,462
Taxes Receivable	4,065
Other Receivables	12,731
Total Current Assets	47,870
Non-Current Assets:	
Land Held for Resale	2,682
Capital Assets (non-depreciable)	17,153
Total Non-Current Assets	19,835
TOTAL ASSETS	67,705
 LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities	207
Accrued Interest Payable	276
Accrued Payroll	24
Deposits	130
Unearned Revenue	11,435
Long-Term Debt - Due Within One Year	1,480
Total Current Liabilities	13,552
Non-Current Liabilities:	
Long-Term Debt to the City of Huntington Beach and Component Units	85,369
Other Long-Term Debt	50,378
TOTAL LONG-TERM LIABILITIES	135,747
TOTAL LIABILITIES	149,299
 NET ASSETS	
Investment in Capital Assets	17,153
Restricted for:	
Low-Income Housing	10,135
Unrestricted	(108,882)
TOTAL NET ASSETS (DEFICIT)	\$ (81,594)

**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
(In Thousands)**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Current Service	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Functions/Programs					
Governmental Activities:					
Economic Development	\$ 5,182	\$ -	\$ -	\$ -	\$ (5,182)
City Attorney	88	-	-	-	(88)
Public Works	179	-	-	-	(179)
Non-departmental	198	-	-	-	(198)
Interest	7,739	-	-	-	(7,739)
Total Governmental Activities	13,386	-	-	-	(13,386)
General Revenues:					
Taxes:					
Property Taxes					17,510
Other Revenue:					
Use of Money and Property					2,690
Participation Payments					1,564
Other					9
Total Other Revenue					4,263
Total General Revenue					21,773
Change in Net Assets					8,387
Net Deficit - October 1, 2006					(89,981)
Net Deficit - September 30, 2007					\$ (81,594)

REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH
BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2007
(In Thousands)

ASSETS:

Cash and investments
 Restricted cash with fiscal agent
 Due from other funds
 Taxes receivable
 Other receivables
 Advances to other funds
 Land held for resale, net

TOTAL ASSETS

Capital Projects Funds			
Huntington Beach Project Area #1	Southeast Coastal Project Area	Low-Income Housing Fund	Total Capital Projects Funds
\$ 17,019	\$ -	\$ 10,471	\$ 27,490
-	-	-	-
3,213	-	-	3,213
-	-	-	-
1,168	-	11,554	12,722
302	-	2,094	2,396
2,682	-	-	2,682
\$ 24,384	\$ -	\$ 24,119	\$ 48,503

LIABILITIES AND FUND BALANCE

LIABILITIES:

Accounts payable and accrued liabilities
 Accrued payroll
 Due to Other Funds
 Deposits
 Deferred property taxes
 Deferred revenue
 Advances from other funds

TOTAL LIABILITIES

\$ 193	\$ -	\$ 14	\$ 207
20	-	4	24
-	190	-	190
130	-	-	130
-	-	-	-
-	-	11,435	11,435
2,094	-	-	2,094
2,437	190	11,453	14,080

FUND BALANCE:

Fund balances:

Reserved for long - term receivables
 Reserved for encumbrances
 Reserved for advances to other funds
 Reserved for land held for resale
 Reserved for low - income housing
 Reserved for future expenditures

Total Reserved

Unreserved

TOTAL FUND BALANCE

TOTAL LIABILITIES AND FUND BALANCE

1,228	-	-	1,228
3,342	-	437	3,779
-	-	2,094	2,094
2,682	-	-	2,682
-	-	10,135	10,135
60	-	-	60
7,312	-	12,666	19,978
14,635	(190)	-	14,445
21,947	(190)	12,666	34,423
\$ 24,384	\$ -	\$ 24,119	\$ 48,503

Debt Service Funds			
Huntington Beach Project Area #1	Southeast Coastal Project Area	Total Debt Service Funds	Total All Funds
\$ -	\$ 1,122	\$ 1,122	\$ 28,612
2,462	-	2,462	2,462
-	-	-	3,213
4,049	16	4,065	4,065
-	9	9	12,731
-	-	-	2,396
-	-	-	2,682
\$ 6,511	\$ 1,147	\$ 7,658	\$ 56,161

\$ -	\$ -	\$ -	\$ 207
-	-	-	24
3,020	3	3,023	3,213
-	-	-	130
2,952	-	2,952	2,952
-	-	-	11,435
-	302	302	2,396
5,972	305	6,277	20,357

-	-	-	1,228
-	-	-	3,779
-	-	-	2,094
-	-	-	2,682
-	-	-	10,135
539	842	1,381	1,441
539	842	1,381	21,359
-	-	-	14,445
539	842	1,381	35,804
\$ 6,511	\$ 1,147	\$ 7,658	\$ 56,161

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**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007
(In Thousands)**

Total Fund Equity Governmental Funds	\$	35,804
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds		17,153
Property tax revenues collected more than 60 days after fiscal year are not current financial resources and, therefore are deferred in the funds		2,952
Accrued interest payable on Long-term Debt		(276)
Long-term Liabilities, including bonds and certificates of participation payable are not due and payable in the current period and therefore are not reported in the funds		<u>(137,227)</u>
Net Assets (Deficit) of Governmental Activities	\$	<u>(81,594)</u>

**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007
(In Thousands)**

REVENUES:

Tax increment (Note 4)
Use of money and property
Participation payments
Other revenue
TOTAL REVENUES

Capital Projects Funds			
Huntington Beach Project Area #1	Southeast Coastal Project Area	Low-Income Housing Fund	Total Capital Projects Funds
\$ -	\$ -	\$ -	-
1,817	-	641	2,458
1,564	-	-	1,564
9	-	-	9
3,390	-	641	4,031

EXPENDITURES:

Current:

Economic Development
City Attorney
Public Works
Non-departmental
Capital outlay

Debt service:

Bond & Other Debt:
Principal
Interest

TOTAL EXPENDITURES

EXCESS OF REVENUES OVER (UNDER) EXPENDITURES

OTHER FINANCING SOURCES (USES):

Transfers in
Transfers out

TOTAL OTHER FINANCING SOURCES (USES)

NET CHANGES IN TOTAL FUND BALANCE

FUND BALANCES - BEGINNING OF YEAR

Prior Period Adjustments

FUND BALANCES - BEGINNING OF YEAR AS RESTATED

FUND BALANCES - END OF YEAR

1,209	-	679	1,888
88	-	-	88
179	-	-	179
20	11	2	33
390	-	858	1,248
-	-	-	-
-	-	-	-
1,886	11	1,539	3,436
1,504	(11)	(898)	595
-	-	3,062	3,062
-	-	-	-
-	-	3,062	3,062
1,504	(11)	2,164	3,657
20,443	(179)	10,502	30,766
-	-	-	-
20,443	(179)	10,502	30,766
\$ 21,947	\$ (190)	\$ 12,666	\$ 34,423

Debt Service Funds			
Huntington Beach Project Area #1	Southeast Coastal Project Area	Total Debt Service Funds	Total All Funds
\$ 15,013	\$ 296	\$ 15,309	\$ 15,309
191	41	232	2,690
-	-	-	1,564
-	-	-	9
15,204	337	15,541	19,572
1,991	55	2,046	3,934
-	-	-	88
-	-	-	179
164	1	165	198
-	-	-	1,248
8,574	-	8,574	8,574
1,541	-	1,541	1,541
12,270	56	12,326	15,762
2,934	281	3,215	3,810
-	-	-	3,062
(3,003)	(59)	(3,062)	(3,062)
(3,003)	(59)	(3,062)	-
(69)	222	153	3,810
(83,988)	111	(83,877)	(53,111)
84,596	509	85,105	85,105
608	620	1,228	31,994
\$ 539	\$ 842	\$ 1,381	\$ 35,804



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2007**

1. ORGANIZATION

The Redevelopment Agency of the City of Huntington Beach (the Agency) is a blended component unit of the City of Huntington Beach (the City). The City Council is the governing board of the Agency. The Agency was formed by ordinance in 1967 to encourage private development of areas that are considered blighted. The Agency adopts project areas, by public votes, which qualify under the California Health and Safety Code.

The following project areas have been adopted:

<u>Project Area</u>	<u>Year Adopted</u>	<u>Status</u>
Main/Pier	1982 (amended in 1983)	Merged into Huntington Beach Project Area #1
Talbert/Beach	1982	Merged into Huntington Beach Project Area #1
Oakview	1982 (amended in 1989)	Merged into Huntington Beach Project Area #1
Yorktown/Lake	1982	Merged into Huntington Beach Project Area #1
Huntington Center	1984	Merged into Huntington Beach Project Area #1
Huntington Beach Project Area #1	1997	Created from five existing project areas
Southeast Coastal Project Area	2002	Began operations in 2002

The Agency's project area requires that 20% of tax increment revenue be used to promote affordable housing citywide.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Government – Wide Financial Statements

The Agency's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental activities for the Agency accompanied by a total column. Fiduciary activities of the Agency are not included in these statements. These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets and liabilities, including capital assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2007**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Government – Wide Financial Statements (Continued)

The statement of activities demonstrates the degree with which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are allocated to the various functions based on a proportionate use of services. The types of transactions reported as program revenues for the Agency are reported in three categories: 1) charges for services, 2) operating grants and other contributions, 3) capital grants and other contributions. Taxes and other items not properly included among program revenues are reported as general revenues.

Government-Wide financial statements do not provide information by fund or account group. They simply distinguish between governmental and business activities. All of the Agency's activities are governmental activities. The Agency's Statement of Net Assets includes both current and non-current assets and liabilities.

Financial Statement Classification

In the Government-Wide financial statements net assets are classified in the following categories:

Invested In Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. This category presents restrictions placed on the categories of Capital Projects, Debt Service, and Specific Projects and Programs as established by the City Council.

Unrestricted Net Assets – represent the net assets of the Agency, not restricted for any project or other purpose.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2007**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Fund Financial Statements

In the Funds financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various designations are established by actions of the City Council and Management and can be increased, reduced or eliminated by similar actions.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are property taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

All Agency funds are reported as major funds:

Capital Project Funds:

- Huntington Beach Project Area #1
- Southeast Coastal Project Area
- Low-Income Housing Fund

Debt Service Funds:

- Huntington Beach Project Area #1
- Southeast Coastal Project Area



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2007**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Fund Financial Statements (Continued)

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. An accompanying schedule is presented to reconcile and explain the differences in fund balances as presented in these statements to the net assets presented in the Government-Wide Financial Statements.

c. Investment Income Allocation

The City of Huntington Beach allocates investment income to funds based on month-end cash balances. Since the Agency pools its cash with the City (see Note 3), the Agency receives monthly allocations of investment income.

d. Special Agency Accounting

The Agency follows the special accounting procedures required by the California Health and Safety Code. These procedures comply with generally accepted accounting principles for governmental agencies.

e. Self-Insurance

The Agency is self-insured through the City of Huntington Beach. All required information is included in the City of Huntington Beach Comprehensive Annual Financial Report for the year ended September 30, 2007.

f. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure, are reported in the governmental activities column in the government-wide financial statements. Capital assets have an acquisition cost of \$10,000 or greater and a useful life of two years or more. The Agency records all purchased capital assets at historical cost (where historical records are available) and at estimated historical cost where no historical records exist. The Agency's only capital asset is land.

g. Interfund Transactions

As a general rule, interfund transactions have been eliminated from the government-wide financial statements. These interfund transactions would distort the direct costs and program revenues for the various functions



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2007**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Long Term Obligations

In the government-wide financial statements, long-term obligations are recorded as liabilities in the governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt. In the governmental fund financial statements, bond discounts and premiums are recognized as an other financing source or use. Issuance costs are recorded as current year expenditure.

i. Employee Compensated Absences

The City records the cost of all accumulated and unused leave time (vacation, sick, comp) as a liability when earned in the Government-Wide financial statements. Liabilities for these amounts in the governmental funds are only recorded if they have matured (employee resignations or retirements).

j. Property Tax Revenue

Property tax in California is levied according to Article 13-A of the California Constitution. The basic levy is a countywide-levy of one percent of total assessed valuation and is allocated to county governments, school districts, cities and special districts. Additional levies require two-thirds approval by voters and are allocated directly to the specific government.

In the Government-Wide financial statements, property tax is recorded when earned, regardless of when levied, due, or received. In the fund financial statements, property tax revenue is recognized in the fiscal year levied provided that revenue is collected in time to pay current year liabilities. Deferred property tax revenue represents property taxes related to the current fiscal year that are collected more than 60 days after the fiscal year end. Since the Agency's fiscal year differs from the County's property tax year, there is a difference between the property tax revenue recorded on the fund financial statements and the Government-Wide financial statements which is noted as a reconciling item in both the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities and the Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets.

The County acts as a collection agent for property tax for all of the local governmental units. Property taxes are normally collected twice per year. The property tax calendar is as follows.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2007**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. Property Tax Revenue (Continued)

- Lien Date-January 1 - Prior Fiscal Year
- Levy Date-July 1 - Prior Fiscal Year
- Due Date, First Installment - November 10
- Due Date, Second Installment - February 10
- Delinquent Date, First Installment - December 10
- Delinquent Date, Second Installment - April 10

The taxes are paid to the local governments periodically during the year. Below are the dates of the payments from the County:

- | | |
|----------------------------------|----------------------|
| • Payments of First Installment | November to December |
| • Balance of First Installment | February 1 |
| • Payments of Second Installment | March to April |
| • Balance of Second Installment | July 26 |

k. Estimates

The accompanying financial statements require management to make estimates and assumptions that effect certain report amounts and disclosures. Actual results could differ from those estimates.

3. CASH AND INVESTMENTS

The Agency's cash and investments are pooled with the City. The Agency holds a proportionate interest in the amount of \$28,612,000. The Restricted Cash with Fiscal Agent, totaling \$2,462,000 is made up of GIC and money market accounts. The GIC providers are rated by Standard and Poor's at AAA and AA and Aaa or Aa respectively. Standard and Poor's and Moody's have rated the money market funds in our portfolio as AAA. The Restricted Cash with Fiscal Agent that is in LAIF or money market accounts is due upon demand while the amount with GIC has a maturity of over five years. For further information such as credit risk and categorization of the cash and investments, see the City's Comprehensive Annual Financial Report for the fiscal year ended September 30, 2007.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2007**

4. TAX INCREMENT REVENUE AND FINANCING

The Agency's primary source of revenue is tax increment. Tax increment revenue is computed as follows:

- When a project area is adopted, the County of Orange Auditor/Controller freezes all of the existing property's assessed value. The County distributes taxes received from this frozen valuation to the various governmental agencies as if the project area did not exist.
- The Agency receives 100% of taxes (not including certain pass-through agreements) received from increases in assessed valuation due to new construction, resale of existing property and annual increases allowed under Article 13-A of the California Constitution.

The increment is used to repay the debt of the Agency (see Note 6).

5. CAPITAL ASSETS

The changes in capital assets (land) during the year were (in thousands):

Balance, October 1, 2006	\$ 17,153
Additions/Retirements	<u>-</u>
Balance, September 30, 2007	<u>\$ 17,153</u>



Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2007

6. LONG-TERM DEBT

The changes in Agency long-term debt during the year were (in thousands):

	Balance October 1, 2006	Additions	Retirements	Balance September 30, 2007	Amount Due within One Year
DEBT TO CITY OF HUNTINGTON BEACH:					
Advances from General Fund	\$ 11,165	\$ 476	\$ (432)	\$ 11,209	\$ -
Advances from Sewer Fund	229	10	-	239	-
Advances from Drainage Fund	552	24	-	576	-
Advances from Water Fund	3,420	146	-	3,566	-
Deferred Development Fees:					
Park Acquisition and Development Fund	337	14	-	351	-
Sewer Fund	143	6	-	149	-
Drainage Fund	152	6	-	158	-
Deferred Payment on Land Purchases from City:					
General Fund	64,560	2,750	(2,928)	64,382	-
Park Acquisition and Development Fund	4,545	194	-	4,739	-
Total Debt - City of Huntington Beach	85,103	3,626	(3,360)	85,369	-
OTHER DEBT					
Help Loan	500	-	-	500	-
Mayer Disposition and Development Agreement	8,197	496	(1,592)	7,101	-
1999 Refunding Tax Allocation Bonds	8,155	-	(365)	7,790	380
2002 Tax Allocation Refunding Bonds	17,910	-	(815)	17,095	845
Bella Terra Parking	15,000	2,062	(2,207)	14,855	-
Section 108 Loan	4,715	-	(235)	4,480	255
Employee Compensated Absences	17	20	-	37	-
Total Other Debt	54,494	2,578	(5,214)	51,858	1,480
Total Agency Debt	\$ 139,597	\$ 6,204	\$ (8,574)	\$ 137,227	\$ 1,480



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2007**

6. LONG-TERM DEBT (CONTINUED)

a. Advances from General Fund

Year(s) debt incurred	1985 to 1996
Interest rate	4.26%
Principal amount	\$10,802,000
Accrued interest	\$ 407,000
Purpose of debt	Operating, administrative and capital expenditures
Security for debt	Operative Agreement with City
Repayment terms	None

b. Advances from City's Sewer Fund

Year(s) debt incurred	1989
Interest rate	4.26%
Principal amount	\$130,560
Accrued interest	\$108,156
Purpose of debt	Sewer Construction
Security for debt	Operative Agreement with City
Repayment terms	None

c. Advances from City's Drainage Fund

Year(s) debt incurred	1987
Interest rate	4.26%
Principal amount	\$250,000
Accrued interest	\$325,305
Purpose of debt	Drainage Construction
Security for debt	Operative Agreement with City
Repayment terms	None



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2007**

6. LONG-TERM DEBT (CONTINUED)

d. Advances from City's Water Fund

Year(s) debt incurred	1986 and 1987
Interest rate	4.26%
Principal amount	\$1,138,000
Accrued interest	\$2,428,000
Purpose of debt	Water Construction
Security for debt	Operative Agreement with City
Repayment terms	None

e. Deferred Development Fees

Year(s) debt incurred	1984
Interest rate	4.26%
Principal amount	\$339,202
Accrued interest	\$319,241
Purpose of debt	Developer Incentive
Security for debt	Operative Agreement with City
Repayment terms	None

f. Deferred Payment on Land Purchases from City's General Fund

Year(s) debt incurred	1983 to 1992
Interest rate	4.26% (current fiscal year)
Principal amount	\$32,833,417
Accrued interest	\$31,548,249
Purpose of debt	Parcel consolidation and development
Security for debt	Operative Agreement with City
Repayment terms	None



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2007**

6. LONG-TERM DEBT (CONTINUED)

h. Deferred Payment on Land Purchases from City's Park Acquisition and Development Fund

Year(s) debt incurred	1984
Interest rate	4.26%
Principal amount	\$1,740,834
Accrued interest	\$2,998,237
Purpose of debt	Emerald Cove Land
Security for debt	Operative Agreement with City
Repayment terms	None

i. Notes Payable

Year(s) debt incurred	2003
Interest rate	3.00%
Principal amount	\$500,000
Purpose of debt	Affordable housing
Security for debt	Note with developer
Repayment terms	Deferred for 10 yrs

j. Mayer Disposition and Development Agreement

In fiscal year 1996-97, the Agency entered into a disposition and development agreement with Robert Mayer Corporation (Corporation) concerning additional development adjacent to the Waterfront Hotel. Under the agreement, the Corporation would advance payments for the project costs with the Agency reimbursing up to \$16,750,000 of the costs. As of September 30, 2007, the Agency obligation under the agreement amounted to \$7,101,000. Project-generated revenues as available will repay these amounts over the time needed to fully amortize the advance.

k. 1999 Tax Allocation Refunding Bonds

Year(s) debt incurred	1999
Interest rate	3.00% to 5.05%
Original principal amount	\$10,835,000
Purpose of debt	Prepay Agency's 1992 Loans to Public Financing Authority
Security for debt	Redevelopment Agency Tax Increment, excluding Low- Income Housing Amounts
Repayment terms	Principal, August 1 st , Interest, February 1 st and August 1 st



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2007**

6. LONG-TERM DEBT (CONTINUED)

Debt service requirements to maturity are as follows (in thousands):

Year Ending September 30,	Principal	Interest	Total
2008	380	365	745
2009	390	350	740
2010	410	334	744
2011	430	317	747
2012	450	298	748
2013-2017	2,575	1,165	3,740
2018-2022	2,370	520	2,890
2023-2024	785	57	842
Total	\$ 7,790	\$ 3,406	\$ 11,196

I. 2002 Tax Allocation Refunding Bonds

Year of Issuance	2002
Type of Debt	Tax Allocation Refunding Bonds
Original Principal Amount	\$20,900,000
Security	Tax Increment
Interest Rates	2.00% to 5.00%
Interest Payment Dates	February 1 st and August 1 st
Principal Payment Dates	August 1 st
Purpose of Debt	Prepay Agency's 1992 Loans to Public Financing Authority and fully deacease 1992 Public Financing Authority bonds

Debt service requirements to maturity are (in thousands):

Year Ending September 30,	Principal	Interest	Total
2008	845	771	1,616
2009	870	742	1,612
2010	910	712	1,622
2011	945	678	1,623
2012	995	641	1,636
2013-2017	5,650	2,540	8,190
2018-2022	5,180	1,134	6,314
2023-2024	1,700	124	1,824
Total	\$ 17,095	\$ 7,342	\$ 24,437



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2007**

6. LONG-TERM DEBT (CONTINUED)

m. Bella Terra Parking Structure

In fiscal year 2005-06, the agency entered into an owner participation agreement with Bella Terra Associates, LLC (formerly Huntington Center Associates, LLC). Under the agreement the Corporation would construct various public improvements, including a parking structure, which would then be deeded to the City. The Agency would reimburse \$15,000,000 of the costs of the public improvements. As of September 30, 2007, the Agency obligation under the agreement amounted to \$14,855,000. Project-generated revenues as available will repay these amounts over the time needed to fully amortize the advance.

n. Section 108 Loan

Year of Issuance	2000
Type of Debt	Loan from Federal Government
Original Principal Amount	\$6,000,000
Security	Loan Agreement with Federal Government
Interest Rates	7.7%
Interest Payment Dates	February 1 st and August 1 st
Principal Payment Dates	August 1 st
Purpose of Debt	Capital Improvements

Debt service requirements to maturity are (in thousands):

Year Ending September 30,	Principal	Interest	Total
2008	255	346	601
2009	270	327	597
2010	290	308	598
2011	310	286	596
2012	330	263	593
2013-2017	2,015	897	2,912
2018-2019	1,010	122	1,132
Total	4,480	2,549	7,029

o. Employee Compensated Balances

There is no fixed repayment to pay the compensated absences liability totaling \$37,000 at year-end.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2007**

7. RETIREMENT PLAN INFORMATION

The Agency is a component unit of the City. For retirement purposes, all Agency employees are considered to be employees of the City. No separate valuations are made for the Agency. All retirement information for the City as a whole is included in the City's Comprehensive Annual Financial Report.

8. AGENCY AGREEMENTS

a. Pass-Through Agreements

The Agency entered into various "pass-through" agreements with local governmental agencies where a portion of tax increment is paid to the individual agencies. There was no amount payable at year-end.

b. Pacific City

On October 16, 2006 the Redevelopment Agency approved an Owner Participation Agreement with Makallon Atlanta Huntington Beach, LLC (also know as Makar) to develop a 31-acre site in the Main-Pier sub-area of the Huntington Beach Redevelopment Project (Pacific City). Makar will advance \$5,500,000 to the Redevelopment Agency to fund the Agency's obligation for the Regional Urban Runoff Treatment System and the Pacific View Drive Extension. The advance will be repaid over 20 years from tax increment generated from the site. As of September 30, 2007 no amount has been advanced to the City.

c. CIM Group, LLC – Disposition and Development Agreement

In June 1999, the Redevelopment Agency entered into a disposition and development agreement with the CIM Group, LLC to allow development of a hotel, retail and restaurant improvements and a public parking facility. The project costs are to be paid initially by the developer with the Agency reimbursing the developer a maximum of \$7.9 million pursuant to a Third Implementation Agreement approved on October 21, 2002. The Fourth Implementation Agreement provided a maximum Agency cost for additional parking spaces \$1,500,000. The Fifth Implementation Agreement, dated July 19, 2004, clarified certain provisions in the DDA relating to the Agency Participation Payment, Acquisition costs and indemnification obligations. A Sixth Implementation Agreement and the 33433 Report are scheduled to be presented to the Redevelopment Agency in spring 2008. As of September 30, 2007 no amount has been advanced to the City.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2007**

8. AGENCY AGREEMENTS (Continued)

d. Southeast Coastal Redevelopment Project

On September 2, 2003, the Redevelopment Agency Approved a Cooperation Agreement Regarding Capital Improvements in the Southeast Coastal Redevelopment Project within the City. This agreement commits the Redevelopment Agency to reimburse the City for a number of capital improvement projects to be undertaken as part of the Five Year Capital Improvement Program in the Southeast Redevelopment project area. The status of the major Southeast Costal Redevelopment projects is as follows:

Utility Undergrounding -- Southern California Edison is taking the lead in doing the design work for under grounding the Edison utilities along PCH and is working with City staff, CalTrans, and the California State Beaches Department.

Seawater Desalination Facility -- The Redevelopment Agency approved an Owner Participation Agreement (OPA), dated February 27, 2006, with Poseidon Resources Corporation to provide for the development of a seawater desalination plant on property leased from the AES Corporation. The Agreement containing the covenants affecting the real property was recorded on June 8, 2006. AES is in the process of removing storage tanks on this property. As of September 30, 2007 no amount has been advanced to the City.

Magnolia Street Sidewalk & Lighting -- The construction of a sidewalk and pedestrian lighting on both sides of Magnolia Street was included in the Capital Improvement Program.

9. NOTES RECEIVABLE

a. Owner Participation Agreement – Abdelmuti

In 1991, the Agency agreed to assist a private business in the demolition and the construction of a new building. The Agency agreed to make public improvements totaling \$500,000 and to loan the business \$3,126,000 for 15 years at 7% interest to make building improvements. At year-end, the balance of the loan was \$728,000. The note was refinanced and the City was paid in full for the remaining amount owed in December of 2007.

b. Deferred Loans – Developers

The Agency has made loans available to developers to construct or rehabilitate certain facilities under deferred loan agreements. These loans are deferred until a future event occurs, such as a sale of the property by the developer. At year-end, the amounts of these loans were \$11,435,000.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2007**

9. NOTES RECEIVABLE (Continued)

c. Notes Receivable

A summary of Notes Receivable as of September 30, 2007 is as follows:

<u>Description</u>	<u>Amount</u>
OPA - Abdelmuti Receivable	\$ 728,000
Deferred Loans Receivable	\$ 11,435,000
Other Receivables	<u>\$ 569,000</u>
Total	<u><u>\$ 12,732,000</u></u>

10. PENDING LITIGATION

There are legal actions pending against the Agency resulting from normal operations. The Agency's Counsel feels these actions will not have a significant impact on these financial statements.

11. OTHER

The Agency's combined net assets for the year ended September 30, 2007 were a negative \$(81,594,000). This is mainly because of how Redevelopment Agencies are required to operate under state law. Redevelopment Agencies incur debt in order to make expenditures, which result in increased public and private investment in a redevelopment area, which in turn generate property tax increment to repay the debt over time. Redevelopment Agencies can only collect property tax increment to the extent it has debt on the books.

12. PRIOR PERIOD ADJUSTMENT

In prior years the Agency recorded loans from the City as a debt in the fund statements. This should only be recorded in the Government wide statement. Below is a schedule (in 000's) showing the restatement of beginning fund balance to show this change.

Combined Statement of Revenues, Expenditures and Changes in Fund Balance	Debt Service Fund - Huntington Beach Project Area #1	Debt Service Fund - Southeast Coastal Project Area
Fund Balance - Beginning of the Year	\$ (83,988)	\$ 111
Prior Period Adjustment	<u>84,596</u>	<u>509</u>
Fund Balance - Beginning of year as restated	<u><u>\$ 608</u></u>	<u><u>\$ 620</u></u>

**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH
 CALCULATION OF LOW/MODERATE INCOME HOUSING FUNDS - EXCESS SURPLUS
 October 1, 2006
 (IN THOUSANDS)**

ENDING FUND BALANCE - OCTOBER 1, 2006	\$	10,502
Less Unavailable Amounts:		
Advances to Other Funds		(2,199)
AVAILABLE FUND BALANCE - OCTOBER 1, 2006		\$ <u>8,303</u>
 AVAILABLE LOW/MODERATE INCOME HOUSING FUNDS LIMITATION (GREATER OF \$1,000,000 OR FOUR YEARS SET-ASIDE):		
Set-aside for fiscal years 2002-03 to 2005-06		
2002-2003		1,820
2003-2004		1,909
2004-2005		2,301
2005-2006		2,780
TOTAL SET-ASIDE FOR LAST FOUR YEARS		<u>8,810</u>
COMPUTED EXCESS/SURPLUS - OCTOBER 1, 2006		\$ <u>-</u>



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February 21, 2008

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Redevelopment Agency of the
City of Huntington Beach
Huntington Beach, California

We have audited the financial statements of the governmental activities and each major fund for the Redevelopment Agency of the City of Huntington Beach (the Agency) as of and for the year ended September 30, 2007, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated February 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies over material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Agency are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the Guidelines For Compliance Audits of California Redevelopment Agencies, issued by the State Controller and as interpreted in the Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under Government Auditing Standards:

- a. Pursuant to California Health and Safety Code Section 33080.4, a blight progress report, a loan report and a property report must be provided and submitted to the Agency's legislative body within six months following the Agency's fiscal year end date of September 30, 2006. The Agency submitted the reports on June 6, 2007.
- b. Health and Safety Code Section 33080.1 requires Redevelopment Agencies to submit independent auditor's reports on financial statements and legal compliance, the Annual Report of Financial Transactions of Community Redevelopment Agencies and the Housing Activities Report to the Board of Directors within six months following the Agency's fiscal year end date of September 30, 2006. The Agency submitted the reports on June 6, 2007.

This report is intended solely for the information and use of the Redevelopment Agency of the City of Huntington Beach's Board of Directors and management and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specific parties.

Dierl, Evans and Company, LLP