

# REDEVELOPMENT AGENCY OF THE City of Huntington Beach, California



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

*For Year Ended September 30, 2008*



**CITY OF HUNTINGTON BEACH, CALIFORNIA**



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

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Prepared by the Finance Department



# TABLE OF CONTENTS

Table of Contents .....	1
Independent Auditors' Report.....	2-3
Management's Discussion and Analysis .....	4-10
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	11
Statement of Activities and Changes in Net Assets.....	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	13-14
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets .....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds .....	16-17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	18
Notes to Financial Statements.....	19-35
Calculation of Low-Moderate Income Housing Funds – Excess Surplus.....	36
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards.....	37-38





**DIEHL, EVANS & COMPANY, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

A PARTNERSHIP INCLUDING ACCOUNTANCY CORPORATIONS

5 CORPORATE PARK, SUITE 100  
IRVINE, CALIFORNIA 92606-5165  
(949) 399-0600 • FAX (949) 399-0610  
[www.diehlevans.com](http://www.diehlevans.com)

MICHAEL R. LUDIN, CPA  
CRAIG W. SPRAKER, CPA  
NITIN P. PATEL, CPA  
ROBERT J. CALLANAN, CPA  
\*PHILIP H. HOLTKAMP, CPA  
\*THOMAS M. PERLOWSKI, CPA  
\*HARVEY J. SCHROEDER, CPA  
KENNETH R. AMES, CPA  
\*WILLIAM C. PENTZ, CPA

\*A PROFESSIONAL CORPORATION

February 25, 2009

## 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, 2008, 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, 2008, 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.

- 2 -

OTHER OFFICES AT:

2965 ROOSEVELT STREET  
CARLSBAD, CALIFORNIA 92008-2389  
(760) 729-2343 • FAX (760) 729-2234

613 W. VALLEY PARKWAY, SUITE 330  
ESCONDIDO, CALIFORNIA 92025-2598  
(760) 741-3141 • FAX (760) 741-9890

In accordance with Government Auditing Standards, we have also issued our report dated February 25, 2009 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

*Diery, Evans and Company, LLP*





## Redevelopment Agency of the City of Huntington Beach Management's Discussion and Analysis For the Year Ended September 30, 2008

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, 2008. 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. The primary revenue sources, which have been treated as susceptible to accrual by the



**Redevelopment Agency of the City of Huntington Beach  
Management's Discussion and Analysis  
For the Year Ended September 30, 2008**

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, 2008, were a negative \$(86,982). 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>2008 Amount</u>	<u>2007 Amount</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
<b>Assets</b>				
Current and Other Assets	\$ 50,248	\$ 47,870	\$ 2,378	5.0%
Capital Assets	19,835	19,835	-	0.0%
<b>Total Assets</b>	<b><u>70,083</u></b>	<b><u>67,705</u></b>	<b><u>2,378</u></b>	<b>3.5%</b>
<b>Liabilities</b>				
Current Liabilities	22,303	12,072	10,231	84.7%
Debt Payable to City of Huntington Beach	84,936	85,369	(433)	-0.5%
Long-Term Liabilities Payable within one year	1,530	1,480	50	3.4%
Long-Term Liabilities	48,296	50,378	(2,082)	-4.1%
<b>Total Liabilities</b>	<b><u>157,065</u></b>	<b><u>149,299</u></b>	<b><u>7,766</u></b>	<b>5.2%</b>
<b>Net Assets</b>				
Invested in Capital Assets -				
Net of Related Debt	17,153	17,153	-	0.0%
Restricted	5,113	10,135	(5,022)	-49.6%
Unrestricted	(109,248)	(108,882)	(366)	0.3%
<b>Total Net Assets</b>	<b><u>(86,982)</u></b>	<b><u>(81,594)</u></b>	<b><u>(5,388)</u></b>	<b>6.6%</b>
<b>Expenses</b>				
Economic Development	17,871	5,182	12,689	244.9%
City Attorney	110	88	22	25.0%
Community Services	36	-	36	N/A
Public Works	218	179	39	21.8%
Non-departmental and Transfers	183	198	(15)	-7.6%
Interest	6,580	7,739	(1,159)	-15.0%
<b>Total Expenses</b>	<b><u>24,998</u></b>	<b><u>13,386</u></b>	<b><u>11,612</u></b>	<b>86.7%</b>
<b>Revenues</b>				
Property Taxes	17,448	17,510	(62)	-0.4%
Use of Money and Property	2,127	2,690	(563)	-20.9%
Participation Payments	-	1,564	(1,564)	-100.0%
Other	35	9	26	288.9%
<b>Total Revenue</b>	<b><u>19,610</u></b>	<b><u>21,773</u></b>	<b><u>(2,163)</u></b>	<b>-9.9%</b>
<b>Excess of Revenue over Expense</b>				
Transfers	(5,388)	8,387	(13,775)	-164.2%
Net Assets - Beginning of Year	-	-	-	N/A
Net Assets - Beginning of Year	(81,594)	(89,981)	8,387	-9.3%
<b>Net Assets - End of Year</b>	<b><u>\$ (86,982)</u></b>	<b><u>\$ (81,594)</u></b>	<b><u>\$ (5,388)</u></b>	<b>6.6%</b>



**Redevelopment Agency of the City of Huntington Beach  
Management's Discussion and Analysis  
For the Year Ended September 30, 2008**

Current liabilities have increased \$10,231,000 as a result of recording deferred revenue to offset low-income housing loans made by the Agency. Expenses related to Economic Development have increased \$12,689,000 as a result of spending on capital projects within the redevelopment area.

**FUND FINANCIAL ANALYSIS**

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

	<u>2008 Amount</u>	<u>2007 Amount</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
<b>Huntington Beach Project Area #1</b>				
Total Assets	\$ 18,264	\$ 24,384	\$ (6,120)	-25.1%
Total Liabilities	2,340	2,437	(97)	-4.0%
Net Assets	15,924	21,947	(6,023)	-27.4%
Revenues	1,446	3,390	(1,944)	-57.3%
Expenditures	7,469	1,886	5,583	296.0%
<b>Southeast Coastal Project Area</b>				
Total Assets	-	-	-	N/A
Total Liabilities	261	190	71	37.4%
Net Assets	(261)	(190)	(71)	37.4%
Revenues	-	-	-	N/A
Expenditures	71	11	60	545.5%
<b>Low - Income Housing Fund</b>				
Total Assets	29,252	24,119	5,133	21.3%
Total Liabilities	21,054	11,453	9,601	83.8%
Net Assets	8,198	12,666	(4,468)	-35.3%
Revenues	505	641	(136)	-21.2%
Expenditures	8,378	1,539	6,839	444.4%
<b>Debt Service Fund - Huntington Beach Project Area #1</b>				
Total Assets	6,985	6,511	474	7.3%
Total Liabilities	4,327	5,972	(1,645)	-27.5%
Net Assets	2,658	539	2,119	393.1%
Revenues	17,002	15,204	1,798	11.8%
Expenditures	11,518	12,270	(752)	-6.1%
<b>Debt Service Fund - Southeast Coastal Project Area</b>				
Total Assets	1,299	1,147	152	13.3%
Total Liabilities	302	305	(3)	-1.0%
Net Assets	997	842	155	18.4%
Revenues	238	337	(99)	-29.4%
Expenditures	43	56	(13)	-23.2%



**Redevelopment Agency of the City of Huntington Beach  
Management’s Discussion and Analysis  
For the Year Ended September 30, 2008**

**DEBT ADMINISTRATION**

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

	<u>2008 Amount</u>	<u>2007 Amount</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Debt Payable to City of Huntington Beach	\$ 84,936	\$ 85,369	\$ (433)	-0.5%
Bonds Payable	23,660	24,885	(1,225)	-4.9%
Notes Payable	4,725	4,980	(255)	-5.1%
Disposition and Development Agreement	21,342	21,956	(614)	-2.8%
Other Debt	99	37	62	167.6%
<b>Total Debt</b>	<b>\$ 134,762</b>	<b>\$ 137,227</b>	<b>\$ (2,465)</b>	<b>-1.8%</b>

**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 mixed-use project developed by CIM Group on a 3-acre site in the downtown area. 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 were adopted by the City Council and Redevelopment Agency in November 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, CVS, Marilee’s Swimwear, Rip Curl, and Active Ride. Dining options include Johnny Rockets, RA Sushi, and New Zealand Natural Ice Cream. Portions of the retail development and parking structure opened in November 2008, the hotel will open in April 2009.

**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 2011. The “W”



**Redevelopment Agency of the City of Huntington Beach  
Management's Discussion and Analysis  
For the Year Ended September 30, 2008**

is the hotel operator for the boutique hotel that will feature 157 rooms and is expected to open by 2011, and will be the first W hotel in Orange County and the first oceanfront W.

**Surf City Nights** is a street fair/farmer's market that takes place from 5 p.m. - 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 by a partnership between the City of Huntington Beach and the Downtown Business Improvement District. The Downtown Business Improvement District now maintains the Surf City Nights. 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, 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 and won the 2008 CALED statewide Grand Prize Award of Excellence for Economic Development Partnership.

**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 balance of these obligations is \$14,532,000 as of September 30, 2008. 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. DJM Capital has amended the specific plan and environmental impact report and has been entitled to develop The Crossings at Bella Terra, a mix-use project that will consist of 156,000 square feet of retail and 503-700 residential units. Negotiations continue to assist the developer in commencing the development of the project within the next two years.

**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. The analysis is supporting the proposed 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. Five community meetings have been conducted and the environmental review process has begun for the Draft Specific Plan area. The Hearing Draft of the Beach Edinger Specific Plan and Environmental Impact Report are due in Fall of 2009.



**Redevelopment Agency of the City of Huntington Beach  
Management's Discussion and Analysis  
For the Year Ended September 30, 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. Four community meetings have been held and the environmental review process is underway. The first public hearings on the Draft Downtown Specific Plan and Environmental Impact Report will be in June 2009.

**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 \$6,810,000 as of September 30, 2008. The hotel paid its second Participation Payment to the Agency during this past year. A Third Implementation Agreement to the Disposition and Development Agreement (DDA) has been negotiated between the Redevelopment Agency ("Agency") and Mayer Financial, L.P. ("Developer") in October 2008. The DDA provides for the phased disposition and development of the Waterfront Project. The Third Implementation Agreement relates to the timeframe for development of Parcel C, which is the land located between the Waterfront Hilton and the Hyatt Resort and Spa and will result in a third hotel at this location. Each extension also requires a payment of \$250,000 from the Developer to the City to compensate for an estimated loss in Transient Occupancy Tax (TOT) that the City would have received as a result of the additional hotel. 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 \$18 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, 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 was 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



## Redevelopment Agency of the City of Huntington Beach Management's Discussion and Analysis For the Year Ended September 30, 2008

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. California Coastal Commission approval is required for the project to be approved.

**Magnolia Street Sidewalk & Lighting** -- The construction has begun for the sidewalk and installation of pedestrian lighting on both sides of Magnolia Street. The Agency funded was included in the Capital Improvement Program (CIP) budget for \$50,000.

### **Housing Activities**

**Jamboree Housing I, II, III, and IV** -- 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 three apartment buildings in the Oakview sub-area, two five-unit buildings and one four-unit building. 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 fourth property, a four-unit building that will close escrow after the 2007-08 fiscal year. Jamboree will provide on-site management and tenant services for the tenants they serve as more properties are acquired and rehabilitated.

**Pacific Court** -- In 2008, the Agency expended \$7 million dollars in Set-Aside funds and \$500,000 in HOME funds to help a non-profit housing developer acquire a 48-unit apartment complex located at 2200 Delaware Avenue. The units and grounds, now known as Pacific Court, are to be fully rehabilitated by 2010, providing affordable housing for 47 very low and low-income families.

**Garfield/Delaware, Heil Affordable Housing Project** -- The City of Huntington Beach acquired property at the northeast corner of Delaware Street and Garfield Avenue and several homes adjoining Heil Avenue as part of street widening projects. It is expected that the Agency will purchase the property from the City and thereafter develop affordable housing on the parcels. It is anticipated that the project will be presented to the Agency and City Council sometime during fiscal year 2009-2010.

### **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, 92648-2702, phone (714) 536-5360, or e-mail [cgonzales@surfcity-hb.org](mailto:cgonzales@surfcity-hb.org). You can also visit the City's website at [www.surfcity-hb.org](http://www.surfcity-hb.org) for additional copies of this report.

**REDEVELOPMENT AGENCY OF THE  
CITY OF HUNTINGTON BEACH  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2008  
(In Thousands)**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash and Investments	\$ 21,583
Restricted Cash with Fiscal Agent	2,409
Taxes Receivable	4,557
Other Receivables	21,399
Other Assets	300
Total Current Assets	50,248
<b>Non-Current Assets:</b>	
Land Held for Resale	2,682
Capital Assets (non-depreciable)	17,153
Total Non-Current Assets	19,835
<b>TOTAL ASSETS</b>	<b>70,083</b>
 <b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Accounts Payable and Accrued Liabilities	831
Accrued Interest Payable	260
Accrued Payroll	36
Deposits	130
Unearned Revenue	21,046
Long-Term Debt - Due Within One Year	1,530
Total Current Liabilities	<b>23,833</b>
<b>Non-Current Liabilities:</b>	
Long-Term Debt to the City of Huntington Beach and Component Units	84,936
Other Long-Term Debt	48,296
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>133,232</b>
<b>TOTAL LIABILITIES</b>	<b>157,065</b>
 <b>NET ASSETS</b>	
Investment in Capital Assets	17,153
Restricted for:	
Low-Income Housing	5,113
Unrestricted	(109,248)
<b>TOTAL NET ASSETS (DEFICIT)</b>	<b>\$ (86,982)</b>

See Independent Auditors' Report and Notes to the Financial Statements



**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008  
(In Thousands)**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Charges for Current Service	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
<b>Functions/Programs</b>				
<b>Governmental Activities:</b>				
Economic Development	\$ 17,871	\$ -	\$ -	\$ (17,871)
City Attorney	110	-	-	(110)
Community Services	36	-	-	(36)
Public Works	218	-	-	(218)
Non-departmental	183	-	-	(183)
Interest on Long-Term Debt	6,580	-	-	(6,580)
<b>Total Governmental Activities</b>	<b>24,998</b>	<b>-</b>	<b>-</b>	<b>(24,998)</b>
<b>General Revenues:</b>				
<b>Taxes:</b>				
Property Taxes				17,448
<b>Other Revenue:</b>				
Use of Money and Property				2,127
Other				35
<b>Total Other Revenue</b>				<b>2,162</b>
<b>Total General Revenues</b>				<b>19,610</b>
<b>Change in Net Assets</b>				<b>(5,388)</b>
<b>Net Deficit - October 1, 2007</b>				<b>(81,594)</b>
<b>Net Deficit - September 30, 2008</b>				<b>\$ (86,982)</b>

See Independent Auditors' Report and Notes to the Financial Statements

**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**September 30, 2008**  
**(In Thousands)**

**ASSETS:**

Cash and investments  
 Restricted cash with fiscal agent  
 Due from other funds  
 Taxes receivable  
 Other receivables  
 Advances to other funds  
 Other assets  
 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
\$ 13,802	\$ -	\$ 6,490	\$ 20,292
-	-	-	-
1,205	-	-	1,205
-	-	-	-
273	-	21,099	21,372
302	-	1,363	1,665
-	-	300	300
2,682	-	-	2,682
<b>\$ 18,264</b>	<b>\$ -</b>	<b>\$ 29,252</b>	<b>\$ 47,516</b>

**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**

\$ 823	\$ 8	\$ -	\$ 831
24	4	8	36
-	249	-	249
130	-	-	130
-	-	-	-
-	-	21,046	21,046
1,363	-	-	1,363
<b>2,340</b>	<b>261</b>	<b>21,054</b>	<b>23,655</b>

**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**

424	-	-	424
1,838	-	1,722	3,560
302	-	1,363	1,665
2,682	-	-	2,682
-	-	5,113	5,113
-	-	-	-
5,246	-	8,198	13,444
10,678	(261)	-	10,417
<b>15,924</b>	<b>(261)</b>	<b>8,198</b>	<b>23,861</b>
<b>\$ 18,264</b>	<b>\$ -</b>	<b>\$ 29,252</b>	<b>\$ 47,516</b>

Debt Service Funds			
Huntington Beach Project Area #1	Southeast Coastal Project Area	Total Debt Service Funds	Total All Funds
\$ -	\$ 1,291	\$ 1,291	\$ 21,583
2,409	-	2,409	2,409
-	-	-	1,205
4,557	-	4,557	4,557
19	8	27	21,399
-	-	-	1,665
-	-	-	300
-	-	-	2,682
<b>\$ 6,985</b>	<b>\$ 1,299</b>	<b>\$ 8,284</b>	<b>\$ 55,800</b>

\$ -	\$ -	\$ -	\$ 831
-	-	-	36
956	-	956	1,205
-	-	-	130
3,371	-	3,371	3,371
-	-	-	21,046
-	302	302	1,665
<b>4,327</b>	<b>302</b>	<b>4,629</b>	<b>28,284</b>

-	-	-	424
-	-	-	3,560
-	-	-	1,665
-	-	-	2,682
-	-	-	5,113
2,658	997	3,655	3,655
2,658	997	3,655	17,099
-	-	-	10,417
<b>2,658</b>	<b>997</b>	<b>3,655</b>	<b>27,516</b>
<b>\$ 6,985</b>	<b>\$ 1,299</b>	<b>\$ 8,284</b>	<b>\$ 55,800</b>

See Independent Auditors' Report and Notes to the Financial Statements

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**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2008  
(In Thousands)**

<b>Total Fund Balances Governmental Funds</b>	<b>\$ 27,516</b>
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	3,371
Accrued interest payable on Long-term Debt	(260)
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>(134,762)</u>
<b>Net Assets (Deficit) of Governmental Activities</b>	<b><u>\$ (86,982)</u></b>

See Independent Auditors' Report and Notes to the Financial Statements

**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, 2008  
(In Thousands)**

	Capital Projects Funds			
	Huntington Beach Project Area #1	Southeast Coastal Project Area	Low-Income Housing Fund	Total Capital Projects Funds
<b>REVENUES:</b>				
Tax increment (Note 4)	\$ -	\$ -	\$ -	-
Use of money and property	1,430	-	505	1,935
Other revenue	16	-	-	16
<b>TOTAL REVENUES</b>	<b>1,446</b>	<b>-</b>	<b>505</b>	<b>1,951</b>
<b>EXPENDITURES:</b>				
Current:				
Economic Development	1,938	43	7,361	9,342
City Attorney	110	-	-	110
Community Services	36	-	-	36
Public Works	218	-	-	218
Non-departmental	-	-	-	-
Capital outlay	5,167	28	1,017	6,212
Debt service:				
Bond & Other Debt:				
Principal	-	-	-	-
Interest	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>7,469</b>	<b>71</b>	<b>8,378</b>	<b>15,918</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(6,023)</b>	<b>(71)</b>	<b>(7,873)</b>	<b>(13,967)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	3,405	3,405
Transfers out	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>3,405</b>	<b>3,405</b>
<b>NET CHANGES IN TOTAL FUND BALANCE</b>	<b>(6,023)</b>	<b>(71)</b>	<b>(4,468)</b>	<b>(10,562)</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>21,947</b>	<b>(190)</b>	<b>12,666</b>	<b>34,423</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 15,924</b>	<b>\$ (261)</b>	<b>\$ 8,198</b>	<b>\$ 23,861</b>

See Independent Auditors' Report and Notes to the Financial Statements

Debt Service Funds			
Huntington Beach Project Area #1	Southeast Coastal Project Area	Total Debt Service Funds	Total All Funds
\$ 16,830	\$ 199	\$ 17,029	\$ 17,029
153	39	192	2,127
19	-	19	35
<b>17,002</b>	<b>238</b>	<b>17,240</b>	<b>19,191</b>
2,274	43	2,317	11,659
-	-	-	110
-	-	-	36
-	-	-	218
183	-	183	183
-	-	-	6,212
7,579	-	7,579	7,579
1,482	-	1,482	1,482
<b>11,518</b>	<b>43</b>	<b>11,561</b>	<b>27,479</b>
<b>5,484</b>	<b>195</b>	<b>5,679</b>	<b>(8,288)</b>
-	-	-	3,405
(3,365)	(40)	(3,405)	(3,405)
<b>(3,365)</b>	<b>(40)</b>	<b>(3,405)</b>	-
<b>2,119</b>	<b>155</b>	<b>2,274</b>	<b>(8,288)</b>
<b>539</b>	<b>842</b>	<b>1,381</b>	<b>35,804</b>
<b>\$ 2,658</b>	<b>\$ 997</b>	<b>\$ 3,655</b>	<b>\$ 27,516</b>

See Independent Auditors' Report and Notes to the Financial Statements

**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
September 30, 2008  
(In Thousands)**

**Net Changes in Fund Balances - Total Governmental funds** **\$ (8,288)**

Amounts reported for governmental activities in the Statement of Activities are different because:

Accrual of Revenues - Certain revenues in the Statement of Activities do not meet the "availability" criteria for revenue recognition in the governmental funds and are not reported in the governmental funds as revenue

Current Year Property Tax Accrual	3,371
Prior Year Property Tax Accrual	(2,952)

Liabilities not Liquidated with Current Resources – Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Current Year Interest Accrual	(260)
Prior Year Interest Accrual	276

Long-Term Debt Proceeds - Issuances and changes in long-term debt (bonds, leases, certificates of participation, compensated absences, etc) provide current financial resources to governmental funds, while repayments of this debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, etc. when debt is first issued. These amounts are deferred and amortized in the Statement of Activities.

(5,114)

Payments of Long-Term Debt - Principal payments on long-term debt are recorded as an expenditure in the governmental funds and a reduction of liability in the government-wide statements.

7,579

**Change in Net Assets of Governmental Activities** **\$ (5,388)**





**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2008**

**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, 2008**

## **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 segments 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, 2008**

## **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, 2008**

**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, 2008.

**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 \$50,000 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, 2008**

**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 Agency 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, 2008**

**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 \$21,583,000. The Restricted Cash with Fiscal Agent, totaling \$2,409,000 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 the Agency's 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, 2008.



**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2008**

**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 7).

**5. CAPITAL ASSETS**

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

<b>Balance, October 1, 2007</b>	<b>\$</b>	<b>17,153</b>
Additions/Retirements		-
<b>Balance, September 30, 2008</b>	<b>\$</b>	<b>17,153</b>

**6. INTERFUND TRANSACTIONS**

**a. Due To/From Other Funds**

The amounts at Year-end were (in thousands):

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Huntington Beach Project Area #1 Capital Projects	\$ 1,205	\$ -
Southeast Coastal Project Area Capital Projects	-	249
Huntington Beach Project Area #1 Debt Service	-	956
<b>Total Due to/from Governmental Funds</b>	<b>\$ 1,205</b>	<b>\$ 1,205</b>

These outstanding balances result mainly from short-term borrowings to cover payments for goods and services.



**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2008**

**6. INTERFUND TRANSACTIONS (CONTINUED)**

**b. Advances to/from Other Funds**

The amounts at Year-end were (in thousands):

	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
Huntington Beach Project Area #1 Capital Projects	\$ 302	\$ -
Low-Income Housing Capital Projects	1,363	-
Huntington Beach Project Area #1 Capital Projects	-	1,363
Southeast Coastal Project Area Debt Service	-	302
<b>Total Due to/from</b>	<u><u>\$ 1,665</u></u>	<u><u>\$ 1,665</u></u>

There is a \$1,363,000 advance from the Low-Income Housing Fund to the Huntington Beach Project Area #1 Capital Projects Fund for Educational Revenue Augmentation Fund payments and Main Pier property acquisitions. There are no scheduled repayments for this advance.

There is a \$302,000 advance from the Huntington Beach Project Area #1 Capital Projects Fund to the Southeast Coastal Project Area Debt Service Fund for the Southeast Coastal Project Area. There are no scheduled repayments for this advance.

**c. Transfers In/Out**

The amounts at Year-end were (in thousands):

	<b>Transfers Out</b>		
	<b>Huntington Beach Project Area #1 Debt Service</b>	<b>Southeast Coastal Project Area Debt Service</b>	<b>Total</b>
<b>Transfers In</b>			
Low Income Housing Fund	3,365	40	3,405
<b>Total Transfers Out</b>	<u><u>\$ 3,365</u></u>	<u><u>\$ 40</u></u>	<u><u>\$ 3,405</u></u>

The following is a summary of the significant transfers:

- \$3,365,000 and \$40,000 was transferred from the Huntington Beach Project Area #1 Debt Service Fund and the Southeast Coastal Project Area Debt Service Fund to the Low Income Housing Fund to meet the 20% tax increment set-aside requirement.





**Redevelopment Agency of the City of Huntington Beach**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2008**

**7. LONG-TERM DEBT**

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

**Redevelopment Agency of the City of Huntington Beach**  
**Schedule of Long Term Debt**  
**As of September 30, 2008**

	Balance October 1, 2007	Additions	Retirements	Balance September 30, 2008	Amount Due within One Year
<b>DEBT TO CITY OF HUNTINGTON BEACH:</b>					
Advances from General Fund	\$ 11,209	\$ 512	\$ (839)	\$ 10,882	\$ -
Advances from Sewer Fund	239	11	-	250	-
Advances from Drainage Fund	576	26	-	602	-
Advances from Water Fund	3,566	163	-	3,729	-
<b>Deferred Development Fees:</b>					
Park Acquisition and Development Fund	351	17	-	368	-
Sewer Fund	149	7	-	156	-
Drainage Fund	158	7	-	165	-
<b>Deferred Payment on Land Purchases from City:</b>					
General Fund	64,382	2,608	(3,161)	63,829	-
Park Acquisition and Development Fund	4,739	216	-	4,955	-
<b>Total Debt - City of Huntington Beach</b>	<b>85,369</b>	<b>3,567</b>	<b>(4,000)</b>	<b>84,936</b>	<b>-</b>
<b>OTHER DEBT</b>					
Help Loan	500	-	-	500	-
Mayer Disposition and Development Agreement	7,101	455	(746)	6,810	-
1999 Refunding Tax Allocation Bonds	7,790	-	(380)	7,410	390
2002 Tax Allocation Refunding Bonds	17,095	-	(845)	16,250	870
Bella Terra Parking	14,855	1,030	(1,353)	14,532	-
Section 108 Loan	4,480	-	(255)	4,225	270
Employee Compensated Absences	37	62	-	99	-
<b>Total Other Debt</b>	<b>51,858</b>	<b>1,547</b>	<b>(3,579)</b>	<b>49,826</b>	<b>1,530</b>
<b>Total Agency Debt</b>	<b>\$ 137,227</b>	<b>\$ 5,114</b>	<b>\$ (7,579)</b>	<b>\$ 134,762</b>	<b>\$ 1,530</b>



**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2008**

**7. LONG-TERM DEBT (CONTINUED)**

**a. Advances from General Fund**

Year(s) debt incurred	1985 to 1996
Interest rate	4.26%
Principal amount	\$10,801,000
Accrued interest	\$ 81,000
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	\$130,935
Accrued interest	\$119,065
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	\$250,404
Accrued interest	\$351,596
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, 2008**

**7. LONG-TERM DEBT (CONTINUED)**

**d. Advances from City's Water Fund**

Year(s) debt incurred	1986 and 1987
Interest rate	4.26%
Principal amount	\$1,138,299
Accrued interest	\$2,590,701
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	\$339,669
Accrued interest	\$349,331
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	\$32,834,083
Accrued interest	\$30,994,917
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, 2008**

**7. LONG-TERM DEBT (CONTINUED)**

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

Year(s) debt incurred	1984
Interest rate	4.26%
Principal amount	\$1,713,187
Accrued interest	\$3,241,813
Purpose of debt	Emerald Cove Land
Security for debt	Operative Agreement with City
Repayment terms	None

**h. 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 years

**i. 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, 2008, the Agency obligation under the agreement amounted to \$6,810,000. Project-generated revenues as available will repay these amounts over the time needed to fully amortize the advance.

**j. 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 <sup>st</sup> , Interest, February 1 <sup>st</sup> and August 1 <sup>st</sup>



**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2008**

**7. LONG-TERM DEBT (CONTINUED)**

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

Year Ending September 30,	Principal	Interest	Total
2009	390	350	740
2010	410	334	744
2011	430	317	747
2012	450	298	748
2013	465	278	743
2014-2018	2,705	1,044	3,749
2019-2023	2,200	402	2,602
2024	360	18	378
<b>Total</b>	<b>\$ 7,410</b>	<b>\$ 3,041</b>	<b>\$ 10,451</b>

**k. 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 <sup>st</sup> and August 1 <sup>st</sup>
Principal Payment Dates	August 1 <sup>st</sup>
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
2009	870	742	1,612
2010	910	712	1,622
2011	945	678	1,623
2012	995	641	1,636
2013	1,040	601	1,641
2014-2018	5,905	2,283	8,188
2019-2023	4,805	875	5,680
2024	780	39	819
<b>Total</b>	<b>\$ 16,250</b>	<b>\$ 6,571</b>	<b>\$ 22,821</b>



**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2008**

**7. LONG-TERM DEBT (CONTINUED)**

**I. 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, 2008, the Agency obligation under the agreement amounted to \$14,532,000. Project-generated revenues as available will repay these amounts over the time needed to fully amortize the advance.

**m. 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 <sup>st</sup> and August 1 <sup>st</sup>
Principal Payment Dates	August 1 <sup>st</sup>
Purpose of Debt	Capital Improvements

Debt service requirements to maturity are (in thousands):

Year Ending September 30,	Principal	Interest	Total
2009	270	327	597
2010	290	308	598
2011	310	286	596
2012	330	263	593
2013	350	238	588
2014-2018	2,155	740	2,895
2019	520	41	561
<b>Total</b>	<b>4,225</b>	<b>2,203</b>	<b>6,428</b>

**n. Employee Compensated Balances**

There is no fixed repayment to pay the compensated absences liability totaling \$99,000 at year-end.



**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2008**

## **8. 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.

## **9. 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, 2008, no amount has been advanced to the City.

### **c. CIM Group, LLC – Disposition and Development Agreement**

Implementation of disposition and development agreement (DDA) and Six Implementation Agreement (Agreements) between the CIM Group, LLC (CIM), and the Redevelopment Agency (Agency) were entered into from June 1999 to November 2008. The Agreements allowed for the development of a hotel, retail and restaurant, and a public parking structure. The project costs for infrastructure are to be paid initially by the developer with the Agency reimbursing the developer a maximum of \$7.9 million from Agency tax increment revenues. The Agency funded \$950,000 (a reduction from the \$1,500,000) for development of additional/surplus parking spaces. Subsequent to year-end the City Council approved the Sixth Implementation Agreement, as detailed in note 12, included an additional one time payment of \$2.4 million from the Agency to CIM for the development of the hotel and \$950,000 for additional parking spaces beyond what was funded prior by the Agency. As of September 30, 2008, 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, 2008**

**9. 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 with 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 starting in FY 2003-04 as they are undertaken.

**10. NOTES RECEIVABLE**

The Agency has made loans of \$21,168,000 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.

A summary of Notes Receivable as of September 30, 2008 is as follows:

<u>Description</u>	<u>Amount</u>
Deferred Loans Receivable	\$ 21,099,000
Other Receivables	<u>\$ 300,000</u>
Total	<u>\$ 21,399,000</u>

**11. 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.

**12. OTHER**

The Agency's combined net assets for the year ended September 30, 2008 were a negative \$(86,982,000). 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.





**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2008**

**13. SUBSEQUENT EVENT**

On November 3, 2008, the Agency approved the Sixth Implementation Agreement, as referenced in the Disposition and Development section of the Agency Agreements Note 8c, to assist in the development of a hotel with a \$2.4 million one-time payment from the Agency to be paid to CIM Group, LLC (CIM). The \$7.9 million loan from CIM to the Agency was modified to come solely from Agency tax increment revenues. The Parking in Lieu Fund will repay \$500,000 and the Agency will repay \$450,000 to CIM for the additional parking spaces.

**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH  
CALCULATION OF LOW/MODERATE INCOME HOUSING FUNDS - EXCESS SURPLUS  
October 1, 2007  
(IN THOUSANDS)**

<b>ENDING FUND BALANCE - OCTOBER 1, 2007</b>	<b>\$</b>	<b>12,666</b>
Less Unavailable Amounts:		
Encumbrances		(437)
Advances to Other Funds		(2,094)
		(2,094)
<b>AVAILABLE FUND BALANCE - OCTOBER 1, 2006</b>		<b>\$ 10,135</b>
<b>AVAILABLE LOW/MODERATE INCOME HOUSING FUNDS  LIMITATION (GREATER OF \$1,000,000 OR FOUR YEARS SET-ASIDE):</b>		
Set-aside for fiscal years 2002-03 to 2005-06		
2003-2004		1,909
2004-2005		2,301
2005-2006		2,780
2006-2007		3,062
		10,052
<b>TOTAL SET-ASIDE FOR LAST FOUR YEARS</b>		<b>10,052</b>
<b>COMPUTED EXCESS/SURPLUS - OCTOBER 1, 2007</b>		<b>\$ 83</b>



**DIEHL, EVANS & COMPANY, LLP**  
 CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

A PARTNERSHIP INCLUDING ACCOUNTANCY CORPORATIONS

5 CORPORATE PARK, SUITE 100  
 IRVINE, CALIFORNIA 92606-5165  
 (949) 399-0600 • FAX (949) 399-0610  
[www.diehlevans.com](http://www.diehlevans.com)

MICHAEL R. LUDIN, CPA  
 CRAIG W. SPRAKER, CPA  
 NITIN P. PATEL, CPA  
 ROBERT J. CALLANAN, CPA  
 \*PHILIP H. HOLTKAMP, CPA  
 \*THOMAS M. PERLOWSKI, CPA  
 \*HARVEY J. SCHROEDER, CPA  
 KENNETH R. AMES, CPA  
 \*WILLIAM C. PENTZ, CPA

\*A PROFESSIONAL CORPORATION

February 25, 2009

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, 2008, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated February 25, 2009. 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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.

*Dielt, Evans and Company, LLP*