

**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, 2009

**REDEVELOPMENT AGENCY
OF THE
CITY OF HUNTINGTON BEACH, CALIFORNIA**



**COMPONENT UNIT FINANCIAL REPORT
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FOR THE YEAR ENDED SEPTEMBER 30, 2009

Prepared by the Finance Department

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March 15, 2010

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, 2009, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2009, 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.

As described in Note 111 to the financial statements, the Agency adopted the provisions of Government Accounting Standards Board Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*" in 2009.

In accordance with Government Auditing Standards, we have also issued our report dated March 15, 2010 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'ient, Evans and Company, LLP



Redevelopment Agency of the City of Huntington Beach Management's Discussion and Analysis For the Year Ended September 30, 2009

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, 2009. 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 the Statement of Net Assets and the Statement of Activities. Notes to the financial statements and certain required supplementary information covered in this section are designed to support both 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 – The Statement of Activities 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 managing 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 are 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, 2009**

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 between the Governmental Fund financial statements and the Government-Wide financial statements are explained in the reconciliation following each Governmental Fund financial statement.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Agency's combined net assets for the year ended September 30, 2009 was (\$66,734,000). Under state law, the Redevelopment Agencies' primary sources of revenue are tax increments derived from increases in public and private investments resulting from improvements of 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 usually 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. The table below is a summary of key items in the Government-Wide Financial Analysis (in thousands):



Redevelopment Agency of the City of Huntington Beach Management's Discussion and Analysis For the Year Ended September 30, 2009

	2009 Amount	2008 Amount	Increase (Decrease)	Percent Increase (Decrease)
Assets				
Current and Other Assets	\$ 46,429	\$ 50,248	\$ (3,819)	-7.6%
Capital Assets	56,718	19,835	36,883	185.9%
Total Assets	103,147	70,083	33,064	47.2%
Liabilities				
Current Liabilities	25,403	22,303	3,100	13.9%
Debt Payable to City of Huntington Beach	88,597	84,936	3,661	4.3%
Long-Term Liabilities Payable within one year	1,610	1,530	80	5.2%
Long-Term Liabilities	54,271	48,296	5,975	12.4%
Total Liabilities	169,881	157,065	12,816	8.2%
Net Assets				
Invested in Capital Assets -				
Net of Related Debt	38,867	17,153	21,714	126.6%
Restricted	516	5,113	(4,597)	-89.9%
Unrestricted	(106,117)	(109,248)	3,131	-2.9%
Total Net Assets	(66,734)	(86,982)	20,248	-23.3%
Expenses				
Economic Development	(11,214)	17,871	(29,085)	N/A
City Attorney	141	110	31	28.2%
Community Services	345	36	309	858.3%
Public Works	157	218	(61)	-28.0%
Non-departmental and Transfers	351	183	168	91.8%
Interest	11,524	6,580	4,944	75.1%
Total Expenses	1,304	24,998	(23,694)	-94.8%
Revenues				
Property Taxes	18,371	17,448	923	5.3%
Use of Money and Property	2,192	2,127	65	3.1%
From Other Agencies	843	-	843	N/A
Other	3,650	35	3,615	N/A
Total Revenue	25,056	19,610	5,446	27.8%
Excess of Revenue over Expense	23,752	(5,388)	29,140	N/A
Net Assets - Beginning of Year	(86,982)	(81,594)	(5,388)	6.6%
Net Assets - End of Year (Deficit)	\$ (66,734)	\$ (86,982)	\$ 20,248	-23.3%

The Capital Assets and Invested in Capital Assets – Net of Related Debt increased due to the conveyance of the Strand Parking structure (\$29,903,000) to the Agency in April 2009. A portion of the parking structure was donated by the developer to the Agency, which offset the Economic Development expense in the Statement of Activities.



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2009**

FUND FINANCIAL ANALYSIS

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

	<u>2009 Amount</u>	<u>2008 Amount</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Huntington Beach Project Area #1				
Total Assets	\$ 13,359	\$ 18,264	\$ (4,905)	-26.9%
Total Liabilities	1,832	2,340	(508)	-21.7%
Net Assets	11,527	15,924	(4,397)	-27.6%
Revenues	1,420	1,446	(26)	-1.8%
Expenditures	14,667	7,469	7,198	96.4%
Southeast Coastal Project Area				
Total Assets	1	-	1	N/A
Total Liabilities	455	261	194	74.3%
Net Assets	(454)	(261)	(193)	73.9%
Revenues	343	-	343	N/A
Expenditures	536	71	465	654.9%
Low - Income Housing Fund				
Total Assets	36,286	29,252	7,034	24.0%
Total Liabilities	24,269	21,054	3,215	15.3%
Net Assets	12,017	8,198	3,819	46.6%
Revenues	4,189	505	3,684	729.5%
Expenditures	4,047	8,378	(4,331)	-51.7%
Debt Service Fund - Huntington Beach Project				
Total Assets	7,521	6,985	536	7.7%
Total Liabilities	3,774	4,327	(553)	-12.8%
Net Assets	3,747	2,658	1,089	41.0%
Revenues	18,964	17,002	1,962	11.5%
Expenditures	14,222	11,518	2,704	23.5%
Debt Service Fund - Southeast Coastal Project				
Total Assets	1,044	1,299	(255)	-19.6%
Total Liabilities	302	302	-	N/A
Net Assets	742	997	(255)	-25.6%
Revenues	154	238	(84)	-35.3%
Expenditures	385	43	342	795.3%

Expenditures for the Huntington Beach Project Area #1 and Southeast Coastal Project Area increased by \$7,198,000 and \$465,000 respectively due to capital improvement costs that include the development of the Strand public parking structure and street improvement projects benefitting the Southeast Coastal area. Total Assets for the Low-Income Housing Fund increased by \$7,034,000 due to the Set-Aside Loan Receivables.



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2009**

DEBT ADMINISTRATION

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

	2009 Amount	2008 Amount	Increase (Decrease)	Percent Increase (Decrease)
Debt Payable to City of Huntington Beach	\$ 88,597	\$ 84,936	\$ 3,661	4.3%
Bonds Payable	22,400	23,660	(1,260)	-5.3%
Notes Payable	4,455	4,725	(270)	-5.7%
Disposition and Development Agreement	28,919	21,342	7,577	35.5%
Other Debt	107	99	8	8.1%
Total Debt	\$ 144,478	\$ 134,762	\$ 9,716	7.2%

Changes to the Agency's long-term debt are discussed in further detail in Note 7 of the Financial Statements.

CAPITAL ASSETS

The Agency's capital assets for the year ended September 30, 2009 are \$47,056,000, which consists of land (\$17,153,000) and the Strand parking structure (\$29,903,000) conveyed to the agency in April 2009. These amounts are recorded as part of the net capital assets of the Agency in the Government-Wide Financial Statements. The Agency's capital asset activity is further illustrated in Note 5 of the Financial Statements.

OTHER INFORMATION

Below are descriptions 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. The Strand offers 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 is available in a subterranean structure. Retail tenants include Forever 21, G by Guess, Sketchers, 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 and the hotel opened in April 2009. The office space will be occupied by June 2010.

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 public works improvements. There will be 516 upscale residential housing units



Redevelopment Agency of the City of Huntington Beach Management's Discussion and Analysis For the Year Ended September 30, 2009

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 2014. The "W" is the hotel operator for the boutique hotel that will feature 157 rooms and is expected to open by 2015, 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 between 5 p.m. - 9 p.m. on Tuesday nights on the first three blocks of downtown Main Street between Pacific Coast Highway and Orange Avenue. The Downtown Business Improvement District maintains the Surf City Nights where 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.

Bella Terra I – Formerly known as Huntington Center has been transformed into an entertainment/life style center; this was an outdated 56.5-acre retail property. 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 \$14,227,000 as of September 30, 2009. 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 II – Bella Terra Associates, LLC 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 mixed-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 – The Agency/City commenced 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. Community meetings, meetings with property owners, and interested parties were conducted over the last two years. The Beach Edinger Specific Plan Environmental Impact Report has been forwarded to the Planning Commission for approval and will then be forwarded to the City Council in March 2010 for adoption.

Downtown Specific Plan (DTSP) and Downtown Parking Master Plan – The Agency hired consultants to update the Downtown Specific Plan (DTSP) and Downtown Parking Master Plan (DPMP). The update will assist in the redevelopment of blighted and/or underutilized parcels. The DTSP will develop land use provisions and urban design guidelines that support and encourage a mixed-use development community. Community, property owners, and interested parties meetings were held and the



Redevelopment Agency of the City of Huntington Beach Management's Discussion and Analysis For the Year Ended September 30, 2009

environmental review process was conducted. The Planning Commission approved the Downtown Specific Plan and Environmental Impact Report and the City Council held the Public Hearing in November 2009.

The Hyatt Regency Huntington Beach Resort and Spa – The Hyatt Regency Huntington Beach Resort & Spa and its Conference Center opened for business on January 19, 2003. The Developer's Advance Loan Balance is \$6,503,000 as of September 30, 2009. 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 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. The third hotel should be built by 2012.

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 has been expended over several years through the City's Capital Improvement Program (CIP). Approximately \$18.5 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 pilot project was originally funded through this revenue source. All capital projects should be completed in 2010.

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

Magnolia Street Sidewalk & Lighting – This project was completed, consisting of sidewalk and installation of pedestrian lighting on both sides of Magnolia Street. The



Redevelopment Agency of the City of Huntington Beach Management's Discussion and Analysis For the Year Ended September 30, 2009

Agency funding was included in the Capital Improvement Program (CIP) budget for \$593,000.

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 four apartment buildings in the Oakview sub-area. Through the use of HOME funds, the City also contributed a portion of its Housing Set-Aside funds for the required 25% match of non-federal funds. The four buildings consist of 19 two-bedroom housing units, which will remain affordable to very low and low-income households for at least 60 years. 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 and CHDO (C and C Development) 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 Summer 2010, providing affordable housing for 47 very low and low-income families, retaining a portion of existing tenants.

Garfield/Delaware, Heil Affordable Housing Project – The City of Huntington Beach acquired property at the northeast corner of Delaware Street and Garfield Avenue as well as several homes adjoining Heil Avenue as part of the street widening projects. The City will be making these surplus land parcels available for sale during the 2010/2011 fiscal year following the exercising of its due diligence in connection with the noticing of various public agencies, as required. The Agency may purchase the properties from the City and thereafter develop affordable housing on the parcels.

Colette's Children's Home, Keelson Lane Project – In fiscal year 2008/09, the City assisted Colette's Children's Home, a non-profit housing developer, and CHDO with \$2.1 million dollars in Housing Set-Aside funds to assist with the acquisition and rehabilitation of a property in the Oakview sub-area comprised of two apartment buildings. The completed project will preserve as affordable 10 housing units of varying sizes, including two five-bedroom units to accommodate larger low-income families. Currently under construction, the project is expected to be complete by June of 2010. During the coming fiscal year, the City will be working with Colette's to acquire and rehabilitate, and possibly construct, additional apartment buildings adjoining these buildings with the objective of providing quality, affordable housing within the Oakview sub-area.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT TEAM

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



**Redevelopment Agency of the City of Huntington Beach
Management's Discussion and Analysis
For the Year Ended September 30, 2009**

additional financial information, please contact the Finance Department at 2000 Main Street, Huntington Beach, California, 92648-2702, by phone (714) 536-5907, or via e-mail rzedlak@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, 2009
(In Thousands)**

	Governmental Activities
ASSETS	
Current Assets:	
Cash and Investments	\$ 15,184
Restricted Cash with Fiscal Agent	2,406
Taxes Receivable	4,510
Other Receivables	24,329
Total Current Assets	\$ 46,429
Non-Current Assets:	
Land Held for Resale	9,662
Capital Assets	47,056
Total Non-Current Assets	56,718
TOTAL ASSETS	\$ 103,147
 LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities	\$ 787
Accrued Interest Payable	248
Accrued Payroll	47
Deposits	188
Unearned Revenue	24,133
Long-Term Debt - Due Within One Year	1,610
Total Current Liabilities	\$ 27,013
Non-Current Liabilities:	
Long-Term Debt to the City of Huntington Beach and Component Units	88,597
Other Long-Term Debt	54,271
TOTAL LONG-TERM LIABILITIES	142,868
TOTAL LIABILITIES	\$ 169,881
 NET ASSETS	
Investment in Capital Assets	\$ 38,867
Restricted for:	
Capital Projects	352
Low-Income Housing	164
Unrestricted	(106,117)
TOTAL NET ASSETS (DEFICIT)	\$ (66,734)

**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2009
(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	\$ 13,792	\$ -	\$ -	\$ 25,006	\$ 11,214
City Attorney	141	-	-	-	(141)
Community Services	345	-	-	-	(345)
Public Works	157	-	-	-	(157)
Non-departmental	351	-	-	-	(351)
Interest on Long-Term Debt	11,524	-	-	-	(11,524)
Total Governmental Activities	\$ 26,310	\$ -	\$ -	\$ 25,006	\$ (1,304)
General Revenues:					
Taxes:					
Property Taxes					18,371
Total Taxes					18,371
Other Revenue:					
Use of Money and Property					2,192
From Other Agencies					843
Other					3,650
Total Other Revenue					6,685
Total General Revenues					25,056
Change in Net Assets					20,248
Net Deficit - October 1, 2008					(86,982)
Net Deficit - September 30, 2009					\$ (66,734)

**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH
BALANCE SHEET - GOVERNMENTAL FUNDS**

September 30, 2009

(In Thousands)

	Capital Projects Funds			
	Huntington Beach Project Area #1	Southeast Coastal Project Area	Low- Income Housing Fund	Total Capital Projects Funds
ASSETS:				
Cash and investments	\$ 6,319	\$ -	\$ 7,243	\$ 13,562
Restricted cash with fiscal agent	-	-	-	-
Due from other funds	455	-	-	455
Taxes receivable	-	-	-	-
Other receivables	125	1	24,176	24,302
Advances to other funds	302	-	1,363	1,665
Land held for resale, net	6,158	-	3,504	9,662
TOTAL ASSETS	\$ 13,359	\$ 1	\$ 36,286	\$ 49,646
LIABILITIES AND FUND BALANCE				
LIABILITIES:				
Accounts payable and accrued liabilities	\$ 300	\$ -	\$ 70	\$ 370
Accrued payroll	29	-	18	47
Due to Other Funds	-	455	-	455
Deposits	140	-	48	188
Deferred property taxes	-	-	-	-
Deferred revenue	-	-	24,133	24,133
Advances from other funds	1,363	-	-	1,363
TOTAL LIABILITIES	1,832	455	24,269	26,556
FUND BALANCE:				
Nonspendable				
Long-Term Receivables	\$ 1	\$ -	\$ -	\$ 1
Land Held for Resale	6,158	-	3,504	9,662
Advance to Other Fund	302	-	1,363	1,665
Restricted				
Underground Utilities				-
Restitution				-
Debt Service Funds				-
Other Purposes	352	-	164	516
Committed				
Capital Projects Funds	2,712	6	126	2,844
Assigned				
Debt Service Funds				
Other Purposes	2,002	-	6,860	8,862
Unassigned				
Capital Projects Funds	-	(460)	-	(460)
Total Reserved	11,527	(454)	12,017	23,090
TOTAL FUND BALANCE	11,527	(454)	12,017	23,090
TOTAL LIABILITIES AND FUND BALANCE	\$ 13,359	\$ 1	\$ 36,286	\$ 49,646

Debt Service Funds			
Huntington Beach Project Area #1	Southeast Coastal Project Area	Total Debt Service Funds	Total All Funds
\$ 584	\$ 1,038	\$ 1,622	\$ 15,184
2,406	-	2,406	2,406
-	-	-	455
4,510	-	4,510	4,510
21	6	27	24,329
-	-	-	1,665
-	-	-	9,662
\$ 7,521	\$ 1,044	\$ 8,565	\$ 58,211

\$ 417	\$ -	\$ 417	\$ 787
-	-	-	47
-	-	-	455
-	-	-	188
3,357	-	3,357	3,357
-	-	-	24,133
-	302	302	1,665
3,774	302	4,076	30,632

\$ -	\$ -	\$ -	\$ 1
-	-	-	9,662
-	-	-	1,665
-	-	-	-
-	-	-	-
2,406	-	2,406	2,406
-	-	-	516
-	-	-	2,844
1,341	742	2,083	2,083
-	-	-	8,862
-	-	-	(460)
3,747	742	4,489	27,579
3,747	742	4,489	27,579
\$ 7,521	\$ 1,044	\$ 8,565	\$ 58,211

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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, 2009
(In Thousands)**

Total Fund Balances Governmental Funds	\$	27,579
 Amounts reported for governmental activities in the statement of net assets are different because:		
Net capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds		
Capital Assets		47,667
Accumulated Depreciation		(611)
 Property tax revenues collected more than 60 days after fiscal year are not current financial resources and, therefore are deferred in the funds		
		3,357
 Accrued interest payable on Long-term Debt		
		(248)
 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>(144,478)</u>
Net Assets (Deficit) of Governmental Activities	\$	<u>(66,734)</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, 2009
(In Thousands)

	Capital Projects Funds			
	Huntington Beach Project Area #1	Southeast Coastal Project Area	Low-Income Housing Fund	Total Capital Projects Funds
REVENUES:				
Tax increment (Note 4)	\$ -	\$ -	\$ -	\$ -
Use of money and property	1,274	-	685	1,959
Intergovernmental	-	343	-	343
Other revenue	146	-	3,504	3,650
TOTAL REVENUES	1,420	343	4,189	5,952
EXPENDITURES:				
Current:				
Economic Development	\$ 2,110	\$ 61	\$ 3,478	\$ 5,649
City Attorney	141	-	-	141
Community Services	345	-	-	345
Public Works	157	-	-	157
Non-departmental	-	-	-	-
Capital outlay	11,808	475	263	12,546
Debt service:				
Bond & Other Debt:				
Principal	106	-	306	412
Interest	-	-	-	-
TOTAL EXPENDITURES	14,667	536	4,047	19,250
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(13,247)	(193)	142	(13,298)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	3,677	3,677
Issuance of Long-Term Debt	8,850	-	-	8,850
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	8,850	-	3,677	12,527
NET CHANGES IN TOTAL FUND BALANCE	(4,397)	(193)	3,819	(771)
FUND BALANCES - BEGINNING OF YEAR	15,924	(261)	8,198	23,861
FUND BALANCES - END OF YEAR	\$ 11,527	\$ (454)	\$ 12,017	\$ 23,090

Debt Service Funds			
Huntington Beach Project Area #1	Southeast Coastal Project Area	Total Debt Service Funds	Total All Funds
\$ 18,264	\$ 121	\$ 18,385	\$ 18,385
200	33	233	2,192
500	-	500	843
-	-	-	3,650
18,964	154	19,118	25,070
\$ 2,864	\$ 34	\$ 2,898	\$ 8,547
-	-	-	141
-	-	-	345
-	-	-	157
.	351	351	351
1,100	-	1,100	13,646
8,584	-	8,584	8,996
1,674	-	1,674	1,674
14,222	385	14,607	33,857
4,742	(231)	4,511	(8,787)
-	-	-	3,677
-	-	-	8,850
(3,653)	(24)	(3,677)	(3,677)
(3,653)	(24)	(3,677)	8,850
1,089	(255)	834	63
2,658	997	3,655	27,516
\$ 3,747	\$ 742	\$ 4,489	\$ 27,579

**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, 2009
(In Thousands)**

Net Changes in Fund Balances - Total Governmental Funds	\$	63
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>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</p>		
Current Year Property Tax Accrual		3,357
Prior Year Property Tax Accrual		(3,371)
<p>Capital Expenditures- Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Depreciable Assets Purchased		9,012
Depreciable Assets Donated		21,502
Capital Asset Depreciation		(611)
<p>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.</p>		
Current Year Interest Accrual		(248)
Prior Year Interest Accrual		260
<p>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.</p>		
		(18,712)
<p>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.</p>		
		8,996
Change in Net Assets of Governmental Activities	\$	<u>20,248</u>



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statement
For the Year Ended September 30, 2009**

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) governed by the Agency’s Board of Directors. 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 the Statement of Net Assets and the Statement of Activities. These statements present summaries of Governmental activities for the Agency accompanied by a total column. 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.

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



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statement
For the Year Ended September 30, 2009**

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 outstanding debt balances 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 Agency's Board of Directors.

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 needed.

b. Fund Financial Statements

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



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statement
For the Year Ended September 30, 2009**

other financing uses) in net current assets. Under the 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

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.

The Agency's Governmental Fund Balance is made up of the following components:

- Nonspendable fund balance typically includes inventories, land held for resale, prepaid items, and other items that, by definition, cannot be appropriated.
- The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- The committed fund balance classification includes amounts that can be used only for specific purposes as determined by a formal action of the Agency's Board of Directors. The Board of Directors has authority to establish, modify, or rescind a fund balance commitment.
- Amounts in the assigned fund balance classification are intended to be used by the Agency for specific purposes but do not meet the criteria to be classified as restricted or committed. The Agency Administrator or designee has the authority to establish, modify, or rescind a fund balance assignment.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statement
For the Year Ended September 30, 2009**

- Unassigned fund balance is the residual classification for the Agency's funds and includes all spendable amounts not contained in the other classifications.

The Agency considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. The Agency's committed, assigned, or unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts any of those unrestricted fund balance classifications could be used.

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, 2009.

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 capital assets include land, land held for resale, and a parking structure.

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 Statement
For the Year Ended September 30, 2009

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 another 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 Statement
For the Year Ended September 30, 2009**

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.

l. Implementation of New Accounting Pronouncements

During the year, the Agency implemented Governmental Accounting Standards Board (GASB) Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

3. CASH AND INVESTMENTS

The Agency holds a proportionate interest of the City's pooled cash and investments in the amount of \$15,184,000. The Restricted Cash with Fiscal Agent, totaling \$2,406,000, is made up of Guaranteed Investment Contract (GIC) and money market accounts. The GIC provider is rated by Standard and Poor's at A+. 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 the Local Agency Investment Fund (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, 2009.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statement
For the Year Ended September 30, 2009**

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 capital asset activity for the year was (in thousands):

Governmental Activities	October 1, 2008	Additions	Dispositions	September 30, 2009
Capital Assets, Not Depreciated:				
Land	\$ 17,153	-	-	\$ 17,153
Total Capital Assets -Not Depreciated	17,153	-	-	17,153
Capital Assets Being Depreciated:				
Buildings		30,514	-	30,514
Total Capital Assets Being Depreciated	-	30,514	-	30,514
Less Accumulated Depreciation:				
Buildings		(611)	-	(611)
Total Accumulated Depreciation	-	(611)	-	(611)
Total Depreciated - Net	-	29,903	-	29,903
Total Capital Assets	17,153	30,514	-	47,667
Total Accumulated Depreciation	-	(611)	-	(611)
Capital Assets of Governmental Activities - Net	\$ 17,153	\$ 29,903	\$ -	\$ 47,056



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statement
For the Year Ended September 30, 2009**

6. INTERFUND TRANSACTIONS

a. Due To/From Other Funds

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

	Due from Other Funds	Due to Other Funds
Huntington Beach Project Area #1 Capital Projects	\$ 455	\$ -
Southeast Coastal Project Area Capital Projects	-	455
Total Due to/from Governmental Funds	\$ 455	\$ 455

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

b. Advances to/from Other Funds

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

	Advances to Other Funds	Advances from Other Funds
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
Total Due To/from	\$ 1,665	\$ 1,665

There is a \$1,363,000 advance from the Low-Income Housing Fund to the Huntington Beach Project Area #1 Capital Projects Fund for the 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.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statement
For the Year Ended September 30, 2009**

c. Transfers In/Out

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

	<u>Transfers In</u>	<u>Transfers Out</u>
Low Income Housing Fund	\$ 3,677	\$ -
Huntington Beach Project Area #1 Debt Service	-	3,653
Southeast Coastal Project Area Debt Service	-	24
	<u>\$ 3,677</u>	<u>\$ 3,677</u>

The following is a summary of the significant transfers:

- \$3,653,000 was transferred from the Huntington Beach Project Area #1 Debt Service Fund and \$24,000 was transferred from 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 Statement
For the Year Ended September 30, 2009**

7. LONG-TERM DEBT

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

	Balance October 1, 2008	Additions	Retirements	Balance September 30, 2009	Amount Due within One Year
DEBT TO CITY OF HUNTINGTON BEACH:					
Advances from General Fund	\$ 10,882	\$ 415	\$ (394)	\$ 10,903	\$ -
Advances from Sewer Fund	250	10	-	260	-
Advances from Drainage Fund	602	23	-	625	-
Advances from Water Fund	3,729	142	-	3,871	-
Deferred Development Fees:					
Park Acquisition and Development Fund	368	14	-	382	-
Sewer Fund	156	6	-	162	-
Drainage Fund	165	6	-	171	-
Deferred Payment on Land Purchases from City:					
General Fund	63,829	2,431	(4,047)	62,213	-
Emerald Cove	-	5,171	(305)	4,866	-
Park Acquisition and Development Fund	4,955	189	-	5,144	-
Total Debt - City of Huntington Beach	84,936	8,407	(4,746)	88,597	-
OTHER DEBT					
Help Loan	500	-	-	500	-
Mayer Disposition and Development Agreement	6,810	438	(745)	6,503	-
1999 Refunding Tax Allocation Bonds	7,410	-	(390)	7,020	410
2002 Tax Allocation Refunding Bonds	16,250	-	(870)	15,380	910
Bella Terra Parking	14,532	1,008	(1,313)	14,227	-
CIMDDA (Parking & Infrastructure)	-	7,900	(132)	7,768	-
CIMDDA (Additional Parking)	-	950	(529)	421	-
Section 108 Loan	4,225	-	(270)	3,955	290
Employee Compensated Absences	99	11	(3)	107	-
Total Other Debt	49,826	10,307	(4,252)	55,881	1,610
Total Agency Debt	\$ 134,762	\$ 18,714	\$ (8,998)	\$ 144,478	\$ 1,610



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statement
For the Year Ended September 30, 2009**

a. Advances from General Fund

Year(s) debt incurred	1985 to 1996
Interest rate	3.81%
Principal amount	\$10,801,289
Accrued interest	\$101,711
Balance at Fiscal Year End	\$10,903,000
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	3.81%
Principal amount	\$131,424
Accrued interest	\$128,576
Balance at Fiscal Year End	\$260,000
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	3.81%
Principal amount	\$250,483
Accrued interest	\$374,517
Balance at Fiscal Year End	\$625,000
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 Statement
For the Year Ended September 30, 2009**

d. Advances from City's Water Fund

Year(s) debt incurred	1986 and 1987
Interest rate	3.81%
Principal amount	\$1,138,235
Accrued interest	\$2,732,765
Balance at Fiscal Year End	\$3,871,000
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	3.81%
Principal amount	\$339,436
Accrued interest	\$375,564
Balance at Fiscal Year End	\$715,000
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	3.81% (current fiscal year)
Principal amount	\$32,833,159
Accrued interest	\$29,379,841
Balance at Fiscal Year End	\$62,213,000
Purpose of debt	Parcel consolidation and development
Security for debt	Operative Agreement with City
Repayment terms	None

g. Emerald Cove

In May 2009, the City entered into an agreement with the Redevelopment Agency to convey ownership of the Emerald Cove Senior Apartments (recorded as an enterprise fund) from the City to the Redevelopment Agency Low-Income Housing Fund.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statement
For the Year Ended September 30, 2009**

Below is a summary of the transaction (in thousands):

Cash transfer from the Emerald Cove Housing Fund to the General Fund	\$ 3,433
Capital asset transfer from the Emerald Cove Housing Fund to the Low-Income Housing Fund	3,504
Original note from the Low-Income Housing Fund to the City to be paid through September 2021	5,171

The balance of the note from the Low-Income Housing Fund to the City as of September 30, 2009 is \$4,866,000.

The Agency plans to sell Emerald Cove Senior Apartments to a non-profit affordable housing developer in the 2009/10 fiscal year. The property is currently recorded as land held for resale in the Low-Income Housing Fund.

Debt service requirements to maturity are (in thousands):

Year Debt Incurred	2009
Original Principal Amount	\$5,171,000
Interest Rates	4.625% - 5.5%
Purpose of Debt	Conveyance of Emerald Cove Senior Apartments
Security	Agreement with City

Year Ending September 30,	Amount
2010	\$ 405
2011	406
2012	404
2013	405
2014-2021	3,246
Total	\$ 4,866



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statement
For the Year Ended September 30, 2009**

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	\$1,740,377
Accrued interest	\$3,403,623
Balance at Fiscal Year End	\$5,144,000
Purpose of debt	Emerald Cove Land
Security for debt	Operative Agreement with City
Repayment terms	None

i. Notes Payable – HELP Loan Funds

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

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, 2009, the Agency obligation under the agreement amounted to \$6,503,000. 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 Statement
For the Year Ended September 30, 2009**

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

Year Ending September 30,	Principal	Interest	Total
2010	\$ 410	\$ 334	\$ 744
2011	430	317	747
2012	450	298	748
2013	465	278	743
2014	490	257	747
2015-2019	2,840	914	3,754
2020-2024	1,935	292	2,227
Total	\$ 7,020	\$ 2,690	\$ 9,710

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
2010	\$ 910	\$ 712	\$ 1,622
2011	945	678	1,623
2012	995	641	1,636
2013	1,040	601	1,641
2014	1,080	558	1,638
2015-2019	6,195	2,004	8,199
2020-2024	4,215	634	4,849
Total	\$ 15,380	\$ 5,828	\$ 21,208



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statement
For the Year Ended September 30, 2009**

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, 2009, the Agency obligation under the agreement amounted to \$14,227,000. Project-generated revenues as available will repay these amounts over the time needed to fully amortize the advance.

n. CIM/Huntington Disposition and Development Agreement – Strand Parking Structure and Infrastructure

Year of Issuance	2009
Type of Debt	Loan from CIM Group, LLC
Original Principal Amount	\$7,900,000
Security	Tax Increment
Interest Rates	7.0%
Interest Payment Dates	September 30 th
Principal Payment Dates	September 30 th
Purpose of Debt	Strand Parking Structure and Infrastructure

The Implementation of Disposition and Development Agreement (DDA) and the Sixth 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 allow 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. The Agency will reimburse the developer a maximum of \$7.9 million within 25 years through net tax increment revenues generated by the Merged Redevelopment Project Area.

The Sixth Implementation Agreement includes an additional onetime payment of \$2.4 million from the Agency to CIM for the development of the hotel. The Agency has paid the \$2.4 million and the \$500,000 in parking in lieu fees along with the first payment towards the \$7.9 million. As of year-end, the Agency obligation under the agreement amounted to \$7,768,000.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statement
For the Year Ended September 30, 2009**

o. CIM/Huntington Disposition and Development Agreement – Additional Strand Parking

Year of Issuance	2009
Type of Debt	Loan from CIM Group, LLC
Original Principal Amount	\$950,000
Security	Tax Increment
Interest Rates	10.0%
Interest Payment Dates	September 30 th
Principal Payment Dates	September 30 th
Purpose of Debt	Additional Strand Parking Structure and Infrastructure

The Agency funded \$950,000 for development of additional/surplus parking spaces. The additional parking was funded \$500,000 from parking in lieu fees and \$450,000 from Agency funds.

The City Parking In-Lieu Fund repaid \$500,000 in the current year. The remaining loan repayment shall be made solely from net tax increment generated by the Merged Redevelopment Project Area within 25 years. As of year-end, the Agency obligation under the agreement amounted to \$421,000.

p. 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
2010	\$ 290	\$ 308	\$ 598
2011	310	286	596
2012	330	263	593
2013	350	238	588
2014	375	211	586
2015-2019	2,300	570	2,870
Total	\$ 3,955	\$ 1,876	\$ 5,831



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statement
For the Year Ended September 30, 2009**

q. Employee Compensated Balances

There is no fixed repayment to pay the compensated absences liability totaling \$107,000 at year-end.

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 (OPA) with Makallon Atlanta Huntington Beach, LLC (also known 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, 2009, no amount has been advanced to the City.

c. 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 beginning in Fiscal Year 2003/04. As of September 30, 2009, there was no change in debt for the Southeast Coastal Project other than for interest accrual.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statement
For the Year Ended September 30, 2009**

10. NOTES RECEIVABLE

The Agency has made loans of \$24,176,000 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. Some notes may be forgiven after a period of time.

A summary of Notes Receivable as of September 30, 2009 is as follows:

<u>Description</u>	<u>Amount</u>
Deferred Loans Receivable	\$ 24,176,000
Other Receivables	154,000
Total	<u>\$ 24,330,000</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, 2009 were a negative \$(66,734,000). 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 results in increased public and private investments in the 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 they have debt on the books.

13. SERAF CONTINGENCY

Pursuant to Assembly Bill 26 4x, a budget trailer bill, California redevelopment agencies were required to make Supplemental Education Revenue Augmentation Fund (SERAF) contributions totaling \$1.7 billion for the fiscal year 2009-2010 and \$350 million for the fiscal year 2010-2011. Under this bill, agencies may borrow a portion of the required contributions from their low and moderate income housing fund. Alternatively, sponsoring governmental agencies (the cities or counties) may elect to pay the SERAF contributions on behalf of their redevelopment agencies. On October 20, 2009, the California Redevelopment Association filed a class action lawsuit on behalf of all California redevelopment agencies, again challenging the SERAF obligations as unconstitutional.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statement
For the Year Ended September 30, 2009**

The Agency's estimated SERAF contributions under AB 26 4x are \$5,380,000 for the fiscal year 2009-2010 and \$1,107,000 for 2010-2011. It is the position of Agency officials that the SERAF contributions required by this bill are unconstitutional and that the Agency is not obligated to make these contributions. However, if the class action lawsuit is unsuccessful, and if the Agency were required to make the SERAF contributions, Agency officials have estimated that the Agency would have sufficient funds to make the required contributions.

**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH
 CALCULATION OF LOW/MODERATE INCOME HOUSING FUNDS - EXCESS SURPLUS
 October 1, 2008
 (IN THOUSANDS)**

ENDING FUND BALANCE - OCTOBER 1, 2008	\$	8,198
Less Unavailable Amounts:		
Encumbrances		(1,722)
Advances to Other Funds		(1,363)
		(3,085)
AVAILABLE FUND BALANCE - OCTOBER 1, 2008		\$ 5,113
 AVAILABLE LOW/MODERATE INCOME HOUSING FUNDS		
LIMITATION (GREATER OF \$1,000,000 OR FOUR YEARS SET-ASIDE):		
Set-aside for fiscal years 2004-05 to 2007-08		
2004-2005		2,301
2005-2006		2,780
2006-2007		3,062
2007-2008		3,405
		11,548
TOTAL SET-ASIDE FOR LAST FOUR YEARS		11,548
COMPUTED EXCESS/SURPLUS - OCTOBER 1, 2008		\$ -

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March 15, 2010

**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, 2009, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated March 15, 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis.

Internal Control Over Financial Reporting (Continued)

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or 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 an instance of noncompliance that is required to be reported under Government Auditing Standards.

- a. 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 Commission's fiscal year end date of September 30, 2008. The Agency submitted the reports on April 20, 2009.

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.

Diehl, Evans and Company, LLP