

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

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



FOR FISCAL YEAR ENDED SEPTEMBER 30, 2010

CITY OF HUNTINGTON BEACH, CALIFORNIA



COMPONENT UNIT FINANCIAL REPORT WITH REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

Prepared by the Finance Department

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The Board of Directors of the
Redevelopment Agency of the City of Huntington Beach

Independent Auditor's Report

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 (Agency), a component unit of the City of Huntington Beach, California, as of and for the year ended September 30, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these 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 Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the 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, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2011, on our consideration of the Agency's internal control over financial reporting and on 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 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 considered in assessing the results of our audit.

The management's discussion and analysis identified in the accompanying table of contents, 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.

Macias Jini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

March 28, 2011



Redevelopment Agency of the City of Huntington Beach Management's Discussion and Analysis For the Year Ended September 30, 2010

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, 2010. 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



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expenditures of the current period. Revenues are recorded when received in cash, except that revenues subject to accrual (generally received within 60 days after year-end) are recognized when due. The primary source of revenue, which has been treated as susceptible to accrual by the Agency, is property tax. 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, 2010 was (\$59,421,000). Under state law, the Redevelopment Agencies' primary source of revenue is tax increment 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, 2010

	<u>2010 Amount</u>	<u>2009 Amount</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Assets				
Current and Other Assets	\$ 26,949	\$ 46,429	\$ (19,480)	-42.0%
Land Held for Resale	6,158	\$ 9,662	(3,504)	-36.3%
Capital Assets	48,777	47,056	1,721	3.7%
Total Assets	<u>81,884</u>	<u>103,147</u>	<u>(21,263)</u>	-20.6%
Liabilities				
Current Liabilities	2,068	25,403	(23,335)	-91.9%
Debt Payable to City of Huntington Beach	85,144	88,597	(3,453)	-3.9%
Long-Term Liabilities Payable within one year	2,454	1,610	844	52.4%
Long-Term Liabilities	51,639	54,271	(2,632)	-4.8%
Total Liabilities	<u>141,305</u>	<u>169,881</u>	<u>(28,576)</u>	-16.8%
Net Assets				
Invested in Capital Assets - Net of Related Debt	48,777	38,867	9,910	25.5%
Restricted	345	516	(171)	-33.1%
Unrestricted	(108,543)	(106,117)	(2,426)	2.3%
Total Net Assets	<u>(59,421)</u>	<u>(66,734)</u>	<u>7,313</u>	-11.0%
Expenses, net of program revenues				
Economic Development	17,635	(11,214)	28,849	N/A
City Attorney	115	141	(26)	-18.4%
Community Services	90	345	(255)	-73.9%
Public Works	93	157	(64)	-40.8%
Non-departmental and Transfers	-	351	(351)	N/A
Interest	6,378	11,524	(5,146)	-44.7%
Total Expenses, net of program revenue	<u>24,311</u>	<u>1,304</u>	<u>23,007</u>	N/A
General Revenues				
Property Taxes	26,988	18,371	8,617	46.9%
Use of Money and Property	1,861	2,192	(331)	-15.1%
From Other Agencies	2,156	843	1,313	N/A
Other	619	3,650	(3,031)	N/A
Total General Revenues	<u>31,624</u>	<u>25,056</u>	<u>6,568</u>	26.2%
Excess of Revenue over Expense				
Transfers	7,313	23,752	(16,439)	N/A
Net Assets - Beginning of Year	(66,734)	(86,982)	20,248	-23.3%
Net Assets - End of Year (Deficit)	<u>\$ (59,421)</u>	<u>\$ (66,734)</u>	<u>\$ 7,313</u>	-11.0%

The Current and Other Assets and Current Liabilities decreased by \$19,480,000 and \$23,335,000 respectively due to Net Other Receivables. As of September 30, 2010, the total Other Receivables was \$35,264,000, which includes the \$8,070,000 notes receivable established for the sale of the Emerald Cove Apartments to Jamboree Housing



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Corporation. That amount was reduced by the \$26,404,000 transfer from Low Income Receivables to the Allowance for Uncollectible Developer Loans account. The Agency's notes receivable is further illustrated in Note 10 of the Financial Statements.

The total Economic Development expenses for fiscal year 2008/09 were (\$11,214,000). A portion of the \$29,903,000 Strand Parking Structure was donated by the developer to the Agency, which offset the Economic Development expenses in the Statement of Activities.

FUND FINANCIAL ANALYSIS

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

	<u>2010 Amount</u>	<u>2009 Amount</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Huntington Beach Project Area #1				
Total Assets	\$ 9,757	\$ 13,359	\$ (3,602)	-27.0%
Total Liabilities	1,487	1,832	(345)	-18.8%
Fund Balance	8,270	11,527	(3,257)	-28.3%
Revenues	1,789	1,420	369	26.0%
Expenditures	5,046	14,667	(9,621)	-65.6%
Southeast Coastal Project Area				
Total Assets	-	1	(1)	N/A
Total Liabilities	461	455	6	1.3%
Fund Balance	(461)	(454)	(7)	1.5%
Revenues	-	343	(343)	N/A
Expenditures	7	536	(529)	-98.7%
Low - Income Housing				
Total Assets	21,855	36,286	(14,431)	-39.8%
Total Liabilities	10,446	24,269	(13,823)	-57.0%
Fund Balance	11,409	12,017	(608)	-5.1%
Revenues	2,679	4,189	(1,510)	-36.0%
Expenditures	6,924	4,047	2,877	71.1%
Debt Service Fund - Huntington Beach				
Total Assets	7,045	7,521	(476)	-6.3%
Total Liabilities	7,979	3,774	4,205	111.4%
Fund Balance	(934)	3,747	(4,681)	-124.9%
Revenues	18,294	18,964	(670)	-3.5%
Expenditures	19,346	14,222	5,124	36.0%
Debt Service Fund - Southeast Coastal				
Total Assets	1,084	1,044	40	3.8%
Total Liabilities	302	302	-	N/A
Fund Balance	782	742	40	5.4%
Revenues	60	154	(94)	-61.0%
Expenditures	12	385	(373)	-96.9%



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The expenditures for the Huntington Beach Project Area #1 and Southeast Coastal Project Area decreased by \$9,621,000 and \$529,000 respectively. In fiscal year 2009/10, there was no tax increment received for the Southeast Coastal Project Area due to the decline in property tax value.

DEBT ADMINISTRATION

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

	<u>2010 Amount</u>	<u>2009 Amount</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Debt Payable to City of Huntington Beach	\$ 85,550	\$ 88,597	\$ (3,047)	-3.4%
Bonds Payable	21,080	22,400	(1,320)	-5.9%
Notes Payable	4,365	4,455	(90)	-2.0%
Disposition and Development Agreement	28,113	28,919	(806)	-2.8%
Other Debt	129	107	22	20.6%
Total Debt	<u>\$ 139,237</u>	<u>\$ 144,478</u>	<u>\$ (5,241)</u>	<u>-3.6%</u>

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, 2010 are \$48,777,000, which consists of land \$17,153,000 and building structures \$31,624,000. 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



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Active Ride. Dining options include Johnny Rockets and RA Sushi. Portions of the retail development and parking structure opened in November 2008 and the hotel opened in April 2009. The office space was occupied in June 2010.

Pacific City was developed by Makar Properties on a 31-acre site at Pacific Coast Highway and First Street. The site has now been secured by Farrallon Capital and Greenfield Development for future development. A Community Facilities District is proposed to fund the majority of the public works improvements. The plan is for 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 2015. Currently, the plan calls for the "W" as the hotel operator for the boutique hotel that will feature 157 rooms. The hotel will be the first "W" in Orange County and also the first oceanfront "W" hotel. The "W" hotel is expected to open by 2016.

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 commenced payment of its obligation of \$15 million to the developer. The balance of these obligations is \$14,076,000 as of September 30, 2010. 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 were finalized in October 2010, providing for assistance for the development of Affordable Housing commencing with 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 in 2009. The



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analysis in supporting the proposed land-use changes were 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 and Environmental Impact Report was approved by the City Council on March 1, 2010.

Downtown Specific Plan (DTSP) and Downtown Parking Master Plan – The Agency and land use/economic/traffic consultants updated 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 developed land use provisions and urban design guidelines that support and encourage a mixed-use development community. Five town hall meetings consisting of community members, property owners, and interested parties were held to discuss the future of downtown. The Environmental Impact Report (EIR) was developed. The City Council approved the EIR in November 2009 and the Downtown Specific Plan in January 2010.

Waterfront Project/Grand Coast Development –The Agency entered into an Amended and Restated Disposition and Development Agreement in 1998 and has since been amended several times. A Community Facilities District was formed for the development of the Hyatt Regency Huntington Beach Resort and Spa and its Conference Center. The Hyatt Regency Huntington Beach Resort & Spa and its Conference Center was opened in January 2003 and the Hilton opened in July 1990.

The Developer's Advance Loan Balance is \$6,153,000 as of September 30, 2010. An Implementation Agreement to the Disposition and Development Agreement (DDA) was approved between the Redevelopment Agency ("Agency") and Mayer Financial, L.P. ("Developer") in October 2008. The Third Implementation Agreement that relates to the timeframe for development of Parcel C will result in a third hotel at this location. Parcel C is located between the Waterfront Hilton and the Hyatt Resort and Spa. 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. A Fourth Implementation Agreement has been negotiated extending the time period by six (6) months for construction of Parcel C and is scheduled for October 2010. The project also pays lease payments to the Agency on an annual basis. The third hotel should be open by 2019.

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



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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.

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. In September 2010, the Redevelopment Agency considered an Amended and Restated Owner Participation Agreement. The Agreement sets forth guarantee tax increment. The Agency will approve the OPA in October 2010. 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 Agency funding was included in the Capital Improvement Program (CIP) budget for \$593,000.

Housing Activities

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.

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 and Housing Set Aside funds for the 25% match of non-federal funds, four buildings consisting of 19 two-bedroom housing units 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.

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 to acquire a 48-unit apartment complex located at 2200 Delaware Avenue. The units and grounds, now known as Pacific Court, have been fully rehabilitated, providing affordable housing for 47 very low and low-income families while retaining a portion of existing tenants.



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Garfield/Delaware, Heil Affordable Housing Project – The City of Huntington Beach acquired property at the northeast corner of Delaware and Garfield Avenues 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. The project was completed in September 2010. During the coming fiscal year, the City will be working with Colette's to acquire, 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 additional financial information, please contact the Finance Department at 2000 Main Street, Huntington Beach, California, 92648-2702, by phone (714) 536-5674, or via e-mail JLampman@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, 2010
(In Thousands)**

		Governmental Activities
ASSETS		
Current Assets:		
Cash and Investments	\$	11,176
Restricted Cash with Fiscal Agent		2,402
Taxes Receivable		4,510
Other Receivables		8,861
Total Current Assets	\$	26,949
Non-Current Assets:		
Land Held for Resale		6,158
Capital Assets		48,777
Total Non-Current Assets		54,935
TOTAL ASSETS	\$	81,884
 LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$	172
Accrued Interest Payable		186
Accrued Payroll		45
Deposits		1,665
Long-Term Debt - Due Within One Year		2,454
Total Current Liabilities	\$	4,522
Non-Current Liabilities:		
Long-Term Debt to the City of Huntington Beach and Component Units		85,144
Other Long-Term Debt		51,639
TOTAL LONG-TERM LIABILITIES		136,783
TOTAL LIABILITIES	\$	141,305
 NET ASSETS		
Invested in Capital Assets	\$	48,777
Restricted for:		
Capital Projects		322
Low-Income Housing		23
Unrestricted		(108,543)
TOTAL NET ASSETS (DEFICIT)	\$	(59,421)

See Independent Auditor's Report and Notes to the Financial Statements

REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010
(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	\$ 17,635	\$ -	\$ -	\$ -	\$ (17,635)
City Attorney	115	-	-	-	(115)
Community Services	90	-	-	-	(90)
Public Works	93	-	-	-	(93)
Interest on Long-Term Debt	6,378	-	-	-	(6,378)
Total Governmental Activities	\$ 24,311	\$ -	\$ -	\$ -	\$ (24,311)
General Revenues:					
Property Taxes					26,988
Use of Money and Property					1,861
From Other Agencies					2,156
Other					619
Total General Revenues					31,624
Change in Net Assets					7,313
Net Deficit - October 1, 2009					(66,734)
Net Deficit - September 30, 2010					\$ (59,421)

See Independent Auditor's Report and Notes to the Financial Statements

REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH
BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2010
(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	\$ 2,627	\$ -	\$ 8,549	\$ 11,176
Restricted cash with fiscal agent	-	-	-	-
Due from other funds	660	-	-	660
Taxes receivable	-	-	-	-
Other receivables	10	-	8,715	8,725
Advances to other funds	302	-	4,591	4,893
Land held for resale	6,158	-	-	6,158
TOTAL ASSETS	\$ 9,757	\$ -	\$ 21,855	\$ 31,612
LIABILITIES AND FUND BALANCE				
LIABILITIES:				
Accounts payable and accrued liabilities	\$ 93	\$ -	\$ 79	\$ 172
Accrued payroll	31	-	14	45
Due to other funds	-	461	-	461
Deposits	-	-	1,665	1,665
Deferred revenue	-	-	8,688	8,688
Advances from other funds	1,363	-	-	1,363
TOTAL LIABILITIES	1,487	461	10,446	12,394
FUND BALANCE:				
Nonspendable				
Long-Term Receivables	\$ -	\$ -	\$ -	\$ -
Land Held for Resale	6,158	-	-	6,158
Advances to other funds	302	-	4,591	4,893
Restricted				
Debt Service	-	-	-	-
Other Purposes	322	-	23	345
Committed				
Redevelopment Capital Projects	1,251	5	-	1,256
Assigned				
Low Income Housing	-	-	6,795	6,795
Debt Service	-	-	-	-
Other Purposes	237	-	-	237
Unassigned	-	(466)	-	(466)
TOTAL FUND BALANCE (DEFICIT)	8,270	(461)	11,409	19,218
TOTAL LIABILITIES AND FUND BALANCE	\$ 9,757	\$ -	\$ 21,855	\$ 31,612

See Independent Auditor's 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
\$ -	\$ -	\$ -	\$ 11,176
2,402	-	2,402	2,402
-	1,081	1,081	1,741
4,510	-	4,510	4,510
133	3	136	8,861
-	-	-	4,893
-	-	-	6,158
\$ 7,045	\$ 1,084	\$ 8,129	\$ 39,741

\$ -	\$ -	\$ -	\$ 172
-	-	-	45
1,280	-	1,280	1,741
-	-	-	1,665
3,471	-	3,471	12,159
3,228	302	3,530	4,893
7,979	302	8,281	20,675

\$ 116	\$ -	\$ 116	\$ 116
-	-	-	6,158
-	-	-	4,893
2,403	-	2,403	2,403
-	-	-	345
-	-	-	1,256
-	-	-	6,795
-	782	782	782
-	-	-	237
(3,453)	-	(3,453)	(3,919)
(934)	782	(152)	19,066
\$ 7,045	\$ 1,084	\$ 8,129	\$ 39,741

See Independent Auditor's Report and Notes to the Financial Statements

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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
FOR THE YEAR ENDED SEPTEMBER 30, 2010
(In Thousands)**

Total Fund Balances Governmental Funds	\$	19,066
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Net capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds</p>		
Capital Assets		50,059
Accumulated Depreciation		(1,282)
<p>Property tax revenues collected more than 60 days after fiscal year are not current financial resources and, therefore are deferred in the funds</p>		
		12,159
<p>Accrued interest payable on Long-term Debt</p>		
		(186)
<p>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</p>		
		<u>(139,237)</u>
Net Assets (Deficit) of Governmental Activities	\$	<u>(59,421)</u>

**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010
(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	\$ -	\$ -	\$ -	\$ -
Use of Money and Property	726	-	967	1,693
Intergovernmental	882	-	1,274	2,156
Other Revenue	181	-	438	619
TOTAL REVENUES	1,789	-	2,679	4,468
EXPENDITURES:				
Current:				
Economic Development	1,388	7	2,353	3,748
City Attorney	115	-	-	115
Community Services	90	-	-	90
Public Works	93	-	-	93
Capital outlay	3,144	-	4,166	7,310
Debt service:				
Bond & Other Debt:				
Principal	216	-	405	621
Interest	-	-	-	-
TOTAL EXPENDITURES	5,046	7	6,924	11,977
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(3,257)	(7)	(4,245)	(7,509)
Transfers in	-	-	3,637	3,637
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	3,637	3,637
NET CHANGES IN TOTAL FUND BALANCE	(3,257)	(7)	(608)	(3,872)
FUND BALANCES (DEFICIT) - BEGINNING OF YEAR	11,527	(454)	12,017	23,090
FUND BALANCES (DEFICIT) - END OF YEAR	\$ 8,270	\$ (461)	\$ 11,409	\$ 19,218

See Independent Auditor's 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
\$ 18,141	\$ 45	\$ 18,186	\$ 18,186
153	15	168	1,861
-	-	-	2,156
-	-	-	619
18,294	60	18,354	22,822
8,286	12	8,298	12,046
-	-	-	115
-	-	-	90
-	-	-	93
-	-	-	7,310
7,742	-	7,742	8,363
3,318	-	3,318	3,318
19,346	12	19,358	31,335
(1,052)	48	(1,004)	(8,513)
-	-	-	3,637
(3,629)	(8)	(3,637)	(3,637)
(3,629)	(8)	(3,637)	-
(4,681)	40	(4,641)	(8,513)
3,747	742	4,489	27,579
\$ (934)	\$ 782	\$ (152)	\$ 19,066

See Independent Auditor's 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
FOR THE YEAR ENDED SEPTEMBER 30, 2010
(In Thousands)**

Net Changes in Fund Balances - Total Governmental Funds **\$ (8,513)**

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	12,159
Prior Year Property Tax Accrual	(3,357)

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.

Depreciable Assets Purchased	2,392
Capital Asset Depreciation	(671)

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	(186)
Prior Year Interest Accrual	248

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.

(3,122)

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.

8,363

Change in Net Assets of Governmental Activities **\$ 7,313**



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

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 areas require 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.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

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, and 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. 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.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

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 Sheet. 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 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 received within 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, are not in spendable form.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

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

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

c. Investments

Investments are stated at fair value, except for nonparticipating investments (Guaranteed Investment Contracts) which are stated at cost. The City of Huntington Beach allocates investment income earned through its investment pool 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, 2010.

f. Land Held for Resale

Land held for resale is carried at the lower of cost or estimated realizable value as



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

determined only upon the execution of a disposition and development agreement.

g. 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. Capital assets acquired from gifts or contributions are recorded at fair value at the time received, or in the case of infrastructure assets, at Agency Board of Directors' acceptance date. The Agency's capital assets include land and a parking structure.

In the Government-Wide financial statements, depreciation for building is recorded on the straight-line method over the estimated useful life of the asset and charged to the respective activity or fund. No depreciation is recorded in the governmental funds of the fund financial statements.

h. 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.

i. 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.

j. 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.



Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010

Liabilities for these amounts in the governmental funds are only recorded if they have matured (employee resignations or retirements).

k. 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 revenue is recorded in the year for which it is levied, regardless of when 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.

- 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



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

- Payments of Second Installment – March to April
- Balance of Second Installment – July 26

I. 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 holds a proportionate interest of the City's pooled cash and investments in the amount of \$11,176,000. The Restricted Cash with Fiscal Agent, totaling \$2,402,000, consists of the Guaranteed Investment Contract (GIC) and the Local Agency Investment Fund (LAIF) accounts as illustrated below.

Investment Type	Amount
Held by Fiscal Agent:	
Guaranteed Investment Contract (GIC)	1,649,250
Local Agency Investment Fund (LAIF)	753,001
Total General Investments	<u>\$ 2,402,251</u>

The weighted average maturity of the investment in the City Pool is 555 days. The City investment pool is not rated. In fiscal year 2009/10, the effective rate of return in investments was 1.54%. The GIC provider is rated by Standard and Poor's and Moody's at A+ and Aa3. The GIC itself is unrated. 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, 2010.

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not rated. The Agency's LAIF balance at September 30, 2010, was \$753,001.

The total amount invested by all public agencies in LAIF as of September 30, 2010, was \$21.8 billion. LAIF is part of the California Pooled Money Investment Account (PMIA), which at September 30, 2010, had a balance of \$67.6 billion, of that amount, 4.71% was invested in medium-term and short-term structured notes and asset-backed securities. The average maturity of PMIA investments was 185 days as of September 30, 2010.

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).



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

5. CAPITAL ASSETS

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

	October 1, 2009	Additions	Dispositions	September 30, 2010
Governmental Activities				
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	2,392	-	32,906
Total Capital Assets Being Depreciated	30,514	2,392	-	32,906
Less Accumulated Depreciation:				
Buildings	(611)	(671)	-	(1,282)
Total Accumulated Depreciation	(611)	(671)	-	(1,282)
Total Depreciated - Net	29,903	1,721	-	31,624
Total Capital Assets	47,667	2,392	-	50,059
Total Accumulated Depreciation	(611)	(671)	-	(1,282)
Capital Assets of Governmental Activities - Net	\$ 47,056	\$ 1,721	\$ -	\$ 48,777

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	\$ 660	\$ -
Southeast Coastal Project Area Debt Service	1,081	
Southeast Coastal Project Area Capital Projects		461
Huntington Beach Project Area #1 Debt Service		1,280
Total	\$ 1,741	\$ 1,741

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, 2010**

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	4,591	
Huntington Beach Project Area #1 Capital Projects		1,363
Huntington Beach Project Area #1 Debt Service		3,228
Southeast Coastal Project Area Debt Service		302
Total	<u>\$ 4,893</u>	<u>\$ 4,893</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 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.

There is a \$3,228,000 advance from the Low Income Housing Fund to the Huntington Beach Project Area #1 – Debt Service Fund for Supplemental Education Revenue Augmentation Fund (SERAF) contributions. See Note 13 for further details.

c. Transfers In/Out

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

	<u>Transfers In</u>	<u>Transfers Out</u>
Low Income Housing Fund	\$ 3,637	\$ -
Huntington Beach Project Area #1 Debt Service		3,629
Southeast Coastal Project Area Debt Service		8
Total	<u>\$ 3,637</u>	<u>\$ 3,637</u>



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

The following is a summary of the significant transfers:

- \$3,629,000 was transferred from the Huntington Beach Project Area #1 Debt Service Fund and \$8,000 was transferred from the Southeast Coastal Project Area Debt Service Fund to the Low-Income Housing Fund to comply with 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, 2010**

7. LONG-TERM DEBT

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

	Balance October 1, 2009	Additions	Retirements	Balance September 30, 2010	Amount Due within One Year
DEBT TO CITY OF HUNTINGTON BEACH:					
Advances from General Fund	\$ 10,903	\$ 1,143	\$ (3,051)	\$ 8,995	\$ -
Advances from Sewer Fund	260	5	-	265	-
Advances from Drainage Fund	625	14	-	639	-
Advances from Water Fund	3,871	92	-	3,963	-
Deferred Development Fees:					
Park Acquisition and Development Fund	382	9	-	391	-
Sewer Fund	162	4	-	166	-
Drainage Fund	171	4	-	175	-
Deferred Payment on Land					
Purchases from City:					
General Fund	62,213	1,487	(2,472)	61,228	-
Emerald Cove	4,866		(405)	4,461	406
Park Acquisition and Development Fund	5,144	123		5,267	-
Total Debt - City of Huntington Beach	88,597	2,881	(5,928)	85,550	406
OTHER DEBT					
Help Loan	500	-	-	500	-
Mayer Disposition and Development Agreement	6,503		(350)	6,153	-
1999 Refunding Tax Allocation Bonds	7,020		(410)	6,610	430
2002 Tax Allocation Refunding Bonds	15,380		(910)	14,470	945
Bella Terra Parking	14,227		(151)	14,076	-
CIM DDA (Parking & Infrastructure)	7,768		(324)	7,444	157
CIM DDA (Additional Parking)	421	19		440	6
Section 108 Loan	3,955	-	(290)	3,665	310
Pollution Remediation		200		200	200
Employee Compensated Absences	107	37	(15)	129	-
Total Other Debt	55,881	256	(2,450)	53,687	2,048
Total Agency Debt	\$ 144,478	\$ 3,137	\$ (8,378)	\$ 139,237	\$ 2,454



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

a. Advances from General Fund to Merged Project Area

Year(s) debt incurred	1985 to 1996
Interest rate	3.81% *
Principal amount	\$8,879,612
Accrued interest	\$115,373
Balance at Fiscal Year End	\$8,994,985
Purpose of debt	Operating, administrative and capital expenditures
Security for debt	Operative Agreement with City
Principal and Interest Payment Date	October 1st

b. Advances from City's Sewer Fund

Year(s) debt incurred	1989
Interest rate *	3.81% *
Principal amount	\$130,560
Accrued interest	\$134,769
Balance at Fiscal Year End	\$265,329
Purpose of debt	Sewer Construction
Security for debt	Operative Agreement with City
Principal and Interest Payment Date	October 1st

c. Advances from City's Drainage Fund

Year(s) debt incurred	1987
Interest rate *	3.81% *
Principal amount	\$250,000
Accrued interest	\$389,443
Balance at Fiscal Year End	\$639,443
Purpose of debt	Drainage Construction
Security for debt	Operative Agreement with City
Principal and Interest Payment Date	October 1st



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

d. Advances from City's Water Fund

Year(s) debt incurred	1986 and 1987
Interest rate *	3.81% *
Principal amount	\$1,138,000
Accrued interest	\$2,825,276
Balance at Fiscal Year End	\$3,963,276
Purpose of debt	Water Construction
Security for debt	Operative Agreement with City
Principal and Interest Payment Date	October 1st

e. Deferred Development Fees

Year(s) debt incurred	1984
Interest rate *	3.81% *
Principal amount	\$339,202
Accrued interest	\$392,647
Balance at Fiscal Year End	\$731,849
Purpose of debt	Developer Incentive
Security for debt	Operative Agreement with City
Principal and Interest Payment Date	October 1st

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

Year(s) debt incurred	1983 to 1992
Interest rate *	3.81% *
Principal amount	\$32,833,417
Accrued interest	\$29,394,921
Balance at Fiscal Year End	\$61,228,338
Purpose of debt	Parcel consolidation and development
Security for debt	Operative Agreement with City
Principal and Interest Payment Date	October 1st

* The accrued interests for fiscal year 2009/10 were based on the City Treasurer's Annual Rate of Return in Investments of 2.39%. In January 2011, the City Council/Redevelopment Board approved a revised Cooperation Agreement, which



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

included a Promissory Note that memorialized indebtedness previously incurred by the Agency and owed to the City from a series of loans made from the City to the Agency from 1982 to present. Based on this Cooperation Agreement, future accrued interests will be based on 3.81%.

g. Deferred Payment on Land Purchases from City

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. The balance of the note from the Low-Income Housing Fund to the City as of September 30, 2010 is \$4,461,000.

Debt service requirements to maturity are (in thousands):

Year Debt Incurred	2009
Original Principal Amount	\$5,171,000
Interest Rates	4.75% - 5.5%
Purpose of Debt	Conveyance of Emerald Cove Senior Apartments
Security	Agreement with City

Year Ending September 30,	Principal	Interest	Total
2011	232	174	406
2012	241	163	404
2013	254	151	405
2014-2021	2,573	673	3,246
Total	\$ 3,300	\$ 1,161	\$ 4,461



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

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

Year(s) debt incurred	1984
Interest rate *	3.81% *
Principal amount	\$1,740,834
Accrued interest	\$3,526,576
Balance at Fiscal Year End	\$5,267,410
Purpose of debt	Emerald Cove Land
Security for debt	Operative Agreement with City
Principal and Interest Payment Date	October 1st

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, 2010, the Agency obligation under the agreement amounted to \$6,153,000. Project-generated revenues as available will repay these amounts through September 30, 2023.

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



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

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

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

Year Ending September 30,	Principal	Interest	Total
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	\$ 6,610	\$ 2,357	\$ 8,967

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 defease 1992 Public Financing Authority bonds



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

Debt service requirements to maturity are (in thousands):

Year Ending September 30,	Principal	Interest	Total
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	\$ 14,470	\$ 5,116	\$ 19,586

Pledged Revenues

The 1999 and 2002 Tax Allocation Refunding Bonds are secured by tax increment revenues excluding the 20% total tax increment dedicated to the Low Income Housing fund. As of September 30, 2010, the total principal and interest remaining for both bonds is \$28,553,000. Pledged tax increment revenue recognized during the fiscal year was \$14,549,000 against the total debt service payment of \$2,366,000. Although the incremental property taxes were projected to produce sufficient revenues to meet the debt service requirements over the life of the bonds, certain conditions could have a material adverse impact on revenues allocated to the Agency. These include future decreases in the assessed valuation of the project areas, decreases in the applicable tax rates or collection rates, general decline in the economic condition of the project areas, or a change in law reducing the tax increment received by the Agency.

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, 2010, the Agency obligation under the agreement amounted to \$14,076,000. Project-generated revenues as available will repay these amounts through September 30, 2025.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

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 September 30, 2010, the Agency obligation under the agreement amounted to \$7,444,000.

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

Year Ending September 30,	Principal	Interest	Total
2011	157	521	678
2012	168	510	678
2013	179	498	677
2014	192	486	678
2015-2024	2,839	3,940	6,779
2025-2033	3,909	1,276	5,185
	\$ 7,444	\$ 7,231	\$ 14,675



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

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 City Parking In-Lieu Fund repaid \$500,000 of the total debt in fiscal year 2008/09. The remaining loan repayment shall be made solely from net tax increment generated by the Merged Redevelopment Project Area by 2033. As of year-end, the Agency obligation under the agreement amounted to \$440,000.

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

Year Ending September 30,	Principal	Interest	Total
2011	5	44	49
2012	6	43	49
2013	7	43	50
2014	7	42	49
2015-2024	130	366	496
2025-2033	285	160	445
	\$ 440	\$ 698	\$ 1,138

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	2.3% - 3.3%



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

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
2011	310	84	394
2012	330	80	410
2013	350	78	428
2014	375	73	448
2015-2019	2,300	219	2,519
Total	3,665	534	4,199

In fiscal year 2009/10, the Agency refinanced its Section 108 loan through the Department of Housing and Urban Development. The refinancing of the Section 108 loan enabled the Agency to lower its current interest rate from 7.7% to an interest rate of no greater than 3%. The refinancing will result in \$1,000,000 savings throughout the loan.

q. Pollution Remediation

The Agency purchased property on Edinger Avenue to consolidate land for redevelopment on January 28, 2009. The Agency plans on remediating hazardous materials on this site. The estimated cost of cleanup is \$200,000 and it is reported as a long-term liability. The cleanup costs will not exceed the estimated amount as an environmental insurance policy taken by the Agency will indemnify itself against further liability.

r. Employee Compensated Balances

There is no fixed repayment to pay the compensated absences liability totaling \$129,000 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



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

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, 2010, the project has not commenced yet.

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, 2010, there was no change in debt for the Southeast Coastal Project other than for interest accrual.

Year(s) debt incurred	2003
Interest rate *	2.39%
Principal amount	\$7,076,657
Accrued interest	\$ 13,662
Balance at Fiscal Year End	\$7,090,319
Purpose of debt	Operating, administrative and capital expenditures
Security for debt	Operative Agreement with City
Principal and Interest Payment Date	October 1 st



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

* The accrued interests for fiscal year 2009/10 were based on the City Treasurer's Annual Rate of Return in Investments of 2.39%. In January 2011, the City Council/Redevelopment Board approved a revised Cooperation Agreement, which included a Promissory Note that memorialized indebtedness previously incurred by the Agency and owed to the City from a series of loans made from the City to the Agency from 1982 to present. Based on this Cooperation Agreement, future accrued interests will be based on 3.81%.

10. NOTES RECEIVABLE

The Agency has made loans of \$19,903,626 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. As of September 30, 2010, the net loans receivable balance includes the \$8,000,000 conveyance of the Emerald Cove Senior Apartments and the Agency's financing of the developer's acquisition of the site to a non-profit affordable housing developer.

A summary of Notes Receivable as of September 30, 2010 is as follows:

<u>Description</u>	<u>Amounts</u>
Developer Loans Receivable	\$ 19,903,626
Emerald Cove Loan Receivable	8,070,000
Help Loan	500,000
First Time Homebuyers Receivable	618,410
Section 108	6,000,000
Other Receivables	172,049
Total Other Receivables	<u>35,264,085</u>
Allowance for Uncollectible Developer Loans	<u>(26,403,626)</u>
Net Notes Receivables	<u>\$ 8,860,459</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, 2010 were a negative (\$59,421,000). This is mainly because of how Redevelopment Agencies are



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

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, the Agency's SERAF contribution for fiscal year 2009-10 was \$5,380,000. The Agency's estimated contribution for fiscal year 2010-11 is \$1,107,000. On October 20, 2009, the California Redevelopment Association filed a class action lawsuit on behalf of all California Redevelopment Agencies, challenging the SERAF transfer as unconstitutional. The case is currently under appeal.

14. SUBSEQUENT EVENT

a. Bella Terra Phase II

On October 4, 2010, the Agency approved the Affordable Housing Agreement with BTDJM Phase II Associates (DJM). The Agreement will facilitate the construction of a 467 mixed-use unit project including 43 moderate units and 28 very low units. This Agreement will reimburse DJM for construction of the affordable units only up to \$17,000,000 plus 4% interest. The Agreement also includes payment to DJM of up to \$250,000 for the pedestrian access crossing between the Levitz site and the Village at Bella Terra if construction is within 10 years of the Affordable Housing Agreement. The reimbursement of the affordable units will be based upon the site-generated tax increment for the mixed use project as well as the 20% housing fund from Bella Terra I.

b. Governor's Proposed 2011-12 Budget: Disestablishment of Redevelopment Agencies

On January 10, 2011, the Governor released the proposed fiscal year 2011-12 State budget, which proposes the elimination of redevelopment agencies. The proposed budget calls for prohibiting redevelopment agencies from creating new contracts or obligations or modifying existing contracts on or after the date urgency legislation is adopted. The proposed budget also calls for disestablishing existing agencies by July 1, 2011, and establishing successor local agencies, which would be required to use the property tax that the agencies would otherwise have received to retire pre-existing



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

agency debts and contractual obligations in accordance with existing payment schedules. In this regard, the Governor's Budget Summary for the proposed 2011-12 State budget states, "No existing obligations will be impaired." This is a reference to provisions in the federal and state constitutions that, subject to certain exceptions, generally prohibit states from passing a law that impairs the obligations of contracts.

Under the Governor's proposal, the amount remaining in fiscal year 2011-12 after the payment of pre-existing agency obligations would be distributed on a one-time basis in various ways, including to the affected local taxing entities (including cities) and to the State General Fund to offset the costs for Medi-Cal and trial courts. Beginning in fiscal year 2012-13, the amount remaining after the payment of pre-existing agency obligations generally would be distributed to cities, counties, special districts, and K-14 schools in amounts proportionate to their share of the countywide property tax. Amounts in Low and Moderate Income Housing Funds would be shifted to local housing authorities for low and moderate income housing. However, under the Proposed Legislation (defined and described below), the amounts in the Low and Moderate Income Housing Fund, along with all the rights, powers, assets, liabilities, duties and obligations associated with the housing activities of the redevelopment agency may instead be shifted to the city or county that created the redevelopment agency. The budget also proposes that the Constitution be amended to provide for 55 percent voter approval for limited tax increases and bonding against local revenues for development projects such as those projects currently undertaken by redevelopment agencies.

On February 18, 2011, the California Senate and Assembly budget committees voted in favor of the proposed budget. The Assembly budget committee qualified its support by stating that the State general fund savings could be accomplished by legislation that would reform rather than eliminate redevelopment. On February 23, 2011, the California Department of Finance released language of proposed legislation that would implement the Governor's proposed budget with respect to the dissolution of redevelopment agencies (the "Proposed Legislation"). The Proposed Legislation has not been formally introduced as of March 28, 2011, but the Agency expects it will be introduced and taken up by the budget conference committee in the near future. It appears that the normal process of hearings in policy committees and the attendant opportunity for amendment and refinement of the Proposed Legislation may not be followed, although the budget conference committee would have wide latitude to amend the Proposed Legislation. Accordingly, no assurance can be given regarding whether or not the Proposed Legislation will be enacted in its present form, or at all.

The Proposed Legislation is styled as an urgency measure, which requires a two-thirds vote of each house of the Legislature for passage, and which would become effective immediately upon the signature of the Governor.



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

Under the Proposed Legislation, the Agency would be prohibited from entering into any new contracts with, or incurring obligations or making commitments to, any entity, individual or groups of individuals upon the effectiveness of the Proposed Legislation. The Agency would be dissolved and, unless the City elects otherwise, the City would become the successor entity to the Agency (the "Successor Agency"), to settle the affairs of the Agency. The Successor Agency would be subject to the direction of an oversight board (the "Oversight Board"), to be composed of seven members, with only one member selected by the City Council. The remaining members would be selected by the County Board of Supervisors, the County Superintendent of Education and the largest non-enterprise special district (by property tax share) with territory within the territorial jurisdiction of the former Agency. All assets, properties, contracts, leases, books and records, buildings and equipment of the former Agency would be transferred to the control of the Successor Agency on July 1, 2011. The Successor Agency would be charged with preparing "Recognized Obligation Payment Schedules," which document the minimum payments and due dates of payments required by "enforceable obligations" for each half-year fiscal period. The establishment of the Recognized Obligation Payment Schedules would be subject to the Oversight Board's approval. "Enforceable obligations" include, among other things, bonds issued pursuant to the Redevelopment Law (including the required debt service, reserve set-asides and any other payments required under the indenture or similar documents governing the issuance of outstanding bonds of the former Agency).

For the 2011-12 fiscal year, the draft of the Recognized Obligation Payment Schedule must be reviewed and certified, as to its accuracy, by an external auditor. The Proposed Legislation provides that payments due before January 1, 2012 will be made from revenues received in the spring of 2011 property tax distribution. Commencing January 1, 2012, only those payments listed in the Recognized Obligation Payment Schedule may be made by the Successor Agency from funds specified in the Recognized Obligation Payment Schedule.

Under the Proposed Legislation, the Oversight Board will be required to direct the Successor Agency to dispose of generally, all assets and properties of the former Agency, except for assets and properties deemed part of approved development projects, and cease performance in connection with and terminate all existing agreements that do not qualify as enforceable obligations. An "approved development project" is defined as a project (excluding an agreement for any of the following: planning, financing services, site search, or other staff or consulting activities in preparation for redevelopment work) where construction, site remediation, design, or environmental assessment work or property acquisition is required by the former Agency pursuant to an enforceable obligation between the former Agency and a party other than the entity that created the Agency (i.e., the City) and either (1) substantial



**Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
For the Year Ended September 30, 2010**

performance under the applicable agreements had taken place prior to the effective date of the Proposed Legislation in its final form, or (2) the Oversight Board determines that it would be beneficial for the taxing entities or the communities to continue the project even though there had not been substantial performance under the applicable agreements. The potential impact of the Proposed Legislation, if adopted as proposed, would be material to the Agency and the ability of the Agency or any Successor Agency to conduct, or continue to completion, redevelopment activities currently being undertaken or proposed to be undertaken by the Agency with respect to the Project Area.

Although the Agency cannot predict what the final language of the Proposed Legislation will be, the Proposed Legislation, in its current form, states that the intent of the Legislature is to do the following:

“(1) Bar existing redevelopment agencies from incurring new obligations that would divert any more money from core functions and dissolve all existing redevelopment. It is the intent of the Legislature that the greatest amount of funding be realized from these actions to fund core governmental services.

(2) Beginning with 2012-13 fiscal year, allocate these funds according to the existing property tax allocation, except for enterprise special districts, to make the funds available for cities, counties, special districts, school and community college districts to provide core governmental services. As a result of these actions, it is estimated that, by fiscal year 2012-13, these local entities will receive \$1.9 billion per year in new resources to use for their core priorities.

(3) Require a successor entity to settle the affairs of the redevelopment agencies.

(4) Require the protection of contractual rights by successor agencies, which will be required to retire redevelopment agency debts in accord with existing payment schedules. No existing contractual obligations will be impaired.”

The Proposed Legislation implements the above-described intent of the Legislature through a complex series of provisions, and appears to contain several inconsistencies and drafting problems which will likely require revision. The Agency cannot predict what the final language of the Proposed Legislation will be or whether the Proposed Legislation in any form will be adopted.

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**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH
CALCULATION OF LOW/MODERATE INCOME HOUSING FUNDS - EXCESS SURPLUS
October 1, 2009
(IN THOUSANDS)**

ENDING FUND BALANCE - OCTOBER 1, 2009	\$	12,017
Less Unavailable Amounts:		
Encumbrances		(7,024)
Advances to Other Funds		(1,363)
		(1,363)
AVAILABLE FUND BALANCE - OCTOBER 1, 2009		\$ <u>3,630</u>
 AVAILABLE LOW/MODERATE INCOME HOUSING FUNDS LIMITATION (GREATER OF \$1,000,000 OR FOUR YEARS SET-ASIDE):		
Set-aside for fiscal years 2005-06 to 2008-09		
2005-2006		2,780
2006-2007		3,062
2007-2008		3,405
2008-2009		3,677
		12,924
TOTAL SET-ASIDE FOR LAST FOUR YEARS		<u>12,924</u>
COMPUTED EXCESS/SURPLUS - OCTOBER 1, 2009		\$ <u><u>-</u></u>

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The Board of Directors of the
Redevelopment Agency of the City of Huntington Beach

**Independent Auditor’s 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***

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Huntington Beach (Agency), a component unit of the City of Huntington Beach, California, as of and for the year ended September 30, 2010, which collectively comprise the Agency’s basic financial statements and have issued our report thereon dated March 28, 2011. 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 opinions 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 entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of 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 over financial reporting 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 Agency’s basic financial statements are free of material misstatement, 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 include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment*

Agencies issued by the California State Controller's Office, Division of Accounting and Reporting. 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 of the Board of Directors and management of the Agency 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 specified parties.

Macias Fini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

March 28, 2011