

POPULAR ANNUAL Financial Report



October 1 • 2005 – September 30 • 2006

Published March 2007

Huntington Beach, California



About Huntington Beach *City Profile*



ELECTED OFFICIALS

From left to right:

City Attorney Jennifer McGrath

Councilmember Don Hansen

City Clerk Joan Flynn

Councilmember Cathy Green

Councilmember Joe Carchio

Councilmember Jill Hardy

Mayor Gil Coerper

Councilmember Keith Bohr

City Treasurer Shari Freidenrich

Mayor Pro Tem Debbie Cook

The City of Huntington Beach is located along the Southern California coast in Orange County, 35 miles south of Los Angeles and 90 miles north of San Diego. With a population of approximately 200,000 residents, it is known as Surf City due to its abundance of beaches; sunny, warm Mediterranean climate; and casual lifestyle. Huntington Beach covers 28 square miles of land, 26 square miles of water, and is the 16th largest City in California. With 8.5 miles of uninterrupted beach along the Pacific Ocean, the City hosts annual visitor population of over 11 million people, especially during the summer, special events and weekends. Listed among the nation's safest cities for decades, Huntington Beach has often been ranked among the Top Ten Safest Cities by City Crime Rankings.

The City of Huntington Beach is a full service city. Founded in the late 1880s, Huntington Beach was incorporated as a Charter City in 1909. Huntington Beach has a City Council/City Administrator form of government. The City Council has seven members, each of whom are elected to four-year terms. City Council Members are limited to two consecutive terms. There are three elected department heads, the City Attorney, City Clerk and City Treasurer. The position of Mayor is filled on a rotating basis. Other departments include the City Administrator's Office, Building and Safety, Community Services, Economic Development, Finance, Fire, Information Services, Library Services, Planning, Police, and Public Works.

LOCAL ECONOMY

The City of Huntington Beach is one of the leading commercial and industrial centers in Southern California. The City works diligently to maintain its business friendly atmosphere, working closely with the Huntington Beach Chamber of Commerce and the Huntington Beach Conference and Visitors Bureau. The City seeks to attract new businesses and support existing business through retention and expansion efforts. Benefits from tourism and continued modest economic growth should allow for sustainable revenue growth for the City.

As the third largest city in Orange County, more than 118,800 people are currently employed by over 12,800 businesses in the City. Huntington Beach residents represent nearly ten percent of the entire Orange County working population. Huntington Beach businesses include aerospace and high technology; petroleum and petroleum support; manufacturing; computer hardware and software; financial and business services; automobile services; machine shop services, precision instruments and retailers and surf apparel – just to name a few.



Popular Annual Financial Report

This report provides an overview of the City's financial position, including sources of revenues and expenditures, as well as economic information about the community. The Popular Annual Financial Report (PAFR) of the City of Huntington Beach is presented to increase public awareness about the City's financial condition through an easy to read and understand report.

The PAFR summarizes the financial activities of the City of Huntington Beach's governmental and proprietary funds and was drawn from the financial information presented in the 2006 Comprehensive Financial Report (CAFR). The CAFR was prepared in conformance with generally accepted accounting principles (GAAP) and includes financial statements audited by Caporicci & Larson, Certified Public Accountants. The City received an unqualified (or clean) opinion that the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund,

and the aggregate remaining fund information of the City. The amounts within the CAFR were arrived at by employing accrual and modified accrual basis accounting techniques as prescribed by the Governmental Accounting Standards Board (GASB).

This PAFR is unaudited and is presented on a non-GAAP basis. The differences between the GAAP basis presentation in the CAFR and the non-GAAP presentation in the PAFR are: the use of prescribed accounting methods and financial statement formats; the presentation of segregated funds; and the disclosure of all material financial and non-financial matters in notes to the financial statements. Individuals who desire to review audited GAAP-based, full disclosure financial statements should refer to the City's CAFR, which is available on the City's website: www.surfcity-hb.org, or by contacting the Finance Department at 2000 Main Street, Huntington Beach, California, 92648, phone (714) 536-5360, or e-mail cgonzales@surfcity-hb.org.



Key Financial Information

CITY DEBT

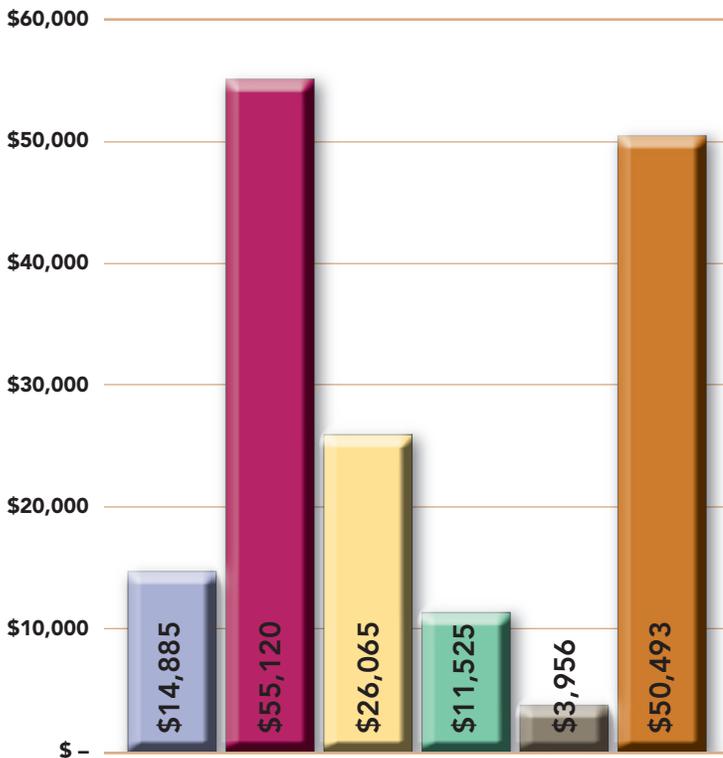
The City of Huntington Beach is legally restricted to issuing general obligation bonds to 15 percent of its assessed valuation. Since the City has no general obligation bonds outstanding, the limit does not apply.

The City continues to maintain excellent credit ratings on all of its debt issues. The chart on the right shows the latest ratings as determined by Moody's Investor Service and Standard and Poor's:

Debt Instrument	Moody's	S & P
1998 Tax Allocation Refunding Bonds	Aaa	AAA
2000 Lease Revenue Bonds, Series A	Aaa	AAA
2001 Lease Revenue Bonds, Series A	Aaa	AAA
2001 Lease Revenue Bonds, Series B	Aaa	AAA
2002 Tax Allocation Refunding Bonds	Aaa	AAA
2004 Judgment Obligation Bonds	Aa3	AA-
Housing Set-Aside Tax Allocation	Aaa	Not Available

Total City Debt As of September 30, 2006

(In Thousands)



Certificates of Participation – Long-term debt used for capital improvements. This debt will be repaid from increased revenues in concessions, parking, and sales tax generated by the improvements.

Revenue Bonds – Long-term issues used to finance civic improvements. The bonds are repaid from revenues generated from the lease on the buildings that were improved.

Tax Allocation Bonds – Debt used for redevelopment agency project improvements. This debt is repaid by tax increment revenues generated by improvements made to project areas.

Judgment Obligation Bonds – Debt used to pay claims on court judgments.

Claims – Workers' Compensation and Liability Insurance claims made to the City.

Other – Miscellaneous long-term debts that include: loans, compensated absences, leases, and unfunded pension obligations.



CAPITAL ASSETS

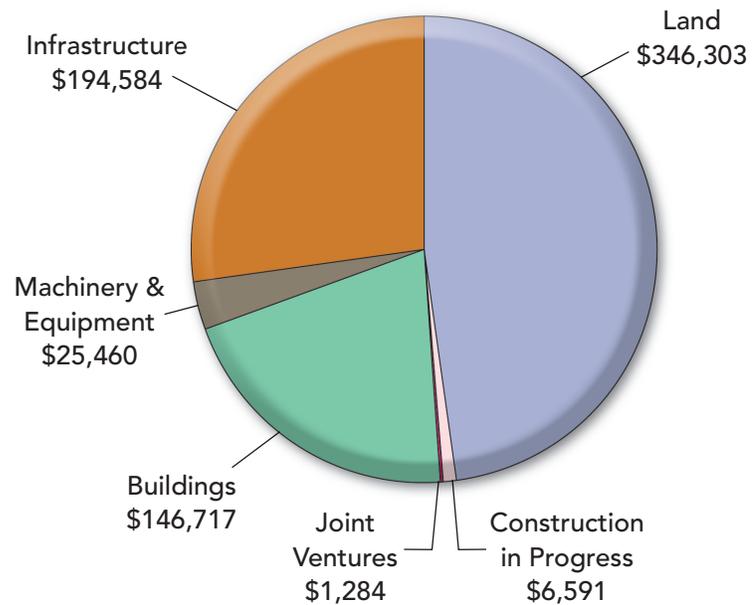
(Property, Plant, and Equipment)

As of September 30, 2006, the City's total capital assets balance is \$720,939,000. This total amount is broken down in the following categories:

	Land
	Construction in Progress
	Joint Ventures
	Buildings
	Machinery & Equipment
	Infrastructure

City of Huntington Beach Capital Assets (Net of Depreciation) As of September 30, 2006

(In Thousands)



Investment Portfolio

The market value of the City's cash and investment as of September 30, 2006 is as follows (in thousands):

The City's investment practices and policies are based upon state law and prudent money management. The primary goals of these investment practices and policies are:

- To assure compliance with all Federal, State, and local laws governing the investment of public funds under the control of the City Treasurer.
- To protect the principal monies entrusted to the City Treasurer.
- Achieve a reasonable rate of return within the parameters of prudent risk management while minimizing the potential for capital losses arising from market changes or issuer default.

Investment Maturities (In Years)

DEPOSITS:	Fair Value	Less than 1	1 to 3	3 to 5	More than 5	Total
Demand Accounts	\$ 2	\$ 2	\$ -	\$ -	\$ -	\$ 2
INVESTMENTS:						
US Treasuries	26,080	15,904	9,846	-	330	26,080
US Agencies	96,931	34,423	55,896	6,612	-	96,931
Guaranteed Investment Contracts	8,238	-	-	-	8,238	8,238
Commercial Paper	28,775	28,775	-	-	-	28,775
Money Market Funds	2,369	2,369	-	-	-	2,369
Medium Term Notes	-	-	-	-	-	-
Local Agency Investment Fund	20,175	20,175	-	-	-	20,175
Subtotal of Investments	182,568	101,646	65,742	6,612	8,568	182,568
Total Deposits and Investments	\$182,570	\$101,648	\$65,742	\$6,612	\$8,568	\$182,570

The total presented above does not include balances related to funds needed for other entities and pension trust fund.



City Financials

Statement of Net Assets

The following financial summary is based upon a condensed view of the City's assets and liabilities for all funds as of September 30, 2006.

City of Huntington Beach Statement of Net Assets As of September 30, 2006

(In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Assets						
Current and other assets	\$164,117	\$150,476	\$91,024	\$82,124	\$255,141	\$232,600
Capital assets	609,248	601,849	111,691	102,180	720,939	704,029
Total assets	773,365	752,325	202,715	184,304	976,080	936,629
Liabilities						
Current and other liabilities	46,859	40,635	6,067	5,802	52,926	46,437
Long term liabilities	151,484	152,340	868	786	152,352	153,126
Total liabilities	198,343	192,975	6,935	6,588	205,278	199,563
Net Assets						
Invested in capital assets, net of related debt	472,372	479,897	111,651	102,068	584,023	581,965
Restricted	68,381	39,227	31,109	34,085	99,490	73,312
Unrestricted	34,269	40,226	53,020	41,563	87,289	81,789
Total net assets	\$575,022	\$559,350	\$195,780	\$177,716	\$770,802	\$737,066

Current and Other Assets – Assets that one can reasonably expect to convert to cash, sell, or consume within one year.

Capital Assets – The City's long-term investments in land, buildings, equipment, improvements, infrastructure, and construction in progress. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Current and Other Liabilities – These are primarily debts that can be paid off in one year or less. This includes accounts payable, accrued payroll, accrued interest payable, and deferred revenue.

Long-Term Liabilities – Represents mainly debt obligations of the City. The proceeds from these various debt issues are used to finance large projects such as building construction and renovations, major equipment purchases, and roadway construction.

Invested in Capital Assets, Net of Related Debt – This represents the City's investment in its capital assets less accumulated depreciation and any outstanding debt attributable to the acquisition, construction, or improvement of these assets. It should be noted that the resources needed to repay this debt must be provided by other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted Net Assets – Resources whose use is subject to externally imposed restrictions. The City has resources set aside for debt service, capital projects, and specific projects and programs as established by the City Council.

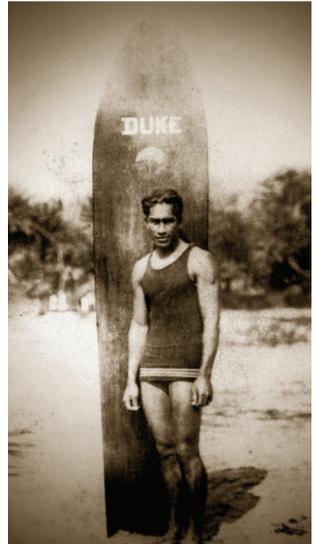
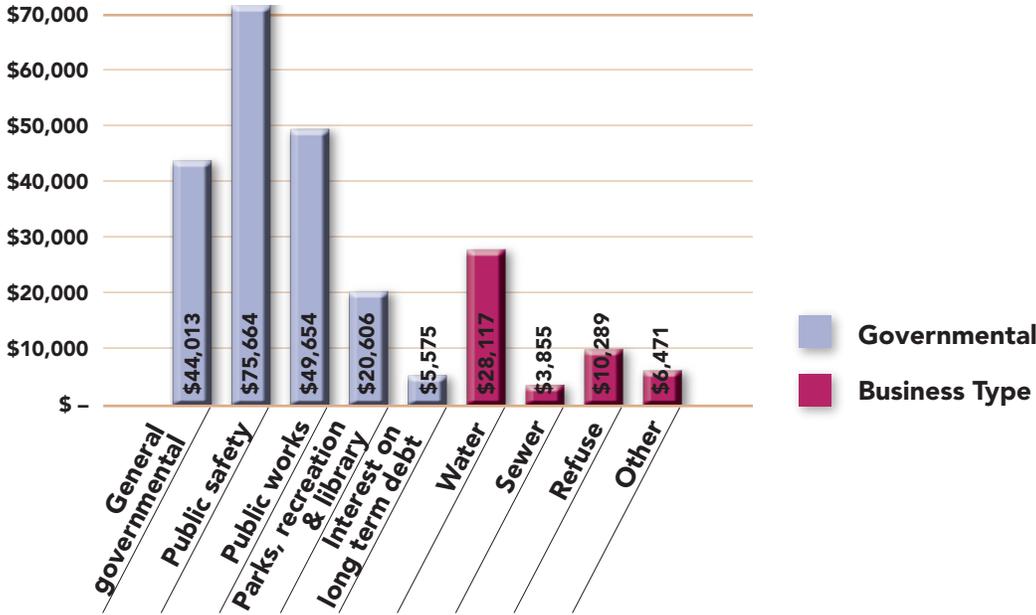
Unrestricted Net Assets – These are resources that are accessible to the City to provide services to the residents of Huntington Beach if there were no additional revenues or resources available.



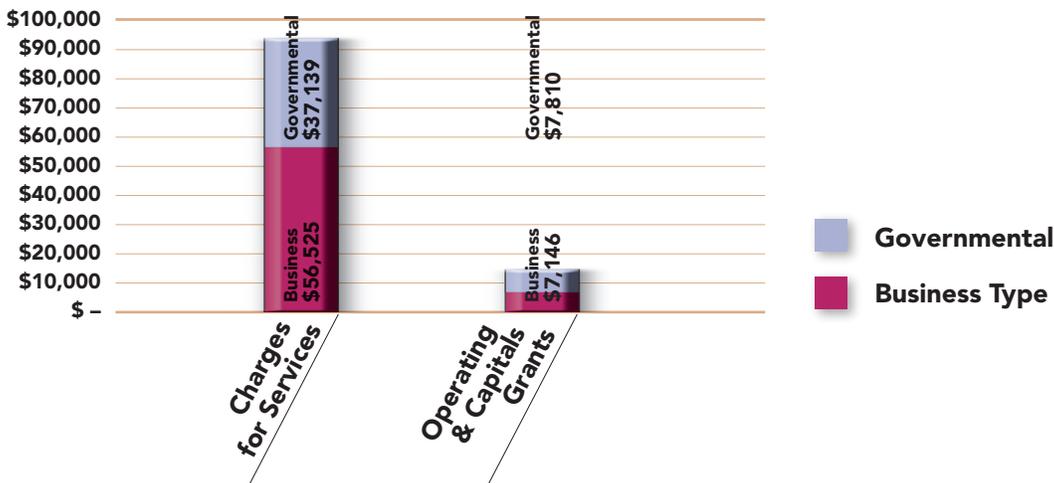
Statement of Activities

The following graphs show the revenues and expenses for Governmental and Business-type activities as it relates to the program category in which the funds were collected or expended. Governmental activities include the General Fund, Redevelopment Agency Fund, Debt Service Fund, Capital Projects Fund, and Special Revenue Fund. Business-type activities include the Water Fund, Sewer Fund, and Refuse Fund.

City of Huntington Beach Expenses Governmental and Business-Type Activities For the Year Ending September 30, 2006 (In Thousands)



City of Huntington Beach Program Revenues Governmental and Business-Type Activities For the Year Ending September 30, 2006 (In Thousands)



Governmental Funds

The City maintains 20 individual governmental funds. Governmental funds are used to account for tax-supported activities of the City, such as: public safety, public works, general government, and community-related services. The major governmental funds are the General Fund, Redevelopment Agency, Public Financing Authority, and Grant Fund.

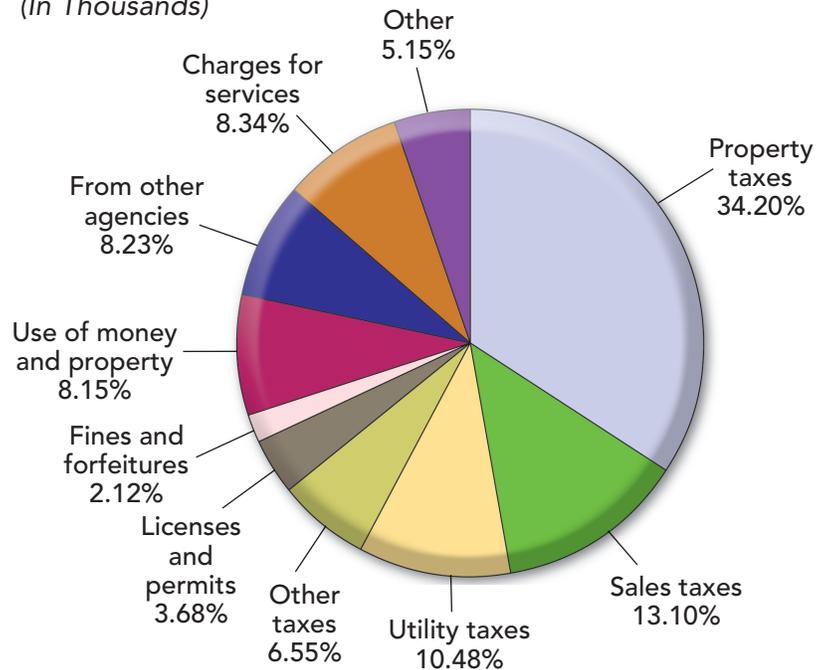
Revenue/Resources (Where the Money Comes From)

The City received over \$201,938,000 from various funding sources for the fiscal year ending September 30, 2006.

City of Huntington Beach Statement of Revenues Governmental Funds For the Year Ended September 30, 2006

(In Thousands)

REVENUES BY SOURCE	
Property taxes	\$69,065
Sales taxes	26,448
Utility taxes	21,170
Other taxes	13,226
Licenses and permits	7,432
Fines and forfeitures	4,288
Use of money and property	16,461
Other agencies	16,611
Charges for services	16,832
Other	10,405
Total	\$201,938



The largest source of operating revenues for the City is property taxes. Property taxes are levies collected from property within the City based on assessed value and a tax rate.

Sales taxes, the second largest source of revenue for the City, are imposed on retail transactions and are collected and administered by the State. Huntington Beach receives 0.75% of the total taxable sales generated within the City.

A utility tax of five percent is imposed on consumers of telephone, electricity, gas, water, and cable television services within the City. Utility taxes are the third largest revenue generator for the City.

The "other taxes" category is comprised of the following:

- Franchise fee – negotiated fee revenue received from local utilities
- Transient occupancy tax – imposed on lodging facilities such as hotels and motels. The City's current tax rate is set at 10 percent.

Licenses and permits represent revenues generated from a variety of activities, such as business licenses, parking permits, and building-related permits.

Revenue from fines and forfeitures are generated from various sources, such as court and traffic fines, parking violations, and library fines.

Revenue from use of money and property includes sources such as interest on City investments, leases, parking fees, and concessions.

Revenue from other agencies is primarily reimbursements from Federal, State and County sources.

Charges for services are revenues collected for services rendered to the public.

Other revenues are those that do not fall into designated categories, such as refunds, donations, and passport services fees.



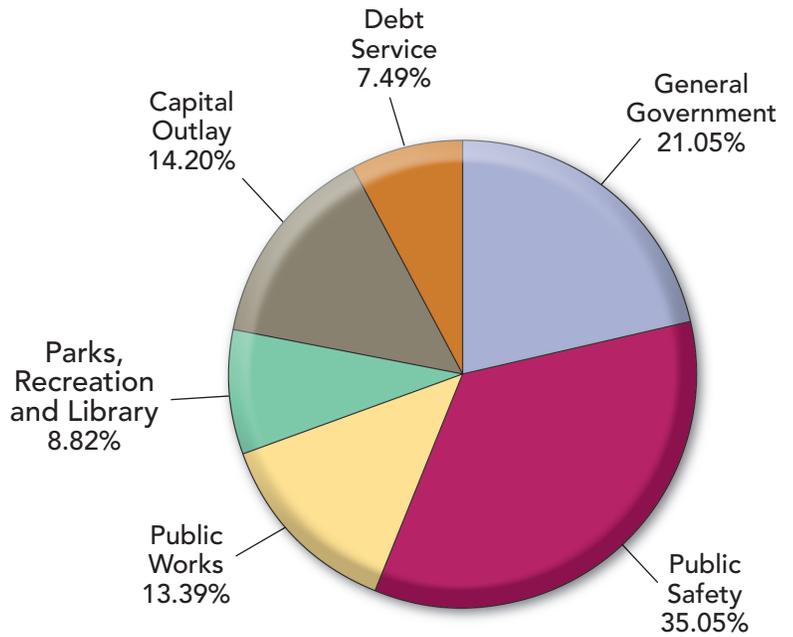
Expenditures/Services Provided (Where the Money Goes)

The City incurs expenditures to meet the diverse needs of the community. As a full service city, Huntington Beach provides fire and police services, as well as recreational and cultural opportunities. For the period October 1, 2005, to September 30, 2006, the total expenditures incurred by the City are \$212,487,000.

City of Huntington Beach Statement of Expenditures Governmental Funds For the Year Ended September 30, 2006

(In Thousands)

EXPENDITURES	
General government	\$44,721
Public safety	74,485
Public works	28,448
Parks, recreation and library	18,741
Capital outlay	30,174
Debt service	15,918
Total	\$212,487



General government expenditures are those incurred for the administrative offices, including the Mayor and City Council, City Administrator, City Treasurer, City Attorney, Finance, City Clerk, Human Resources, Economic Development, Building and Safety, and Planning.

Public Safety expenditures reflect the costs associated with providing the citizen's protection. This includes the police and fire divisions of the Community Services Department.

Expenditures for **public works** are those related to the design, construction, maintenance, and operation of public facilities and infrastructure within the City.

Parks, recreation, and library expenditures are those incurred by the City to enrich the quality of life in Huntington Beach through Parks Recreation, Cultural, Social and Marine Safety Services, and to support the educational and informational needs of its residents and patrons.

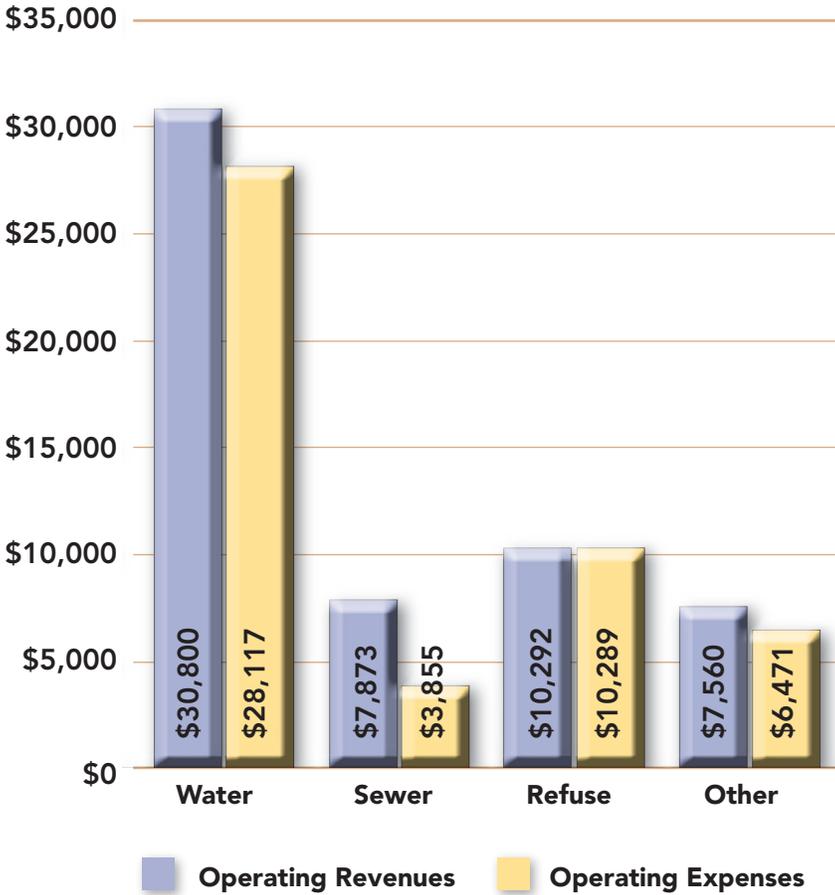
Capital expenditures are expenses related to the purchase of plant, property, and equipment.

Debt service expenditures are expenses related to the retirement of the City's debt.



Business-Type Funds

Business-type funds are used to report any activity for which a fee is charged to users for goods or services, similar to private business. Over time, these funds generate enough revenue to cover the costs of their operating expenses. The City maintains seven business-type funds.



The **Water Fund** accounts for water sales to customers.

The **Sewer Service Fund** accounts for user fees charged to residents and businesses for sewer services.

The **Refuse Fund** accounts for the activities of the City's refuse program.

Other enterprise funds include:

- **Emerald Cove Housing Fund** which accounts for the operations of a senior citizens' apartment complex
- **Emergency Fire Medical Fund** which accounts for the user-fee portion of the City's paramedic service
- **Hazmat Service Fund** which accounts for user fees charged for the City's hazardous material program
- **Ocean View Estates Fund** which accounts for the operation of the Ocean View Mobile Home Park owned by the City



Where Do the Taxes Go?

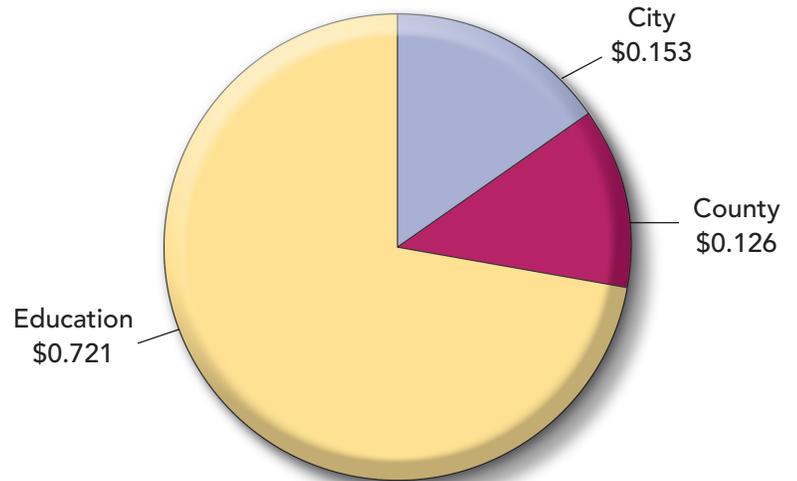
PROPERTY TAXES

The largest source of revenue for the City of Huntington Beach is property taxes. Personal property in California is subject to a basic levy equal to one percent of the assessed value. The California Constitution, after passage of Proposition 13 in 1978, fixed valuations of real property at 1975 levels, with a maximum adjustment of two percent per year based on inflation. When a change of ownership or new construction occurs, the property is reassessed to its current value. The basic levy 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.

The chart on right shows the distribution of the total levy for each property tax dollar paid in the City of Huntington Beach in the largest tax rate area.

Huntington Beach Property Tax Dollar Breakdown

Tax Rate Area 04-001



Huntington Beach **Leading Indicators**

Huntington Beach by the Numbers

Property Tax Rate	1.06575% (varies by tax rate area)
Unemployment Rate	2.40%
Bond Rating	AA- and AAA (S&P); Aaa and Aa3 (Moody's)
Retail Sales Tax Revenue	\$26,448,000
Total City Debt	\$162,044,000
City Net Assets	\$770,802,000



City of Huntington Beach
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