

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



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

**For the Year Ended September 30, 2005**



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



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

**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

Prepared by the Finance Department





**Redevelopment Agency of the City of Huntington Beach  
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For the Year Ended September 30, 2005**

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## INDEPENDENT AUDITORS' REPORT

To the Members of the Redevelopment Agency  
of the City of Huntington Beach  
Huntington Beach, California

We have audited the accompanying basic financial statements of the Redevelopment Agency of the City of Huntington Beach (Agency), a component unit of the City of Huntington Beach, as of and for the year ended September 30, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Governmental Accounting 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of September 30, 2005, and the results of its operations and changes in fund balance for the year then ended in conformity with generally accepted accounting principles in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report date February 17, 2006 on our consideration of Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts, and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Required Supplementary Information, as listed in the table of contents, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This Required Supplementary Information is the responsibility of the management of the Agency. This Required Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects when considered in relation to the basic financial statements taken as a whole.

Costa Mesa, California  
February 17, 2006

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## Redevelopment Agency of the City of Huntington Beach Management's Discussion and Analysis For the Year Ended September 30, 2005

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, 2005. Please read it in conjunction with the accompanying basic financial statements and the notes to those financial statements.

### **THE FINANCIAL STATEMENTS**

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

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

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

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

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

### **FUND FINANCIAL STATEMENTS**

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

The fund financial statements provide detailed information about the most significant funds – not the Agency as a whole. These funds are reported using the modified accrual basis of accounting, rather than on the full accrual basis. In the modified accrual basis, revenues are recognized in the period in which they become both measurable and available to finance





**Redevelopment Agency of the City of Huntington Beach  
Management's Discussion and Analysis  
For the Year Ended September 30, 2005**

expenditures of the current period. Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are property tax, other taxes, investment income, and other income. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

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



## Redevelopment Agency of the City of Huntington Beach Management's Discussion and Analysis For the Year Ended September 30, 2005

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Agency's combined net assets for the year ended September 30, 2005 were a negative \$(82,402,000). Under state law, Redevelopment Agencies' primary source of revenue is from tax increments that are derived from the increase in public and private investments due to the improvements in the properties that fall within the boundaries of a redevelopment project. These tax increment revenues are not sufficient to finance the activities of the agency therefore the agency issues bonds. These bonds are to be repaid over time solely from tax increments revenues. Redevelopment Agencies can only collect property tax increments to the extent it has debt on its books. Below is a summary of key items in the government-wide financial analysis (in thousands):

	<u>2005 Amount</u>	<u>2004 Amount</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
<b>Assets</b>				
Current and Other Assets	\$ 36,617	\$ 22,006	\$ 14,611	66.4%
Capital Assets	15,918	15,918	-	0.0%
<b>Total Assets</b>	<b><u>52,535</u></b>	<b><u>37,924</u></b>	<b><u>14,611</u></b>	<b><u>38.5%</u></b>
<b>Liabilities</b>				
Current Liabilities	4,842	6,156	(1,314)	-21.3%
Debt Payable to City of Huntington Beach	87,355	89,284	(1,929)	-2.2%
Long-Term Liabilities Payable within one year	1,360	1,310	50	3.8%
Long-Term Liabilities	41,380	43,512	(2,132)	-4.9%
<b>Total Liabilities</b>	<b><u>134,937</u></b>	<b><u>140,262</u></b>	<b><u>(5,325)</u></b>	<b><u>-3.8%</u></b>
<b>Net Assets</b>				
Invested in Capital Assets - Net of Related Debt	15,918	15,918	-	0.0%
Restricted	2,464	2,464	-	0.0%
Unrestricted	(100,784)	(120,720)	19,936	-16.5%
<b>Total Net Assets</b>	<b><u>(82,402)</u></b>	<b><u>(102,338)</u></b>	<b><u>19,936</u></b>	<b><u>-19.5%</u></b>
<b>Expenses</b>				
Economic Development	3,450	15,999	(12,549)	-78.4%
City Attorney	78	267	(189)	-70.8%
Non-departmental and Transfers	784	461	323	70.1%
Interest	3,679	1,989	1,690	85.0%
<b>Total Expenses</b>	<b><u>7,991</u></b>	<b><u>18,716</u></b>	<b><u>(10,725)</u></b>	<b><u>-57.3%</u></b>
<b>Revenues</b>				
Property Taxes	12,345	10,148	2,197	21.6%
Other Taxes	-	1,208	(1,208)	-100.0%
Use of Money and Property	860	853	7	0.8%
Participation Payments	12,697	410	12,287	2996.8%
Other	2,025	955	1,070	112.0%
<b>Total Revenue</b>	<b><u>27,927</u></b>	<b><u>13,574</u></b>	<b><u>14,353</u></b>	<b><u>105.7%</u></b>
<b>Excess of Revenue over Expense</b>	<b><u>19,936</u></b>	<b><u>(5,142)</u></b>	<b><u>25,078</u></b>	
Net Assets - Beginning of Year	(102,338)	(97,196)	(5,142)	5.3%
<b>Net Assets - End of Year</b>	<b><u>\$ (82,402)</u></b>	<b><u>\$ (102,338)</u></b>	<b><u>\$ 19,936</u></b>	<b><u>-19.5%</u></b>



**Redevelopment Agency of the City of Huntington Beach  
Management's Discussion and Analysis  
For the Year Ended September 30, 2005**

**FUND FINANCIAL ANALYSIS**

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

	<b>2005 Amount</b>	<b>2004 Amount</b>	<b>Increase (Decrease)</b>	<b>Percent Increase (Decrease)</b>
<b>Huntington Beach Project Area #1</b>				
Total Assets	\$ 25,795	\$ 11,144	\$ 14,651	131.47%
Total Liabilities	3,774	1,528	2,246	146.99%
Net Assets	22,021	9,616	12,405	129.00%
Revenues	13,444	3,063	10,381	338.92%
Expenditures	1,695	9,294	(7,599)	-81.76%
<b>Southeast Coastal Project Area</b>				
Total Assets	-	-	-	na
Total Liabilities	133	70	63	90.00%
Net Assets	(133)	(70)	(63)	90.00%
Revenues	-	-	-	na
Expenditures	333	70	263	375.71%
<b>Low - Income Housing Fund</b>				
Total Assets	13,155	11,190	1,965	17.56%
Total Liabilities	4,947	4,943	4	0.08%
Net Assets	8,208	6,246	1,962	31.41%
Revenues	197	313	(116)	-37.06%
Expenditures	536	4,486	(3,950)	-88.05%
<b>Debt Service Fund - Huntington Beach Project Area #1</b>				
Total Assets	4,748	3,956	792	20.02%
Total Liabilities	93,101	95,394	(2,293)	-2.40%
Net Assets	(88,353)	(91,438)	3,085	-3.37%
Revenues	13,615	8,979	4,636	51.63%
<b>Debt Service Fund - Southeast Coastal Project Area</b>				
Total Assets	797	939	(142)	-15.12%
Total Liabilities	790	557	233	41.83%
Net Assets	7	382	(375)	-98.17%
Revenues	181	618	(437)	-70.71%



**Redevelopment Agency of the City of Huntington Beach  
Management's Discussion and Analysis  
For the Year Ended September 30, 2005**

**DEBT ADMINISTRATION**

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

	<u>2005 Amount</u>	<u>2004 Amount</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Debt Payable to City of Huntington Beach	\$ 87,355	\$ 89,284	\$ (1,929)	-2.2%
Bonds Payable	27,205	28,305	(1,100)	-3.9%
Notes Payable	5,435	5,645	(210)	-3.7%
Disposition and Development Agreement	10,083	10,729	(646)	-6.0%
Other Debt	17	143	(126)	-88.1%
Total Debt	<u>\$ 130,095</u>	<u>\$ 134,106</u>	<u>\$ (4,011)</u>	-3.0%

**CAPITAL ASSETS**

The Agency's capital assets consist of land of \$15,918,000. This amount is recorded as part of the net capital assets of the agency in the government-wide financial statements.

**OTHER INFORMATION**

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

**Huntington Beach Project (Merged Project Area)**

- The Hyatt Regency Huntington Beach Resort and Spa: The 517-room Hyatt Regency Huntington Beach Resort & Spa and its Conference Center opened for business on January 19, 2003. Due to the success of the project, the Redevelopment Agency has paid a total of \$4,748.561 towards its Developer's Advance Loan leaving an estimated balance of \$9.3 million as of December 2005.
- Waterfront Residential: Located directly behind the Hyatt Regency Huntington Beach Resort and Spa, by the end of 2005 nearly all of the 184 market rate residential properties closed escrow. William Lyon Homes built 78 paseo homes, and Christopher Homes built 106 courtyard homes. The Redevelopment Agency should receive approximately \$19 million in Participation Payments due to the success of this development.
- Pacific City (First and Pacific Coast Highway; 31-Acre Site): Makar Properties owns this key downtown property now known as "Pacific City." Remediation work is complete and grading has begun on the site. Street improvements are scheduled for completion by July 2006. A Community Facilities District is being proposed to fund the majority of the public improvements for the residential portion



## Redevelopment Agency of the City of Huntington Beach Management's Discussion and Analysis For the Year Ended September 30, 2005

of the project. Pacific City will include a residential village, a major hotel complex and a retail promenade.

- The Strand (Blocks 104-105; Main Pier Phase II): A Disposition and Development Agreement was approved in 1998 for the redevelopment of the two-block area bounded by Fifth, Pacific Coast Highway, Sixth and Walnut. On October 1, 2002, the Planning Commission approved the project's entitlements with certain conditions. CIM is constructing a visitor-serving project with retail, restaurants, entertainment and hospitality uses on a portion of Blocks 104 and 105 in downtown Huntington Beach. The project is proposed with retail (53,000 sq. ft.), restaurants (40,000 sq. ft.) offices (28,000 sq. ft.) and a 149-room boutique hotel (110,880 sq. ft.). The total project is estimated to be 231,880 sq. ft. In September 2004, Community Facilities District was formed to provide up to \$15,000,000 in tax exempt financing for the construction of the public improvements.
- Bella Terra (formerly Huntington Center): In 2005, while the mall was still under construction, the property was purchased by Bella Terra Associates, LLC, a partnership between DJM Capital and Jh Snyder. The Redevelopment Agency approved Bella Terra Associates, LLC to assume the rights and responsibilities of the Owner Participation Agreement in order to complete the project. The approximate 1,532-space public parking garage, funded by the Community Facilities District 2003-1 (Huntington Center), opened on October 1, 2005. Jh Snyder also purchased the former Montgomery Wards 13.5 acre portion of the site that has been left vacant for a number of years. Negotiations are commencing to develop the Wards parcel within the next two years.
- South Beach Improvements: The new Lifeguard and Junior Lifeguard Headquarters was completed in 2005.
- Edinger Corridor Specific Plan (SP 14): The drafting of an Edinger Corridor Specific Plan was approved as an important economic development tool in July 2000.

### 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.
- Huntington Beach Wetlands Conservancy Grant: The Huntington Beach Wetland Conservancy obtained its entitlements on the Wildlife Care Center to be located within the project area. An agreement for \$270,000 Redevelopment Agency grant was prepared. The construction of the grant funded block wall and associated landscaping should be completed during FY 2005-2006.



## Redevelopment Agency of the City of Huntington Beach Management's Discussion and Analysis For the Year Ended September 30, 2005

### Affordable Housing Projects

- Habitat for Humanity (Delaware site): The Redevelopment Agency approved the purchase of a City owned vacant parcel at 2502 Delaware for \$153,000 using HOME funds for a future Habitat for Humanity project. This project will complete a 4-unit Yorktown corridor affordable housing development partnership between the Agency and Habitat. Projected completion date for construction affordable single-family home is September 2006. The Huntington Beach home was the Habitat's Women Build Project for 2005, in that they will use building the home using mostly female volunteers.
- Colette's Children's Home #1: Colette's Children's Home is a non-profit agency that provides emergency housing to homeless women and their children. A \$400,000 loan of Housing Set-Aside funds is funding the acquisition and a long-term affordability covenant (60 years) of a four-plex located at 7702 Cypress Avenue in the Oakview sub-area. The renovation will be completed in 2006.
- Colette's Children's Home #2: The agency will be assisting Colette's Children's Home with the acquisition a four-plex apartment complex at 7781 Glencoe Avenue in Huntington Beach. The project is for the purpose of housing homeless women with children in a transitional home environment. The affordability covenant will be for a period of 60 years. It is anticipated that the funds will be used in conjunction with funds that Colette's will be securing from the US Department of Housing and Urban Development (HUD) for the same purpose.
- Studios at Center: The Redevelopment Agency executed DDA in 1993 for the construction of an affordable single room occupancy (SRO) project on Agency owned property on Center Avenue adjacent to Golden West College. Although the DDA expired in 2003, without the site having been conveyed to the developer or the entitlement process commenced, staff continues to work with the developer on this project. As there are some zoning conflicts and street alignment issues that will be resolved with the adoption of the Edinger Corridor Specific Plan #14 (ECSP-14), this project will most likely be implemented sometime after the ECSP-14 is approved.



**Redevelopment Agency of the City of Huntington Beach  
Management's Discussion and Analysis  
For the Year Ended September 30, 2005**

**CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT**

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

**REDEVELOPMENT AGENCY OF THE  
CITY OF HUNTINGTON BEACH  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2005  
(In Thousands)**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash and Investments	\$ 22,209
Restricted Cash with Fiscal Agent	2,455
Receivables	9,118
Land Held for Resale	2,835
Total Current Assets	36,617
<b>Non-Current Assets:</b>	
Capital Assets (Net of Accumulated Depreciation)	15,918
<b>TOTAL ASSETS</b>	<b>52,535</b>
 <b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Accounts Payable and Accrued Liabilities	70
Accrued Interest Payable	257
Accrued Payroll	3
Deposits	1,655
Unearned Revenue	2,857
Long-Term Debt - Due Within One Year	1,360
Total Current Liabilities	<b>6,202</b>
<b>Non-Current Liabilities:</b>	
Long-Term Debt to the City of Huntington Beach and Component Units	87,355
Other Long-Term Debt	41,380
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>128,735</b>
<b>TOTAL LIABILITIES</b>	<b>134,937</b>
 <b>NET ASSETS</b>	
Investment in Capital Assets, Net of Related Debt	15,918
Restricted for:	
Capital Projects	1,757
Low-Income Housing	707
Unrestricted	(100,784)
<b>TOTAL NET ASSETS (DEFICIT)</b>	<b>\$ (82,402)</b>



**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005  
(In Thousands)**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Charges for Current Service	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
<b>Functions/Programs</b>				
<b>Governmental Activities:</b>				
Economic Development	\$ 3,450	\$ -	\$ -	\$ (3,450)
City Attorney	78	-	-	(78)
Non-departmental	784	-	-	(784)
Interest	3,679	-	-	(3,679)
<b>Total Governmental Activities</b>	<b>7,991</b>	<b>-</b>	<b>-</b>	<b>(7,991)</b>
<b>General Revenues:</b>				
<b>Taxes:</b>				
Property Taxes				12,345
Other Taxes				-
<b>Total Taxes</b>				<b>12,345</b>
<b>Other Revenue:</b>				
Use of Money and Property				860
Participation Payments				12,697
Other				2,025
<b>Total Other Revenue</b>				<b>15,582</b>
<b>Total General Revenue</b>				<b>27,927</b>
<b>Change in Net Assets</b>				<b>19,936</b>
<b>Net Assets (Deficit) - October 1, 2004</b>				<b>(102,338)</b>
<b>Net Assets (Deficit) - September 30, 2005</b>				<b>\$ (82,402)</b>

**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH**  
**BALANCE SHEET - ALL GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2005**  
(In Thousands)

	Capital Projects Funds			
	Huntington Beach Project Area #1	Southeast Coastal Project Area	Low-Income Housing Fund	Total
<b>ASSETS:</b>				
Cash and investments (Note 3)	\$ 15,497	\$ -	\$ 5,918	\$ 21,415
Restricted cash with fiscal agent (Note 3)	-	-	-	-
Due from other funds	5,481	-	2,094	7,575
Advances to other funds	303	-	-	303
Other receivables	1,832	-	4,990	6,822
Land held for resale, net	2,682	-	153	2,835
<b>TOTAL ASSETS</b>	<b>\$ 25,795</b>	<b>\$ -</b>	<b>\$ 13,155</b>	<b>\$ 38,950</b>
<b>LIABILITIES, FUND EQUITY AND OTHER CREDITS</b>				
<b>LIABILITIES:</b>				
Accounts payable and accrued liabilities	\$ 24	\$ 1	\$ 3	\$ 28
Accrued payroll	1	1	1	3
Due to Other Funds	2,094	131	-	2,225
Deposits	1,655	-	-	1,655
Deferred property taxes	-	-	-	-
Deferred revenue (Note 9b)	-	-	4,943	4,943
Advances from other Agency funds	-	-	-	-
Advances from the City of Huntington Beach and Component Units	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>3,774</b>	<b>133</b>	<b>4,947</b>	<b>8,854</b>
<b>FUND EQUITY AND OTHER CREDITS:</b>				
Fund balances (Note 11):				
Reserved for long - term receivables	2,671	-	-	2,671
Reserved for encumbrances	66	-	10	76
Reserved for advances from other funds	-	-	2,094	2,094
Reserved for land held for resale	2,835	-	-	2,835
Reserved for low - income housing	-	-	4,717	4,717
Reserved for future expenditures	1,500	-	1,387	2,887
Reserved for capital projects	14,949	-	-	14,949
Total Reserved	22,021	-	8,208	30,229
Unreserved	-	(133)	-	(133)
<b>TOTAL FUND EQUITY AND OTHER CREDITS</b>	<b>22,021</b>	<b>(133)</b>	<b>8,208</b>	<b>30,096</b>
<b>TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS</b>	<b>\$ 25,795</b>	<b>\$ -</b>	<b>\$ 13,155</b>	<b>\$ 38,950</b>

Debt Service Funds			
Huntington Beach Project Area #1	Southeast Coastal Project Area	Total	Total All Funds

\$ -	\$ 793	\$ 793	\$ 22,208
2,455	-	2,455	2,455
-	-	-	7,575
-	-	-	303
2,293	4	2,297	9,119
-	-	-	2,835
<b>\$ 4,748</b>	<b>\$ 797</b>	<b>\$ 5,545</b>	<b>\$ 44,495</b>

\$ 42	\$ -	\$ 42	\$ 70
-	-	-	3
5,350	-	5,350	7,575
-	-	-	1,655
841	-	841	841
-	-	-	4,943
-	303	303	303
86,868	487	87,355	87,355
<b>93,101</b>	<b>790</b>	<b>93,891</b>	<b>102,745</b>

-	-	-	2,671
-	-	-	76
-	-	-	2,094
-	-	-	2,835
-	-	-	4,717
-	-	-	2,887
-	-	-	14,949
-	-	-	30,229
(88,353)	7	(88,346)	(88,479)
<b>(88,353)</b>	<b>7</b>	<b>(88,346)</b>	<b>(58,250)</b>
<b>\$ 4,748</b>	<b>\$ 797</b>	<b>\$ 5,545</b>	<b>\$ 44,495</b>

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**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2005  
(In Thousands)**

<b>Total Fund Balances Governmental Funds</b>	<b>\$</b>	<b>(58,250)</b>
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds		15,918
Property tax revenues collected more than 60 days after fiscal year are not current financial resources and, therefore are deferred in the funds		2,413
Accrued interest payable on Long-term Debt		257
Long-term Liabilities, including bonds and certificates of participation payable are not due and payable in the current period and therefore are not reported in the funds		<u>(42,740)</u>
<b>Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u>(82,402)</u></b>

**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005**  
(In Thousands)

	Capital Projects Funds			Total
	Huntington Beach Project Area #1	Southeast Coastal Project Area	Low-Income Housing Fund	
<b>REVENUES:</b>				
Tax increment (Note 4)	\$ -	\$ -	\$ -	\$ -
Use of money and property	747	-	104	851
Participation Payments	12,697	-	-	12,697
Other revenue	-	-	93	93
<b>TOTAL REVENUES</b>	<b>13,444</b>	<b>-</b>	<b>197</b>	<b>13,641</b>
<b>EXPENDITURES:</b>				
Current:				
Economic Development	998	333	517	1,848
City Attorney	78	-	-	78
Non-departmental	619	-	19	638
Debt service:				
City Debt:				
Principal	-	-	-	-
Interest	-	-	-	-
Bond and Other Debt:				
Principal	-	-	-	-
Interest	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>1,695</b>	<b>333</b>	<b>536</b>	<b>2,564</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>11,749</b>	<b>(333)</b>	<b>(339)</b>	<b>11,077</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from long-term debt	656	-	-	656
Transfer In from the City of Huntington Beach	-	270	-	270
<b>Total Transfers - City of Huntington Beach and Component Units</b>	<b>656</b>	<b>270</b>	<b>-</b>	<b>926</b>
<b>Other:</b>				
Transfers in	-	-	2,301	2,301
Transfers out	-	-	-	-
<b>Total Other</b>	<b>-</b>	<b>-</b>	<b>2,301</b>	<b>2,301</b>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>656</b>	<b>270</b>	<b>2,301</b>	<b>3,227</b>
<b>NET CHANGES IN TOTAL FUND BALANCE</b>	<b>12,405</b>	<b>(63)</b>	<b>1,962</b>	<b>14,304</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>9,616</b>	<b>(70)</b>	<b>6,246</b>	<b>15,792</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 22,021</b>	<b>\$ (133)</b>	<b>\$ 8,208</b>	<b>\$ 30,096</b>

Debt Service Funds			
Huntington Beach Project Area #1	Southeast Coastal Project Area	Total	Total All Funds
\$ 11,332	\$ 172	\$ 11,504	\$ 11,504
-	9	9	860
-	-	-	12,697
<u>2,283</u>	<u>-</u>	<u>2,283</u>	<u>2,376</u>
<b><u>13,615</u></b>	<b><u>181</u></b>	<b><u>13,796</u></b>	<b><u>27,437</u></b>
744	985	1,729	3,577
-	-	-	78
758	7	765	1,403
4,925	-	4,925	4,925
93	17	110	110
2,612	-	2,612	2,612
<u>1,640</u>	<u>-</u>	<u>1,640</u>	<u>1,640</u>
<b><u>10,772</u></b>	<b><u>1,009</u></b>	<b><u>11,781</u></b>	<b><u>14,345</u></b>
<b><u>2,843</u></b>	<b><u>(828)</u></b>	<b><u>2,015</u></b>	<b><u>13,092</u></b>
2,509	487	2,996	3,652
<u>-</u>	<u>-</u>	<u>-</u>	<u>270</u>
<b><u>2,509</u></b>	<b><u>487</u></b>	<b><u>2,996</u></b>	<b><u>3,922</u></b>
-	-	-	2,301
<u>(2,267)</u>	<u>(34)</u>	<u>(2,301)</u>	<u>(2,301)</u>
<b><u>(2,267)</u></b>	<b><u>(34)</u></b>	<b><u>(2,301)</u></b>	<b><u>-</u></b>
<b><u>242</u></b>	<b><u>453</u></b>	<b><u>695</u></b>	<b><u>3,922</u></b>
<b><u>3,085</u></b>	<b><u>(375)</u></b>	<b><u>2,710</u></b>	<b><u>17,014</u></b>
<b><u>(91,438)</u></b>	<b><u>382</u></b>	<b><u>(91,056)</u></b>	<b><u>(75,264)</u></b>
<b><u>\$ (88,353)</u></b>	<b><u>\$ 7</u></b>	<b><u>\$ (88,346)</u></b>	<b><u>\$ (58,250)</u></b>

**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
September 30, 2005  
(In Thousands)**

**Net Changes in Fund Balances - Total Governmental funds** **\$ 17,014**

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. 847

Long-term debt - Issuances and changes in long-term debt (bonds, leases, certificates of participation, compensated absences, etc) provide current financial resources to governmental funds, while a repayment 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. This amount is the net effect of the differences in the treatment of long-term debt and related items. 2,075

**Change in Net Assets of Governmental Activities** **\$ 19,936**





**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2005**

**1. ORGANIZATION**

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

The following project areas have been adopted:

<u>Project Area</u>	<u>Year Adopted</u>
Huntington Beach Project Area #1 merged the five existing project areas:	1997
Main/Pier	1982 (amended in 1983)
Talbert/Beach	1982
Oakview	1982 (amended in 1989)
Yorktown/Lake	1982
Huntington Center	1984
Southeast Coastal Project Area	2002

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



**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2005**

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **a. Government – Wide Financial Statements**

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

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

Government-wide financial statements do not provide information by fund or account group. They simply distinguish between governmental and business activities. All of the Agency's activities are governmental activities. The Agency's Statement of Net Assets includes both current and non-current assets and liabilities. In prior years, the non-current assets and liabilities were recorded in the General Fixed Assets Account Group and the General Long-Term Debt Account Group, which are no longer reported.



**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2005**

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **a. Government – Wide Financial Statements (Continued)**

#### **Financial Statement Classification**

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

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

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

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

### **b. Fund Financial Statements**

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

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.



**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2005**

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **b. Fund Financial Statements (Continued)**

Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are property tax, other taxes, investment income, and other income. 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 presents all major funds that met those qualifications.

### **c. Investment Income Allocation**

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



**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2005**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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, 2005.

**f. Capital Assets**

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

**g. Interfund Transactions**

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

**h. Long-Term Obligations**

In the government-wide financial statements, long-term obligations are recorded as liabilities in the governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt for all issues after October 1, 2001. Premiums and discounts for debt issued before October 1, 2001 are not recorded or amortized.



**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2005**

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **h. Long-Term Obligations (Continued)**

In the governmental fund financial statements, bond discounts and premiums are recognized as an other financing source or use. Issuance costs are recorded as current year expenditure.

### **i. Employee Compensated Absences**

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

### **j. Property Tax Revenue**

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

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



**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2005**

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **j. Property Tax Revenue (Continued)**

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           |
| • Payments of Second Installment | March to April       |
| • Balance of Second Installment  | July 26              |

### **k. Estimates**

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

## **3. CASH AND INVESTMENTS**

The Agency's cash and investments are pooled with the City. The Agency holds a proportionate interest in the amount of \$22,209,000. The Restricted Cash with Fiscal Agent, totaling \$2,455,000 (which represents both fair and book value) are uninsured and unregistered. For further information such are credit risk and categorization of the cash and investments, see the City's Comprehensive Annual Financial Report for the fiscal year ended September 30, 2005.



**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2005**

#### **4. TAX INCREMENT REVENUE AND FINANCING**

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

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

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

#### **5. CAPITAL ASSETS**

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

<b>Balance, October 1, 2004</b>	<b>\$ 15,918</b>
Additions/Retirements	-
<b>Balance, September 30, 2005</b>	<b><u>\$ 15,918</u></b>





**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2005**

**6. LONG-TERM DEBT**

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

	<b>Balance October 1,</b>			<b>Balance September 30,</b>		<b>Amounts Due Within One Year</b>
	<b>2004</b>	<b>Additions</b>	<b>Retirements</b>	<b>2005</b>		
<b>DEBT TO CITY OF HUNTINGTON BEACH:</b>						
Advances from General Fund	\$ 14,646	\$ 622	\$ (4,925)	\$ 10,343	\$	-
Advances from Sewer Fund	214	7	-	221	-	-
Advances from Drainage Fund	516	16	-	532	-	-
Advances from Water Fund	3,205	90	-	3,295	-	-
Advances from Capital Improvement Fund	495	290	-	785	-	-
Deferred Development Fees:						
Park Acquisition and Development Fund	316	8	-	324	-	-
Sewer Fund	134	4	-	138	-	-
Drainage Fund	143	4	-	147	-	-
Deferred Payment on Land Purchases from City:						
General Fund	65,354	1,836	-	67,190	-	-
Park Acquisition and Development Fund	4,261	119	-	4,380	-	-
<b>Total Debt - City of Huntington Beach</b>	<b>89,284</b>	<b>2,996</b>	<b>(4,925)</b>	<b>87,355</b>		<b>-</b>
<b>OTHER DEBT</b>						
Notes Payable	500	-	-	500	-	-
Mayer Disposition and Development Agreement	10,729	656	(1,302)	10,083	-	-
1999 Refunding Tax Allocation Bonds	8,840	-	(335)	8,505	350	-
2002 Tax Allocation Refunding Bonds	19,465	-	(765)	18,700	790	-
Section 108 Loan	5,145	-	(210)	4,935	220	-
Employee Compensated Absences	143	-	(126)	17	-	-
<b>Total Other Debt</b>	<b>44,822</b>	<b>656</b>	<b>(2,738)</b>	<b>42,740</b>	<b>1,360</b>	<b>-</b>
<b>Total Agency Debt</b>	<b>\$ 134,106</b>	<b>\$ 3,652</b>	<b>\$ (7,663)</b>	<b>\$ 130,095</b>	<b>\$</b>	<b>1,360</b>



**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2005**

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

Below are reconciliations from amounts in the above table to amounts in the accompanying government-wide financial statements (in thousands):

<b>Principal Paid in Governmental Fund Financial Statements</b>	<b>\$</b>	<b>7,537</b>
Decrease in Compensated Absences		<u>126</u>
<b>Decreases in Above Schedule</b>	<b>\$</b>	<b><u>7,663</u></b>

**a. Advances from General Fund**

Year(s) debt incurred	1985 to 1996
Interest rate	2.47%
Principal amount	\$10,332,331
Accrued interest	\$10,557
Purpose of debt	Operating, administrative and capital expenditures
Security for debt	Operative Agreement with City
Repayment terms	None

**b. Advances from City's Sewer Fund**

Year(s) debt incurred	1989
Interest rate	2.47%
Principal amount	\$130,560
Accrued interest	\$90,062
Purpose of debt	Sewer Construction
Security for debt	Operative Agreement with City
Repayment terms	None



**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2005**

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

**c. Advances from City's Drainage Fund**

Year(s) debt incurred	1987
Interest rate	2.47%
Principal amount	\$250,000
Accrued interest	\$281,700
Purpose of debt	Drainage Construction
Security for debt	Operative Agreement with City
Repayment terms	None

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

Year(s) debt incurred	1986 and 1987
Interest rate	2.47%
Principal amount	\$1,138,000
Accrued interest	\$2,157,483
Purpose of debt	Water Construction
Security for debt	Operative Agreement with City
Repayment terms	None

**e. Advances from City's Capital Improvement Fund**

Year(s) debt incurred	1989
Interest rate	2.47%
Principal amount	\$470,000
Accrued interest	\$315,055
Purpose of debt	Capital Expenditures
Security for debt	Operative Agreement with City
Repayment terms	None



**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2005**

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

**f. Deferred Development Fees**

Year(s) debt incurred	1984
Interest rate	2.47%
Principal amount	\$339,202
Accrued interest	\$269,334
Purpose of debt	Developer Incentive
Security for debt	Operative Agreement with City
Repayment terms	None

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

Year(s) debt incurred	1983 to 1992
Interest rate	2.47% (current fiscal year)
Principal amount	\$32,833,417
Accrued interest	\$34,357,033
Purpose of debt	Parcel consolidation and development
Security for debt	Operative Agreement with City
Repayment terms	None

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

Year(s) debt incurred	1984
Interest rate	2.47%
Principal amount	\$1,740,834
Accrued interest	\$2,639,042
Purpose of debt	Emerald Cove Land
Security for debt	Operative Agreement with City
Repayment terms	None



**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2005**

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

**i. Notes Payable**

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

**j. Mayer Disposition and Development Agreement**

In fiscal year 1996-97, the Agency entered into a disposition and development agreement with Robert Mayer Corporation (Corporation) concerning additional development adjacent to the Waterfront Hotel. Under the agreement, the Corporation would advance payments for the project costs with the Agency reimbursing up to \$16,750,000 of the costs. As of September 30, 2005, the Agency obligation under the agreement amounted to \$10,083,000. Project-generated revenues as available will repay these amounts over the time needed to fully amortize the advance.

**k. 1999 Tax Allocation Refunding Bonds**

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



**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2005**

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

**k. 1999 Tax Allocation Refunding Bonds (continued)**

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

Year Ending September 30	Principal	Interest	Total
2006	350	\$ 393	\$ 743
2007	365	380	745
2008	380	365	745
2009	390	350	740
2010	410	334	744
2011-2015	2,350	1,385	3,735
2016-2020	2,690	777	3,467
2021-2024	1,570	195	1,765
<b>Total</b>	<b>\$ 8,505</b>	<b>\$ 4,179</b>	<b>\$ 12,684</b>

**l. 2002 Tax Allocation Refunding Bonds**

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



**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2005**

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

**I. 2002 Tax Allocation Refunding Bonds (Continued)**

Debt service requirements to maturity are (in thousands):

Year Ending September 30,	Principal	Interest	Total
2006	790	\$ 822	\$ 1,612
2007	815	798	1,613
2008	845	772	1,617
2009	870	742	1,612
2010	910	711	1,621
2011-2015	5,175	2,989	8,164
2016-2020	5,880	1,705	7,585
2021-2024	3,415	424	3,839
Total	<u>\$ 18,700</u>	<u>\$ 8,963</u>	<u>\$ 27,663</u>

**m. Section 108 Loan**

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



**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2005**

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

**m. Section 108 Loan (Continued)**

Debt service requirements to maturity are (in thousands):

Year Ending September 30	Principal	Interest	Total
2006	\$ 220	\$ 378	\$ 598
2007	235	363	598
2008	255	346	601
2009	270	327	597
2010	290	308	598
2011-2015	1,765	1,179	2,944
2016-2019	1,900	389	2,289
<b>Total</b>	<b><u>\$ 4,935</u></b>	<b><u>\$ 3,290</u></b>	<b><u>\$ 8,225</u></b>

**n. Employee Compensated Balances**

There is no fixed repayment to pay the compensated absences liability totaling \$17,000 at year-end.

**7. RETIREMENT PLAN INFORMATION**

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

**8. AGENCY AGREEMENTS**

**a. Pass-Through Agreements**

The Pass-Through obligations with local governmental agencies stem from: 1) fiscal mitigation agreements entered into prior to AB1290 between the Redevelopment Agency and certain taxing agencies, and 2) statutory payments mandated by the Health and Safety Code (HSC) for both Project Areas: the Huntington Beach Project (see HSC Section 33607.7) and the Southeast Coastal Project (see HSC Section 33607.5). There was no amount payable at year-end.





**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2005**

**8. AGENCY AGREEMENTS (CONTINUED)**

**b. CIM Group, LLC – Disposition and Development Agreement**

In June 1999, the Redevelopment Agency entered into a disposition and development agreement with the CIM Group, LLC to allow development of a hotel, retail and restaurant improvements and a public parking facility. The project costs are to be paid initially by the developer with the Agency reimbursing the developer a maximum of \$7.9 million pursuant to a Third Implementation Agreement approved on October 21, 2002.

**c. Huntington Center**

During 2005, the Redevelopment Agency approved Bella Terra Associates, LLC to assume the rights and responsibilities of the Owner Participation Agreement (OPA), dated October 2, 2000, for the development of the Huntington Center Mall, now called "Bella Terra." The First Implementation Agreement to the OPA, terminated the "Wards" parcel from the OPA and provided for a \$1.5 million implementation fee to the Agency. The Upon the Agency's approval of the project's "Release of Covenants," the Agency will be required to commence its payment of its obligation of \$15 million to the developer. At year-end, no Agency liability had been incurred.

**d. Southeast Coastal Redevelopment Project**

On September 2, 2003, the Redevelopment Agency Approved a Cooperation Agreement Regarding Capital Improvements in the Southeast Coastal Redevelopment Project with the City. This agreement commits the Redevelopment Agency to reimburse the City for a number of capital improvement projects to be undertaken as part of the Five Year Capital Improvement Program in the Southeast Redevelopment project area starting in FY 2003/04 as they are undertaken.

**9. NOTES RECEIVABLE**

**a. Owner Participation Agreement – Abdelmuti**

In 1991, the Agency agreed to assist a private business in the demolition and the construction of a new building. The Agency agreed to make public improvements totaling \$500,000 and to loan the business \$3,126,000 for 15 years at 7% interest to make building improvements. At year-end, the balance of the loan was \$1,247,290.



**Redevelopment Agency of the City of Huntington Beach  
Notes to Financial Statements  
For the Year Ended September 30, 2005**

**9. NOTES RECEIVABLE (CONTINUED)**

**b. Deferred Loans – Developers**

The Agency has made loans available to developers to construct or rehabilitate certain facilities under deferred loan agreements. These loans are deferred until a future event occurs. At year-end, the amounts of these loans were \$4,943,000.

**10. PENDING LITIGATION**

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

**11. OTHER**

The Agency's combined net assets for the year ended September 30, 2005 were a negative \$(82,402,000). This is mainly because of how Redevelopment Agencies are required to operate under state law. Redevelopment Agencies incur debt in order to make expenditures, which result in increased public and private investment in a redevelopment area, which in turn generate property tax increment to repay the debt over time. Redevelopment Agencies can only collect property tax increment to the extent it has debt on the books.

**REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH  
CALCULATION OF LOW/MODERATE INCOME HOUSING FUNDS - EXCESS SURPLUS  
SEPTEMBER 30, 2005  
(In Thousands)**

<b>OPENING FUND BALANCE - OCTOBER 1, 2004</b>	<b>\$ 6,246</b>	
Less Unavailable Amounts:		
Advances to Other Funds	(2,094)	
<b>AVAILABLE FUND BALANCE - OCTOBER 1, 2005</b>		<b><u>\$ 4,152</u></b>
<b>AVAILABLE LOW/MODERATE INCOME HOUSING FUNDS  LIMITATION (GREATER OF \$1,000,000 OR FOUR YEARS SET-ASIDE):</b>		
Set-aside for fiscal years 2000-01 to 2004-05:		
2001-2002	1,187	
2002-2003	1,245	
2003-2004	1,820	
2004-2005	<u>1,909</u>	
<b>TOTAL SET-ASIDE FOR LAST FOUR YEARS</b>		<b><u>6,161</u></b>
<b>COMPUTED EXCESS/SURPLUS - OCTOBER 1, 2005</b>		<b><u>\$ (2,009)</u></b>

Note – Negative amount is the surplus.



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

To the Members of the Redevelopment Agency  
of the City of Huntington Beach  
Huntington Beach, California

We have audited the basic financial statements of the Redevelopment Agency of the City of Huntington Beach (Agency) as of and for the year ended September 30, 2005, and have issued our report thereon dated February 17, 2006. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the basic financial statements of the Agency are free of material misstatements, we performed tests of its compliance with certain provision of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. Such provisions included those provisions of laws identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended for the information of the Agency's Board, management, and the State Controller. However, this report is a matter of public record and its distribution is not limited.

Costa Mesa, California  
February 17, 2006

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