

**REDEVELOPMENT AGENCY OF THE
CITY OF LA HABRA
(A Component Unit of the City of La Habra,
California)**

Annual Financial and Compliance Report

June 30, 2011

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Annual Financial and Compliance Report
For the Year Ended June 30, 2011

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The Board of Directors of the
Redevelopment Agency of the City of La Habra

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 La Habra (Agency), a component unit of the City of La Habra, California (City) as of and for the year ended June 30, 2011, 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 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 June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 (i) to the basic financial statements, effective July 1, 2010, the Agency adopted the provisions of Governmental Accounting Standards Board Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

As discussed in Note 4 (f) to the financial statements, on June 29, 2011, the California State Legislature enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California (Assembly Bill X1 26) unless certain payments can be made to the State of California (Assembly Bill X1 27). On December 29, 2011, the California Supreme Court (Court) largely upheld the legislation for the dissolution of redevelopment agencies. Furthermore, the Court invalidated the Assembly Bill X1 27. Accordingly, the Agency is required to dissolve in fiscal year 2011/12 and the guidelines for dissolution are set forth in the legislation. The financial statements do not include any adjustments as a result of the dissolution of the Agency.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedules be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements as a whole. The accompanying budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Macias Jini & O'Connell LLP

Newport Beach, California

December 30, 2011

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Statement of Net Assets
June 30, 2011

Assets:

Current assets:

Cash and investments	\$ 3,579,627
Restricted cash and investments with fiscal agents	1,017,621
Taxes receivable	55,088
Interest receivable	3,891
Land held for resale	<u>3,111,000</u>
Total current assets	<u>7,767,227</u>

Noncurrent assets:

Capital assets not being depreciated	1,387,022
Capital assets being depreciated (net of accumulated depreciation)	<u>6,345,605</u>
Total noncurrent assets	<u>7,732,627</u>
Total assets	<u>15,499,854</u>

Liabilities:

Current liabilities:

Accounts payable and accrued liabilities	1,055,330
Interest payable	214,036
Due to the City of La Habra	53,700
Long-term liabilities, due within one year	<u>500,877</u>
Total current liabilities	1,823,943

Noncurrent liabilities:

Long-term liabilities, due in more than one year	<u>21,326,057</u>
Total liabilities	<u>23,150,000</u>

Net assets (deficit):

Invested in capital assets, net of related debt	(1,265,607)
Restricted for:	
Low-moderate income housing	2,710,697
Unrestricted (deficit)	<u>(9,095,236)</u>
Total net assets (deficit)	<u><u>\$ (7,650,146)</u></u>

See Accompanying Notes to the Basic Financial Statements.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Statement of Activities
For the Year Ended June 30, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net Expenses and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Capital Contributions</u>	
Governmental activities:				
Community development	\$ 1,817,371	\$ 38,691	\$ 785,062	\$ (993,618)
Interest on long-term debt	1,292,376	-	-	(1,292,376)
Total governmental activities	\$ 3,109,747	\$ 38,691	\$ 785,062	(2,285,994)
General revenues:				
Property tax				3,057,902
Special CFD tax				286,596
Income from property and investments				43,481
Total general revenues				3,387,979
Change in net assets				1,101,985
Net assets (deficit), beginning of year, as previously reported				(7,233,887)
Restatement				(1,518,244)
Net assets (deficit), beginning of year, as restated				(8,752,131)
Net assets, end of year				\$ (7,650,146)

See Accompanying Notes to the Basic Financial Statements.

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REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Balance Sheet
Governmental Funds
June 30, 2011

	Special Revenue Funds	
	Low-Moderate Income Housing Set-Aside Fund	Operating Fund
Assets:		
Cash and investments	\$ 1,992,348	\$ 1,564,828
Restricted cash and investments with fiscal agents	-	-
Taxes receivable	11,018	-
Interest receivable	-	3,891
Due from other funds	-	29,573
Land held for resale	111,000	3,000,000
Advances to other funds	615,507	-
	<u>\$ 2,729,873</u>	<u>\$ 4,598,292</u>
Total assets	<u>\$ 2,729,873</u>	<u>\$ 4,598,292</u>
Liabilities and fund balances:		
Liabilities:		
Accounts payable and accrued liabilities	\$ 15,243	\$ 1,024,975
Due to other funds	-	-
Due to the City of La Habra	394	53,306
Deferred Revenues	3,539	-
Advances from other funds	-	615,507
	<u>19,176</u>	<u>1,693,788</u>
Total liabilities	<u>19,176</u>	<u>1,693,788</u>
Fund balances:		
Nonspendable:		
Advances	611,968	-
Restricted:		
Debt service	-	-
Low-moderate income housing	1,635,229	-
Redevelopment	-	3,000,000
Assigned:		
Low-moderate income housing	463,500	-
Unassigned	-	(95,496)
	<u>2,710,697</u>	<u>2,904,504</u>
Total fund balances	<u>2,710,697</u>	<u>2,904,504</u>
Total liabilities and fund balances	<u>\$ 2,729,873</u>	<u>\$ 4,598,292</u>

See Accompanying Notes to the Basic Financial Statements.

Capital Projects Fund	Debt Service Fund	Total Governmental Funds
\$ 22,451	\$ -	\$ 3,579,627
739,721	277,900	1,017,621
-	44,070	55,088
-	-	3,891
-	-	29,573
-	-	3,111,000
-	-	615,507
<u>\$ 762,172</u>	<u>\$ 321,970</u>	<u>\$ 8,412,307</u>
\$ 615	\$ 14,497	\$ 1,055,330
-	29,573	29,573
-	-	53,700
-	-	3,539
-	-	615,507
<u>615</u>	<u>44,070</u>	<u>1,757,649</u>
-	-	611,968
-	277,900	277,900
-	-	1,635,229
761,557	-	3,761,557
-	-	463,500
-	-	(95,496)
<u>761,557</u>	<u>277,900</u>	<u>6,654,658</u>
<u>\$ 762,172</u>	<u>\$ 321,970</u>	<u>\$ 8,412,307</u>

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2011

Total fund balances, governmental funds	\$ 6,654,658
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	7,732,627
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in funds.	(214,036)
Long-term liabilities, including bonds payable and advances are not due and payable in the current period and, therefore, are not reported in the funds.	(21,826,934)
Certain revenues in governmental funds are deferred because they are not collected within the prescribed time period after year-end. Therefore, they are revenue on the accrual basis used in the government-wide statements.	<u>3,539</u>
Net assets (deficit) of governmental activities	<u><u>\$ (7,650,146)</u></u>

See Accompanying Notes to the Basic Financial Statements.

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REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	Special Revenue	
	Funds	
	Low-Moderate Income Housing Set-Aside Fund	Operating Fund
Revenues:		
Tax increment	\$ 611,580	\$ -
Special CFD Tax	-	-
Charges for services	-	26,642
Use of money and property	9,468	18,224
	<hr/>	<hr/>
Total revenues	621,048	44,866
	<hr/>	<hr/>
Expenditures:		
Current:		
Community development	235,489	1,246,741
Intergovernmental - SERAF payment	-	183,762
Capital outlay	-	1,519,460
Debt service:		
Principal	-	1,752,027
Interest	-	792,625
	<hr/>	<hr/>
Total expenditures	235,489	5,494,615
	<hr/>	<hr/>
Excess (deficiency) of revenues over (under) expenditures	385,559	(5,449,749)
	<hr/>	<hr/>
Other financing sources (uses):		
Issuance of debt	-	2,155,566
Transfers in	-	3,351,177
Transfers out	-	-
	<hr/>	<hr/>
Total other financing sources (uses)	-	5,506,743
	<hr/>	<hr/>
Net change in fund balances	385,559	56,994
Fund balances, beginning of year	2,325,138	2,847,510
	<hr/>	<hr/>
Fund balances, end of year	\$ 2,710,697	\$ 2,904,504
	<hr/>	<hr/>

See Accompanying Notes to the Basic Financial Statements.

Capital Projects Fund	Debt Service Fund	Total Governmental Funds
\$ -	\$ 2,446,322	\$ 3,057,902
-	286,596	286,596
12,049	-	38,691
12,739	21	40,452
<u>24,788</u>	<u>2,732,939</u>	<u>3,423,641</u>
13,434	5,569	1,501,233
-	-	183,762
-	-	1,519,460
-	310,000	2,062,027
-	509,075	1,301,700
<u>13,434</u>	<u>824,644</u>	<u>6,568,182</u>
<u>11,354</u>	<u>1,908,295</u>	<u>(3,144,541)</u>
-	-	2,155,566
-	-	3,351,177
<u>(1,442,882)</u>	<u>(1,908,295)</u>	<u>(3,351,177)</u>
<u>(1,442,882)</u>	<u>(1,908,295)</u>	<u>2,155,566</u>
(1,431,528)	-	(988,975)
<u>2,193,085</u>	<u>277,900</u>	<u>7,643,633</u>
<u>\$ 761,557</u>	<u>\$ 277,900</u>	<u>\$ 6,654,658</u>

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2011

Net change in fund balances - total governmental funds \$ (988,975)

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and report as depreciation expense or allocated to the appropriate functional expense when the cost is below the capitalization threshold. In addition capital assets contributed are not reported in the governmental funds as they are not a resource that can be used to pay current expenditures. The effects of capital asset related activities are as follows:

Depreciation	\$ (132,376)	
Capital outlay	1,519,460	
Capital contribution	<u>785,062</u>	2,172,146

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on changes in net assets.

Principal repayment	\$ 2,062,027	
Issuance of debt	<u>(2,155,566)</u>	(93,539)

In the Statement of Activities, interest is accrued on long-term liabilities, whereas in the governmental fund statements, interest expenditures are reported when due. This is the amount by which interest paid exceeds interest accrued.

9,324

Some revenues reported in the statement of activities are not considered to be available to finance current expenditures and therefore are not reported as revenues in the governmental funds.

3,029

Change in net assets of governmental activities \$ 1,101,985

See Accompanying Notes to the Basic Financial Statements.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to the Basic Financial Statements
June 30, 2011

(1) Summary of Significant Accounting Policies

(a) Reporting Entity – Redevelopment Agency of the City of La Habra

The Redevelopment Agency of the City of La Habra (Agency) was established in September 1975 pursuant to State of California Health and Safety Code Section 33000 entitled *Community Redevelopment Law*. Its purpose is to prepare and carry out plans for the improvement, rehabilitation, and redevelopment of blighted areas within the City of La Habra (City). The reporting entity also includes the financial information of Community Facilities District No. 1990-1 (District).

The Agency is a “component unit” of the City for financial reporting purposes. Since the City Council of the City also serves as the Board of Directors of the Agency, the City, in effect, has the ability to influence and control operations. Therefore, the City has oversight responsibility for the Agency. The financial statements of the Agency are included in the City’s comprehensive annual financial report. The Agency has the same fiscal year as the City. The City’s financial statements can be obtained from the Finance Department of the City.

The Community Facilities District No. 1990-1 (District) is a “component unit” of the Agency for financial reporting purposes. The District is a component unit of the Agency because it provides services entirely to the Agency. The District was set up to acquire real property and construct a public parking facility. This facility was paid for by the Agency from proceeds received from special tax bonds, which will be repaid from levies on taxable real property within the District.

(b) Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Agency. The effect of interfund activity has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable to a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and capital contributions from the City. Taxes and other items not properly classified as program revenues are reported as general revenues.

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to the Basic Financial Statements (Continued)
June 30, 2011

Major individual governmental funds are reported in separate columns in the fund financial statements.

(c) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. On an accrual basis, revenue from property taxes is recognized in the fiscal year from which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Net assets are reported as restricted when constraints placed on their use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through local enabling legislation. When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 365 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is principal and interest on long-term debt which is recognized when due.

Real property taxes are levied for the period beginning on July 1 to June 30 against property owners of record on January 1. The taxes are due in two installments, on December 10 and April 10, and become delinquent after December 10 and April 10, respectively. The Agency participates in a program known as the "Teeter Plan," whereby the county distributes 100% of the Agency's portion of the secured tax levy during each fiscal year. In exchange, the Agency waives the right to collect interest and penalties on any delinquent tax collections received by the county on the secured rolls in future years.

The Agency reports the following major governmental funds (all governmental funds are considered "major"):

The Low-Moderate Income Housing Set-Aside Fund, a special revenue fund, is used to account for the 20% of gross property tax increment revenue received by the Agency to fund future projects involving the replacing or rehabilitation of low- and moderate-income housing within City limits.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to the Basic Financial Statements (Continued)
June 30, 2011

The Operating Fund, a special revenue fund, is used to account for the financial resources to be used for the improvement and rehabilitation of the community development project areas within the Agency.

The Capital Projects Fund is used to account for the financial resources to be used for the improvement and rehabilitation of the community development project areas and acquisition or construction of major capital facilities within the Agency.

The Debt Service Fund is used to account for the accumulation of resources for the payment of principal, interest, and related costs associated with all long-term debt of the Agency.

(d) Budgetary Data

The budget is legally adopted for the Special Revenue, Capital Projects and Debt Service funds on the basis consistent with accounting principles generally accepted in the United States of America. The Board of Directors can revise the budget periodically during the year when deemed necessary.

The appropriated budget is prepared by fund, function, and department. The government's department head, with approval of the Finance Director and Executive Director, may make transfers of appropriations within a department. Transfers of appropriations between departments within a fund must be approved by the Executive Director. Transfers between funds must be approved by the Board of Directors; therefore, the legal level of budgetary control is at the fund level. The Board made supplemental budgetary appropriations during the year.

(e) Cash and Investments

Cash includes amounts in demand deposits. Investments are reported in the accompanying financial statements at fair value (the value at which a financial instrument would be exchanged in a current transaction between willing parties other than a forced or liquidation sale), except for certain investments which have a remaining life of less than one year when purchased which are stated at amortized cost.

Changes in fair value that occur during a fiscal year are recognized as income from property and investments reported for that fiscal year. Income from property and investments includes interest earnings; changes in fair value; any gains or losses realized upon the liquidation, maturity, or sale of investments; and property rentals.

The Agency pools cash and investments of all funds, except for assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. The balance in the pooled cash accounts is available to meet current operating requirements. Investment income earned by the pooled investments is allocated to the various funds on a monthly basis, based on each fund's daily average cash and investments balance.

Restricted cash and investments are stated at fair value and are those set aside for uses that are specified by bond indentures or agreements.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to the Basic Financial Statements (Continued)
June 30, 2011

(f) Land Held for Resale

Land held for resale is valued at the lower of cost or estimated net realizable value as determined upon the execution of a disposition and development agreement. The amount of land held for resale outstanding at June 30, 2011, was \$3,111,000.

(g) Capital Assets

Capital assets, which include land, buildings and improvements and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized.

Depreciation is charged to operations using the straight-line method based on the estimated useful life of an asset. The estimated useful lives of depreciable assets are as follows:

<u>Type of Asset</u>	<u>Life in Years</u>
Buildings and improvements	5-40
Infrastructure	30-50

(h) Deficit Net Assets

The Agency's unrestricted net assets are in a deficit position primarily due to long-term debt in excess of capital assets owned by the Agency. Generally, the City issues debt whereby the proceeds are loaned to the Agency for development and improvements within its project area. These improvements are for the benefit and ultimate use of the City and, therefore, the capital assets are included as part of the City's capital assets.

(i) Implementation of Governmental Accounting Standard Board (GASB) Statement

In February 2009, GASB released a new Statement, GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB Statement No. 54). The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The initial distinction in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories. This Statement provides for additional classification as restricted, committed, assigned, and unassigned

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to the Basic Financial Statements (Continued)
June 30, 2011

based on the relative strength of the constraints that control how specific amounts can be spent. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. The Agency adopted the provisions of GASB Statement No. 54 effective July 1, 2010.

(j) Expenditures Exceeded Appropriations

	Budget	Actual	Variance
Operating Special Revenue Fund	\$ 1,908,066	\$ 5,494,615	\$ (3,586,549)

(2) Detailed Notes on All Funds

(a) Cash and Investments

Cash resources of the individual funds are combined to form a pool of cash and investments. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of La Habra. The Agency has adopted the same investment policy adopted by the City. Individual investments cannot be identified with any single fund because the Agency may be required to liquidate its investments at any time to cover large cash outlays required in excess of normal operating needs. Funds must request large outlays in advance so that the City Treasurer will have the funding available.

Cash and investments at June 30, 2011, are classified in the accompanying financial statements as follows:

Cash and investments	\$ 3,579,627
Restricted cash and investments with fiscal agents	1,017,621
Total cash and investments	\$ 4,597,248

Cash and investments as of June 30, 2011, consist of the following:

Investments held by fiscal agents - LAIF and money market funds	\$ 1,017,621
Investments - LAIF and money market funds	3,579,627
Total cash and investments	\$ 4,597,248

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to the Basic Financial Statements (Continued)
June 30, 2011

Investments Authorized by the California Government Code and the Agency's Investment Policy

The table below identifies the investment types that are authorized for the Agency by the California Government Code and by the Agency's adopted investment policy. The table also identifies certain provisions of the California Government Code or the Agency's adopted investment policy, where more restrictive, that address interest rate risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the California Government Code or the Agency's adopted investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentages of Portfolio</u>	<u>Maximum Investment In One Investor</u>
City or City Agency Bonds	5 years	10%	None
U.S. Treasury Obligations	5 years	100%	None
State of California Obligations	5 years	20%	None
California Local Agency Bonds	5 years	20%	None
U.S. Agency Obligations	5 years	100%	10% *
Bankers' Acceptance	180 days	20% *	5% *
Commercial Paper	270 days	25%	10% *
Negotiable CDs	5 years	20% *	5% *
Time Certificates of Deposit	5 years	100%	None
Repurchase Agreements	90 days *	100%	None
Medium Term Notes	5 years	20% *	5% *
Money Market Funds	N/A	20% *	10%
Local Agency Investment Fund (LAIF)	N/A	100%	\$50 million per account *

* Represents where the Agency's investment policy is more restrictive than the California Government Code.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to the Basic Financial Statements (Continued)
June 30, 2011

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee is governed by provisions of the debt agreements rather than the general provisions of the California Government Code or the Agency's investment policy. The table below identifies the general investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentages of Portfolio</u>	<u>Maximum Investment In One Investor</u>
U.S. Treasury Obligations	None	None	None
Federal Housing Administration Debentures	None	None	None
U.S. Agency Securities	None	None	None
Unsecured CDs, time deposits and Bankers' Acceptance	30 days	None	None
FDIC Insured bank deposits	None	None	None
Commercial Paper	270 days	None	None
Money Market Funds	N/A	None	None
State Obligations	None	None	None
Pre-funded Municipal Obligations	None	None	None
Repurchase Agreements	90 days	None	None
Investment Agreements	None	None	None
Local Agency Investment Fund (LAIF)	None	None	\$50 million per account

Disclosures Related to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to the Basic Financial Statements (Continued)
June 30, 2011

Information about the sensitivity of the fair values of the Agency's investment to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

Investment Types	Remaining Maturity Less Than 1 Year
Money Market Fund	\$ 1,152
LAIF	3,578,475
Held by fiscal agent:	
Money Market Fund	277,900
LAIF	739,721
Total	\$ 4,597,248

Disclosures Related to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code or the Agency's investment policy, and the actual rating as of year end for each investment type.

Investment Types	Amount	Minimum Legal Rating	AAA	Not Rated
Money Market Fund	\$ 1,152	AAA	\$ 1,152	\$ -
LAIF	3,578,475	N/A	-	3,578,475
Held by Fiscal Agent:				
Money Market Fund	277,900	AAA	277,900	-
LAIF	739,721	N/A	-	739,721
	\$ 4,597,248		\$ 279,052	\$ 4,318,196

Concentration of Credit Risk

The Agency's investment policy contains certain limitations as disclosed in the accompanying table on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The distribution of investments, by issuer that represents 5% or more of the Agency's investments is as follows:

Issuer Name	Investment Type	Amount
JP Morgan US Treasury Plus Premier Fund	Money Market Fund	\$ 277,900

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to the Basic Financial Statements (Continued)
June 30, 2011

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) in a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2011, no Agency investments were held by the same broker-dealer (counterparty) that was used by the Agency to buy the securities.

Investment in State Investment Pool

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF), which 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 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.

The total amount invested by all public agencies in LAIF as of June 30, 2011, was \$24.1 billion. LAIF is part of the California Pooled Money Investment Account (PMIA), which at June 30, 2011, had a balance of \$66.3 billion, of that amount, 5.01% was invested in medium-term and short-term structured notes and asset-backed securities. The average maturity of PMIA investments was 237 days as of June 30, 2011.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to the Basic Financial Statements (Continued)
June 30, 2011

(b) Due To/From Other Funds

Interfund receivables and payable at June 30, 2011 were as follows:

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>
Operating Special Revenue Fund	\$ 29,573	\$ -
Debt Service Fund	-	29,573
	<u>\$ 29,573</u>	<u>\$ 29,573</u>

The interfund receivables and payables balances represent routine and temporary cash flow assistance.

(c) Advances To/From Other Funds

	<u>Advances To Other Funds</u>	<u>Advances From Other Funds</u>
Low Moderate Income Housing Set-Aside Fund	\$ 615,507	\$ -
Operating Special Revenue Fund	-	615,507
	<u>\$ 615,507</u>	<u>\$ 615,507</u>

As authorized by State Assembly Bill (AB) 26 4x, the Agency suspended its required 20% set-aside deposit of total annual tax increment into the Low-Moderate Income Housing Set-Aside special revenue (LMIH) fund for fiscal year 2010. These funds were used to pay the Agency's required supplemental Education Revenue Augmentation Fund (SERAF) obligation to the County. The Agency has established an advance from the Operating special revenue fund to the LMIH fund to recover the suspended deposit on or before June 30, 2015. Interest is calculated based on the State's Pooled Money Investment Account's (PMIA) Average Monthly Effective Yields. At June 30, 2011, the outstanding balance of the advance was \$615,507, which included accrued interest of \$3,540.

(d) Interfund Transfers

	<u>Transfers In</u>	<u>Transfers Out</u>
Operating Special Revenue Fund	\$ 3,351,177	\$ -
Capital Projects Fund	-	1,442,882
Debt Service Fund	-	1,908,295
	<u>\$ 3,351,177</u>	<u>\$ 3,351,177</u>

The \$3,351,177 transferred to the Operating Special Revenue Fund from Capital Project and Debt

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to the Basic Financial Statements (Continued)
June 30, 2011

Service Funds was for current and future expenditures.

(e) Capital Assets

Capital asset activity was as follows for the year ended June 30, 2011:

	<u>Balance at July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2011</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 328,522	\$ 1,058,500	\$ -	\$ 1,387,022
Construction in progress	1,805,316	-	1,805,316	-
Total capital assets, not being depreciated	<u>2,133,838</u>	<u>1,058,500</u>	<u>1,805,316</u>	<u>1,387,022</u>
Capital assets, being depreciated:				
Buildings and improvements	-	3,051,338	-	3,051,338
Infrastructure	3,971,268	-	-	3,971,268
Total capital assets, being depreciated	<u>3,971,268</u>	<u>3,051,338</u>	<u>-</u>	<u>7,022,606</u>
Less accumulated depreciation for:				
Infrastructure	544,625	132,376	-	677,001
Total accumulated depreciation	<u>544,625</u>	<u>132,376</u>	<u>-</u>	<u>677,001</u>
Total capital assets being depreciated, net	<u>3,426,643</u>	<u>2,918,962</u>	<u>-</u>	<u>6,345,605</u>
Governmental activities capital assets, net	<u>\$ 5,560,481</u>	<u>\$ 3,977,462</u>	<u>\$ 1,805,316</u>	<u>\$ 7,732,627</u>

During fiscal year 2011, the City used \$785,062 of the City's Child Care and Development grant funds to renovate and repair an agency owned facility. The related asset was contributed to the Agency and is an addition to buildings and improvements.

All depreciation expense of governmental activities was charged to community development.

The Agency had construction commitments of \$463,500 at June 30, 2011.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to the Basic Financial Statements (Continued)
June 30, 2011

(f) Long-Term Liabilities

Long-term liabilities consist of the following at June 30, 2011:

	Balance at July 1, 2010 as previously reported	Restatement*	Balance at July 1, 2010, as restated	Increases	Decreases	Balance at June 30, 2011	Due within One Year
Governmental activities:							
1999 Refunding Special Tax Bonds	\$ 2,035,000	\$ -	\$ 2,035,000	\$ -	\$ 155,000	\$ 1,880,000	\$ 165,000
2000 Tax Allocation Bonds	6,950,000	-	6,950,000	-	155,000	6,795,000	220,000
Note Payable	-	-	-	1,450,000	109,145	1,340,855	115,877
Advance from Civic Improvement Authority	591,214	-	591,214	-	-	591,214	-
Advances from the City of La Habra	10,638,937	1,518,244	12,157,181	705,566	1,642,882	11,219,865	-
Total	\$ 20,215,151	\$ 1,518,244	\$ 21,733,395	\$ 2,155,566	\$ 2,062,027	\$ 21,826,934	\$ 500,877

* See Note 4 (g) for restatement detail.

1999 Refunding Special Tax Bonds

On July 1, 1999, the Community Facilities District of the Agency issued 1999 Special Tax Bonds (Refunding Bonds) in the amount of \$3,185,000 at interest rates ranging from 4.25% to 6% to advance refund \$3,250,000 of outstanding 1990 Special Tax Bonds (Refunded Bonds) with interest rates ranging from 7% to 7.75%. The bonds are secured primarily by a pledge of all special tax revenues levied on taxable real property with the District. Special tax revenues are defined as the special taxes levied by the Agency within the District. In addition, the Agency has committed, through an Owner Participation Agreement, to subsidize the special taxes payable on the Refunding Bonds with incremental property taxes. These revenues have been pledged until the year 2019, the final maturity date of the bonds. The total principal and interest remaining on the bonds is \$2,429,900, the approximate amount of revenue pledged. Special tax revenue recognized during the year ended June 30, 2011 was \$286,596 as against the total debt service payments of \$272,140.

2000 Tax Allocation Bonds

On November 1, 2000, the Agency issued Tax Allocation Bonds in an aggregate amount of \$8,000,000 with fixed interest rates ranging from 4.5% to 5.875% to finance the Agency's redevelopment activities. The bonds mature in various annual amounts through October 1, 2032 and are secured and to be serviced from tax increment revenues of the Agency. All tax increment revenues are the security for bonds. The total principal and interest remaining on the bonds is \$11,625,264 the approximate amount of revenue pledged. Pledged tax increment revenue recognized during the year ended June 30, 2011 was \$2,446,322 as against the total debt service payments of \$546,935.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to the Basic Financial Statements (Continued)
June 30, 2011

Note Payable

On July 23, 2010, the Agency had purchase property from the Howard's Appliance, Inc. and issued a note payable in the amount of \$1,450,000. The note bears interest at 6.00% per annum and is secured by a deed of trust. The note payable calls for annual payments of \$193,176, including interest, and expires in June 2020. The source of repayment is the Operating Special Revenue Fund. The outstanding balance at June 30, 2011, is \$1,340,855.

Civic Improvement Authority

As of June 30, 2011, the Agency had borrowed \$591,214 from the Civic Improvement Authority, which included unpaid interest. There are no repayment terms on these advances, and the current interest rate is 0%.

City of La Habra

As of June 30, 1992, the Agency had borrowed an aggregate amount of \$5.7 million from the City. From that date through September 1998, the balance of the advances, excluding unpaid interest of \$1,348,582, from the City totaled \$6,705,000, representing \$5,640,000 from the Series B Tax-Exempt Certificates and \$1,065,000 from the Series C Tax Certificates. On September 15, 1998, a loan agreement was entered into between the City and Agency whereby the Agency would repay these advances in annual principal installments of between \$160,000 and \$455,000, plus interest of between 4.0% and 6.5%, maturing in 2022. In October 2000, the agreement was amended to account for the Agency's available cashflow, whereby the amount of the annual payment will be contingent upon the amount of the Agency's available cashflow (i.e. the Agency's ability to make scheduled payments). For the current year, principal paid was \$1,642,882. At June 30, 2011, the outstanding balance of the advance was \$8,391,986. The total accrued interest included in the balance is \$1,763,505, which includes accrued interest of \$463,042 for fiscal year 2010-2011.

In August 2007, the City advanced the Agency \$2,000,000, at an interest rate of 9%, towards the purchase of a building and land. During the year the City extended the repayment terms of the advance to June 2014. At June 30, 2011, the outstanding balance of the advance was \$2,827,879. The total accrued interest included in the balance is \$827,879, which includes accrued interest of \$242,523 for fiscal year 2010-2011.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to the Basic Financial Statements (Continued)
June 30, 2011

At June 30, 2011, debt service requirements to maturity for tax allocation bonds are as follows:

Fiscal Year Ending June 30	1999 Refunding Special Tax Bonds	2000 Tax Allocation Bonds	Total Principal	Total Interest
2012	\$ 165,000	\$ 220,000	\$ 385,000	\$ 490,300
2013	175,000	230,000	405,000	468,510
2014	185,000	245,000	430,000	445,360
2015	195,000	255,000	450,000	420,737
2016	205,000	265,000	470,000	394,596
2017-2021	955,000	1,285,000	2,240,000	1,562,226
2022-2026	-	1,690,000	1,690,000	1,019,894
2027-2031	-	1,740,000	1,740,000	526,988
2032-2033	-	865,000	865,000	51,553
	<u>\$ 1,880,000</u>	<u>\$ 6,795,000</u>	<u>\$ 8,675,000</u>	<u>\$ 5,380,164</u>

At June 30, 2011, debt service requirements to maturity for note payable are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 115,877	\$ 77,299	\$ 193,176
2013	123,023	70,153	193,176
2014	130,611	62,565	193,176
2015	138,667	54,509	193,176
2016	147,221	45,955	193,176
2017-2020	685,456	87,167	772,623
	<u>\$ 1,340,855</u>	<u>\$ 397,648</u>	<u>\$ 1,738,503</u>

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to the Basic Financial Statements (Continued)
June 30, 2011

(3) Fund Balance

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the Agency is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Effective July 1, 2010, fund balance for government funds are made up of the followings:

- Nonspendable Fund Balance – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.
- Restricted Fund Balance – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action of the City’s highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally. There were no committed fund balances at June 30, 2011.
- Assigned Fund Balance – comprises amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by the City Council to which the City Council has delegated the authority to assign amounts to be used for specific purposes. There were no assigned fund balances at June 20, 2011.
- Unassigned Fund Balance – represents expenditures incurred for specific purposes, which exceed amounts restricted, committed, or assigned to those purposes.

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

(4) Other Information

(a) Risk Management

The Agency is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Agency, through the City, carries commercial liability insurance coverage. The Agency carries no insurance coverage for natural disasters. Since the Agency does not have any employees (it uses employees from the City), it is not liable for injury to employees, workers’ compensation, or employee health and accident insurance.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to the Basic Financial Statements (Continued)
June 30, 2011

The Agency is covered under the City's self-insurance program, which accounts for and finances its uninsured risk of loss. Under the City's program, the Agency's self-insured retention (SIR) is \$300,000 for each general liability claim. The City purchases commercial insurance for claims in excess of coverage, provided by the program and for all other risks of loss. The City has had no reductions in insurance coverage, nor did the City have any settlements that were in excess of insurance coverage in any of the three preceding fiscal years ending with June 30, 2011.

(b) Owner Participation Agreements

The Agency has entered into several Owner Participation Agreements with various business owners within the City. Generally, these agreements require the Agency to remit to these businesses a portion of the sales tax revenue generated by their operations. However, one agreement requires the Agency to remit a percentage of the incremental property tax revenue earned by the Agency, due to the increase in the assessed value of the business property. Most of the agreements provide for limits of the amount of tax that can be remitted back to the business owner, ranging in the aggregate up to a maximum of \$5,839,000. The remaining period of years under these agreements ranges from 1 to 13 years. The Agency remitted approximately \$514,326 during the year ended June 30, 2011, which is included in expenditures of the Operating Fund.

(c) Due to City of La Habra

The City of La Habra maintains a separate checking account and claim on cash account for the City and the Agency and amounts due to the City are recorded until actual cash reimbursements are paid. The total amount due to the City is \$53,700 and is expected to be paid with future tax increment revenue.

(d) SERAF Payment

On July 24, 2009, the State Legislature passed Assembly Bill (AB) 26 4x, which requires redevelopment agencies statewide to deposit a total of \$2.05 billion of property tax increment in county "Supplemental" Educational Revenue Augmentation Funds (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of \$2.05 billion had been made over two years, \$1.7 billion in fiscal year 2009-2010 and \$350 million in fiscal year 2010-2011. The SERAF would then be paid to school districts and the county offices of education which have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools. The Agency's share of this revenue shift is approximately \$892,557 in fiscal year 2009-2010 and \$183,762 in fiscal year 2010-2011. Accordingly, the first payment was made on May 10, 2010 to the County and the second payment was made on May 10, 2011.

The Agency is part of a certified class in the lawsuit brought by the California Redevelopment Association, along with the plaintiffs/petitioners, against the Director of the California department of Finance and all California County Auditors challenging AB26X4, passed in July 2009 as part of the State budget package. This statute required the Agency to pay \$1,076,141 into the SERAF over

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to the Basic Financial Statements (Continued)
June 30, 2011

two fiscal years. The plaintiffs lost this case in the trial court. Since the appeal was not decided as of May 10, 2011, the Agency made another payment of \$183,762 to the SERAF.

(e) Low and Moderate Income Housing Fund Excess Surplus Calculation

Health & Safety Code Section 33334.12(g)(1) defines excess surplus to mean any unexpended and unencumbered amount in an agency's low and moderate income housing fund that exceeds the greater of \$1,000,000 or the aggregate amount deposited into the low and moderate income housing fund during the preceding 4 fiscal years.

As of July 1, 2010, the Agency does not have an excess surplus as computed as follows:

Fiscal Year (FY)	Total Tax Increments Deposited in Housing Fund	Sum of Tax Increments Deposits Over Prior Four FYs	Total Unencumbered Balance at July 1, 2010	Excess Surplus
2006/2007	\$ 468,483			\$ -
2007/2008	\$ 585,986			\$ -
2008/2009	\$ 590,455			\$ -
2009/2010	\$ 611,967			\$ -
2010/2011		\$ 2,256,891	\$ 1,602,171	\$ -

(f) Legislation Dissolving California Redevelopment Agencies

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a voluntary alternative redevelopment program.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court (Court) to overturn Assembly Bills X1 26 and 27 on the grounds that these bills violate the California Constitution.

On December 29, 2011, the Court ruled that Assembly Bill X1 26, the dissolution measure, is largely upheld and is a proper exercise of the legislative power vested in the Legislature by the State Constitution. A different conclusion was rendered with respect to Assembly Bill X1 27, which was invalidated in its entirety by the Court. Accordingly, the Agency is required to dissolve in fiscal year 2011/12 and the guidelines for dissolution are set forth in Assembly Bill X1 26. The financial statements do not include any adjustments as a result of the dissolution of the Agency.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to the Basic Financial Statements (Continued)
June 30, 2011

The following is a summary of the significant provisions of Assembly Bill X1 26:

Suspends Redevelopment Activity - As of June 29, 2011, the Agency cannot incur new obligations and debt. More specifically, the Agency cannot enter into or amend contracts, renew or extend leases or other agreements, and dispose of or transfer real property or other assets. Agencies are required to continue to make scheduled payments on bonds and other legally binding agreements, and to manage existing contracts, projects, and other agreements.

Dissolves Redevelopment Agencies - Assembly Bill X1 26 dissolves all redevelopment agencies and community development agencies. All assets and responsibilities for closing out the activities of the former agency are transferred to a "Successor Agency."

Creates Successor Agencies - The Successor Agency is presumed to be the sponsoring community of the redevelopment agency (i.e. the City). The responsibility of a Successor Agency includes making payments and performing obligations of the former redevelopment agency in accordance with a schedule of enforceable obligations. Enforceable obligations include; bonds, loans, legally required payments, including payments for pension obligations, judgments or settlements, and other legally binding and enforceable agreements. A Successor Agency is required to dispose of the former agency's assets in an expeditious fashion, to transfer the housing functions to its sponsoring community, to wind down the affairs of the former agency (including the payment of debt and completion of obligated projects), to prepare administrative budgets, and to provide support to the "Oversight Board."

Transfer of Housing Functions--The sponsoring community may choose to assume the housing functions and the housing assets of the dissolved agency. Should the sponsoring community choose not to assume these responsibilities, all assets and functions would be transferred to the local housing authority.

Creation of Oversight Boards -The Oversight Board, which is comprised of seven member representatives from local government bodies, is tasked with reviewing and approving the actions of the Successor Agency. Two of the seven members would be City representatives appointed by the City Council - one of which must be an employee from the recognized employee organization representing the largest number of employees working for the redevelopment agency as of the date of dissolution. The remaining members are appointed by the County (2), the County Superintendent of Education (1), the Chancellor of California Community Colleges (1), and the largest special district taxing entity in the territorial jurisdiction of the former redevelopment agency which is eligible to receive property tax revenues pursuant to Section 34188.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to the Basic Financial Statements (Continued)
June 30, 2011

(g) Prior Period Adjustment

The beginning net assets of the governmental activities was restated as follows:

	Governmental Activities
Net assets at June 30, 2010, as previously reported	\$ (7,233,887)
To decrease beginning balance for long-term debt issued in the prior years	<u>(1,518,244)</u>
Net assets at June 30, 2010, restated	<u><u>\$ (8,752,131)</u></u>

During fiscal year 1999, as part of loan agreement between the City and Agency discussed in Note 2(f), any installment of principal or interest which is not paid when due shall continue to accrue interest at the rate of 6.50% per annum. The Agency had not accrued interests on unpaid interest, thus beginning net asset of the governmental activities was reduced to reflect additional interest expense that should have been accrued from the fiscal years 1999 through 2010. This adjustment has no impact on the governmental fund balances.

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REQUIRED SUPPLEMENTARY INFORMATION

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Low-Moderate Income Housing Set-Aside Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2011

	<u>Budget</u>		<u>Actual</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Tax increment	\$ 447,690	\$ 447,690	\$ 611,580	\$ 163,890
Use of money and property	9,000	9,000	9,468	468
Total revenues	456,690	456,690	621,048	164,358
Expenditures:				
Community development	267,650	267,650	235,489	32,161
Net change in fund balance	189,040	189,040	385,559	196,519
Fund balance, beginning of year	2,325,138	2,325,138	2,325,138	-
Fund balance, end of year	<u>\$ 2,514,178</u>	<u>\$ 2,514,178</u>	<u>\$ 2,710,697</u>	<u>\$ 196,519</u>

See Accompanying Note to the Required Supplementary Information.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Operating Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2011

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Positive</u> <u>(Negative)</u>
Revenues:				
Charges for services	\$ 26,100	\$ 26,100	\$ 26,642	\$ 542
Use of money and property	-	-	18,224	18,224
Total revenues	<u>26,100</u>	<u>26,100</u>	<u>44,866</u>	<u>18,766</u>
Expenditures:				
Current:				
Community development	1,508,066	1,508,066	1,246,741	261,325
Intergovernmental - SERAF payment	-	-	183,762	(183,762)
Capital outlay	-	-	1,519,460	(1,519,460)
Debt service:				
Principal	118,000	118,000	1,752,027	(1,634,027)
Interest	<u>282,000</u>	<u>282,000</u>	<u>792,625</u>	<u>(510,625)</u>
Total expenditures	<u>1,908,066</u>	<u>1,908,066</u>	<u>5,494,615</u>	<u>(3,586,549)</u>
Excess (deficiency) of revenues over (under) expenditures	(1,881,966)	(1,881,966)	(5,449,749)	(3,567,783)
Other financing sources:				
Issuance of debt	-	-	2,155,566	2,155,566
Transfers in	<u>2,165,086</u>	<u>2,165,086</u>	<u>3,351,177</u>	<u>1,186,091</u>
Net change in fund balance	283,120	283,120	56,994	(226,126)
Fund balance, beginning of year	<u>2,847,510</u>	<u>2,847,510</u>	<u>2,847,510</u>	<u>-</u>
Fund balance, end of year	<u>\$ 3,130,630</u>	<u>\$ 3,130,630</u>	<u>\$ 2,904,504</u>	<u>\$ (226,126)</u>

See Accompanying Note to the Required Supplementary Information.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Note to Required Supplementary Information
June 30, 2011

(1) Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund, function and department. The government's department head, with approval of the Finance Director and Executive Director, may make transfers of appropriations within a department. Transfers of appropriations between departments within a fund must be approved by the Executive Director. Transfers between funds must be approved by the Board of Directors; therefore, the legal level of budgetary control is at the fund level.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as restricted, committed, or assigned fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

(2) Expenditures Exceeded Appropriations

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Special Revenue Fund	\$ 1,908,066	\$ 5,494,615	\$ (3,586,549)

SUPPLEMENTARY INFORMATION

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Capital Projects Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2011

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Charges for services	\$ 5,700	\$ 12,049	\$ 6,349
Use of money and property	40,000	12,739	(27,261)
Total revenues	<u>45,700</u>	<u>24,788</u>	<u>(20,912)</u>
Expenditures:			
Current:			
Community development	<u>1,585,000</u>	<u>13,434</u>	<u>1,571,566</u>
Excess of revenues over expenditures	(1,539,300)	11,354	1,550,654
Other financing sources:			
Transfers out	<u>-</u>	<u>(1,442,882)</u>	<u>(1,442,882)</u>
Net change in fund balance	(1,539,300)	(1,431,528)	107,772
Fund balance, beginning of year	<u>2,193,085</u>	<u>2,193,085</u>	<u>-</u>
Fund balance, end of year	<u>\$ 653,785</u>	<u>\$ 761,557</u>	<u>\$ 107,772</u>

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Debt Service Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Tax increment	\$ 2,708,661	\$ 2,446,322	\$ (262,339)
Special CFD tax	283,000	286,596	3,596
Use of money and property	-	21	21
Total revenues	2,991,661	2,732,939	(258,722)
Expenditures:			
Current:			
Community development	7,500	5,569	1,931
Debt service:			
Principal	310,000	310,000	-
Interest	509,075	509,075	-
Total expenditures	826,575	824,644	1,931
 Excess of revenues over expenditures	 2,165,086	 1,908,295	 (256,791)
Other financing (uses):			
Transfers out	(2,165,086)	(1,908,295)	256,791
 Net change in fund balance	 -	 -	 -
 Fund balance, beginning of year	 277,900	 277,900	 -
 Fund balance, end of year	 \$ 277,900	 \$ 277,900	 \$ -

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COMPLIANCE SECTION

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The Board of Directors of the
Redevelopment Agency of the City of La Habra

**Independent Auditor’s Report on Compliance of
California Redevelopment Agencies and on
Internal Control over Compliance**

Compliance

We have audited the Redevelopment Agency of the City of La Habra (Agency) compliance with the requirements specified in the State of California’s *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the State Controller’s Office, applicable to the Agency’s statutory requirements identified below for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Agency’s management. Our responsibility is to express an opinion on the Agency’s compliance based on our audit.

We conducted our compliance audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the State of California’s *Guidelines for Compliance Audits of California Redevelopment Agencies (Guidelines)*, issued by the State Controller’s Office. Those standards and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the statutory requirements listed below occurred. An audit includes examining on a test basis, evidence about the Agency’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency’s compliance with those requirements.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Agency’s compliance with the state laws and regulations applicable to Financial Disclosure and Reporting; Affordable Housing; Five-Year Implementation Plans; Redevelopment Plans; Public Notification; and Conflict of Interest identified in the State of California’s *Guidelines for Compliance Audits of California Redevelopment Agencies*.

The results of our auditing procedures disclosed an instance of noncompliance in which the Agency did not timely submit an annual report as required by Health and Safety Code Sections 33080.1 and 33080.5 which is described in the accompanying schedule of findings and responses as Finding 2011-1.

In our opinion, except for the noncompliance described in the preceding paragraph, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements of the Agency for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance and with the compliance requirements referred to above. In planning and performing our audit, we considered the Agency's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinions on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A *deficiency in internal control over compliance* 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 noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency and that is described in the accompanying schedule of findings and responses as Finding 2011-1. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Agency's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information of the Board of Directors, management and others within 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

Newport Beach, California

December 30, 2011

The Board of Directors of the
Redevelopment Agency of the City of La Habra

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 La Habra (Agency), a component unit of the City of La Habra, California (City), as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated December 30, 2011. Our report includes an explanatory paragraph indicating that the Agency adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and an emphasis of a matter regarding the dissolution of redevelopment agencies in the State of California (Assembly Bill X1 26). 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

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting related to the Agency 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 City's internal control over financial reporting related to the Agency. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting related to the Agency.

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 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. However, providing an opinion on compliance with those

provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management and others within 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

Newport Beach, California

December 30, 2011

CITY OF LA HABRA
Schedule of Findings and Responses
June 30, 2011

Finding 2011-1: Financial Disclosure and Reporting – Timely Submission of Annual Report

Criteria

The California Health and Safety Code Section (Section) 33080.1 and 33080.5 require redevelopment agencies to present an annual report to their legislative body and the State Controller's Office within six months of the end of the agency's fiscal year. The annual report contains all of the following items:

- Independent financial audit report for the previous fiscal year. "Audit report" means an examination of, and opinion on, the financial statements of the agency which present the results of the operations and financial position of the agency, including all financial activities with moneys required to be held in a separate Low and Moderate Income Housing Fund pursuant to Section 33334.3.
- Fiscal statement for the previous fiscal year that contains the information required pursuant to Section 33080.5.
- Description of the agency's activities in the previous fiscal year affecting housing and displacement that contains the information required by Sections 33080.4 and 33080.7.
- Description of the agency's progress, including specific actions and expenditures, in alleviating blight in the previous fiscal year.
- List of, and status report on, all loans made by the redevelopment agency that are fifty thousand dollars (\$50,000) or more, that in the previous fiscal year were in default, or not in compliance with the terms of the loan approved by the redevelopment agency.
- Description of the total number and nature of the properties that the agency owns and those properties the agency has acquired in the previous fiscal year.
- A list of the fiscal years that the agency expects each of the following time limits to expire:
 - (1) The time limit for the commencement for eminent domain proceedings to acquire property within the project area.
 - (2) The time limit for the establishment of loans, advances, and indebtedness to finance the redevelopment project.
 - (3) The time limit for the effectiveness of the redevelopment plan.

CITY OF LA HABRA
Schedule of Findings and Responses
June 30, 2011

- The time limit to repay indebtedness with the proceeds of property taxes.
- Any other information that the agency believes useful to explain its programs, including, but not limited to, the number of jobs created and lost in the previous fiscal year as a result of its activities.
- A description of the agency's activities in the previous fiscal year affecting housing and displacement that contains the information required by sections 33080.4 and 33080.7.

Condition

The Agency did not present their annual report to their legislative body within six months of the end of the agency's fiscal year. The annual report was presented to the Agency's legislative body on May 16, 2011.

Cause

The Agency was aware of the specific compliance requirement to present their annual report to their legislative body within six months of the end of the agency's fiscal year. However, the annual report was not presented in time.

Recommendation

We recommend that the Agency prepare and present all required reports and statements to the legislative body by the due dates.

Management Response

We are aware of the appropriate timelines for presenting the annual report to our legislative body. Our Housing & Redevelopment Manager position is tasked with overseeing this compliance issue. A vacancy in this position which was not filled until April 2011 caused this item to be missed.