

SIGNAL HILL REDEVELOPMENT AGENCY

**COMPONENT UNIT
FINANCIAL STATEMENTS**

**WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

JUNE 30, 2010

SIGNAL HILL REDEVELOPMENT AGENCY

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December 13, 2010

INDEPENDENT AUDITORS' REPORT

To the Honorable Chairman and
 Members of the Agency
 Signal Hill Redevelopment Agency
 Signal Hill, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Signal Hill Redevelopment Agency (a component unit of the City of Signal Hill, California), as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the 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 Signal Hill Redevelopment Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 Signal Hill Redevelopment Agency as of June 30, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the Affordable Housing Special Revenue major governmental fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 13, 2010 on our consideration of the Signal Hill Redevelopment Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison schedule, identified as required supplementary information in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. This information is 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 management's discussion and analysis 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison schedule and related note have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements taken as a whole.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Signal Hill Redevelopment Agency's basic financial statements. The computation of the excess surplus of the Affordable Housing Special Revenue Fund, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Agency. Such information is the responsibility of management and was derived from and relates 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements taken as a whole.

Diell, Evans and Company, LLP

SIGNAL HILL REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2010

As management of the Redevelopment Agency of the City of Signal Hill (the Agency), we offer readers of the Agency's basic financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

FINANCIAL HIGHLIGHTS

- The net assets deficit, the amount by which total liabilities exceed total assets, was \$43,731,996 at June 30, 2010.
- During fiscal year 2009-10, expenses exceeded revenues by \$1,693,283 and increased the net assets deficit from the prior year.

OVERVIEW OF FINANCIAL STATEMENTS

The Agency's basic financial statements are presented in three parts:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

This section of the management's discussion and analysis is intended to introduce and explain the government-wide financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to give the reader a picture of the Agency from the economic resources measurement focus using the accrual basis of accounting. This broad overview is similar to the financial reporting used in private-sector business.

The Statement of Net Assets presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may be one indicator of improvement or deterioration in the Agency's overall financial health.

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fiscal Year Ended June 30, 2010

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

The Statement of Activities presents information designed to show how the Agency's net assets changed during the year. All activity on this statement is reported on the accrual basis of accounting, which requires that revenues be reported when earned and expenses be reported when incurred, regardless of when cash is received or disbursed.

Fund financial statements

A fund is a fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities or meet certain objectives. Funds are often set up in accordance with special regulations, restrictions or limitations. The Agency, like other state and local governments, uses fund accounting to ensure and show compliance with finance-related legal requirements. All of the funds of the Agency are governmental funds.

Governmental funds

Governmental Funds are used to account for the governmental activities reported in the government-wide financial statements. The basis of accounting is different between the governmental fund statements and the government-wide financial statements. The governmental funds focus on near-term revenues/financial resources and expenditures, while the government-wide financial statements include both near-term and long-term revenues/financial resources and expenses. The information in the governmental fund statements can be used to evaluate the Agency's near-term financing requirements and immediate fiscal health. Comparing the governmental fund statements and the government-wide financial statements can help the reader better understand the long term impact of the Agency's current year financing decisions. To assist in this comparison, reconciliations between the governmental fund statements and the government-wide financial statements are included with the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances.

Notes to the financial statements

The notes to the financial statements provide additional information that is important for a full understanding of the data in the government-wide and fund financial statements. The notes are located immediately following the basic financial statements.

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fiscal Year Ended June 30, 2010

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Other information

In addition to the basic financial statements and accompanying notes, this report also presents supplementary information.

The government-wide financial statements reflect that the Agency is principally supported by taxes and investment income. The governmental activities of the Agency include general government and community development.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Agency, it is also an important determinant of its ability to finance current and future redevelopment projects.

At the close of fiscal year 2010, the Agency has a net deficit of \$43,731,996. Of this amount \$8,337,477 is restricted for low and moderate-income housing. The remaining balance of \$52,069,473 represents a deficit, which will be covered from the collection of the Agency's future tax increment and other revenues. Traditionally, the Agency carries a deficit to collect tax increment. This is primarily due to the nature of the tax increment financing method allowed under California law whereby a redevelopment agency issues bonds or incurs long-term debt to finance its redevelopment projects by pledging future tax increment revenues.

The Agency uses the debt proceeds to finance its redevelopment projects which include land, housing, street improvements and park improvements. Once redevelopment projects that are public facilities are completed by the Agency, the responsibility for their continued maintenance and operation is transferred to the City of Signal Hill. Although completed public facilities and Joint Agency-Private Partnership projects are transferred to the City of Signal Hill and private developers, the related debt remains with the Agency.

Net Assets

The statement of net assets presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may be used as an indicator of whether the financial position of the Agency is improving or deteriorating.

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fiscal Year Ended June 30, 2010

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following is a condensed version of the statements of net assets for the fiscal years ended June 30, 2010 and 2009.

Table 1
Condensed Statements of Net Assets (Deficit)

| | Fiscal Year 2010 | Fiscal Year 2009 | Dollar Change |
|------------------------------------------------|------------------------|------------------------|-----------------------|
| Assets: | | | |
| Current and other assets | \$ 69,310,403 | \$ 52,355,027 | \$ 16,955,376 |
| Capital assets, net | - | - | - |
| Total Assets | <u>69,310,403</u> | <u>52,355,027</u> | <u>16,955,376</u> |
| Liabilities: | | | |
| Current liabilities | 9,196,754 | 9,305,302 | (108,548) |
| Long-term liabilities | <u>103,845,645</u> | <u>85,088,438</u> | <u>18,757,207</u> |
| Total Liabilities | <u>113,042,399</u> | <u>94,393,740</u> | <u>18,648,659</u> |
| Net assets (deficit): | | | |
| Invested in capital assets net of related debt | - | - | - |
| Restricted | 60,113,649 | 43,049,725 | 17,063,924 |
| Unrestricted | <u>(103,845,645)</u> | <u>(85,088,438)</u> | <u>(18,757,207)</u> |
| Total Net Deficit | <u>\$ (43,731,996)</u> | <u>\$ (42,038,713)</u> | <u>\$ (1,693,283)</u> |

Overall the Agency's financial position decreased from the prior year. Under the governmental activities, the Agency's net deficit increased by \$1,693,283 from the previous fiscal year.

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fiscal Year Ended June 30, 2010

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Changes in Net Assets

The statement of activities demonstrates how the Agency net assets changed during the most recent fiscal year.

The following is a condensed version of the statement of activities for the fiscal years ended June 30, 2010 and 2009.

**Table 2
Condensed Statements of Activities**

| | Fiscal Year 2010 | Fiscal Year 2009 | Dollar Change |
|-----------------------|-------------------------------|-------------------------------|------------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Revenues: | | | |
| General revenues: | | | |
| Tax increment | \$ 13,717,404 | \$ 13,740,596 | \$ (23,192) |
| Investment earnings | 919,825 | 1,836,298 | (916,473) |
| Rental income | 502,615 | 550,115 | (47,500) |
| Other revenues | 11,652 | - | 11,652 |
| Total revenues | <u>15,151,496</u> | <u>16,127,009</u> | <u>(975,513)</u> |
| Expenses: | | | |
| General government | 7,356,169 | 1,978,272 | 5,377,897 |
| Community development | 4,028,270 | 5,623,324 | (1,595,054) |
| Interest expense | 5,460,340 | 4,747,703 | 712,637 |
| Total expenses | <u>16,844,779</u> | <u>12,349,299</u> | <u>4,495,480</u> |
| Change in net assets | (1,693,283) | 3,777,710 | (5,470,993) |
| Beginning Net Deficit | <u>(42,038,713)</u> | <u>(45,816,423)</u> | <u>3,777,710</u> |
| Ending Net Deficit | <u><u>\$ (43,731,996)</u></u> | <u><u>\$ (42,038,713)</u></u> | <u><u>\$ (1,693,283)</u></u> |

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

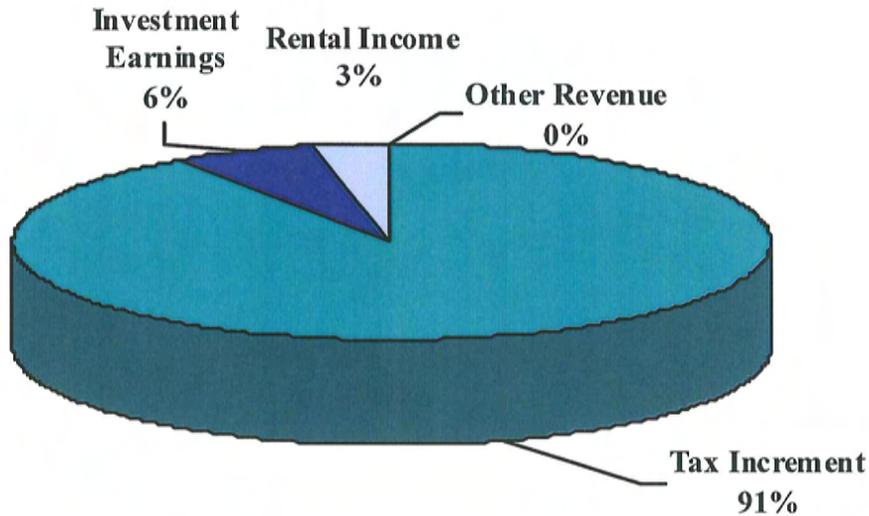
Fiscal Year Ended June 30, 2010

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The significant components and changes to revenues follow:

- Tax increment revenue represents 91% of total revenues. Tax increment revenue remained relatively constant with a decline from the prior year of only \$23,192 or 0.17%.
- The only significant change in revenues from the prior year was investment earnings. Investment earnings, which represent 6.1% of total revenues, decreased from the prior year by \$916,473 or 49.9%. The decrease is attributable to lower interest rates being earned on investments as a result of the country's tough economic times.

**Revenues by Source - Governmental Activities
Fiscal Year Ended 2010**



See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

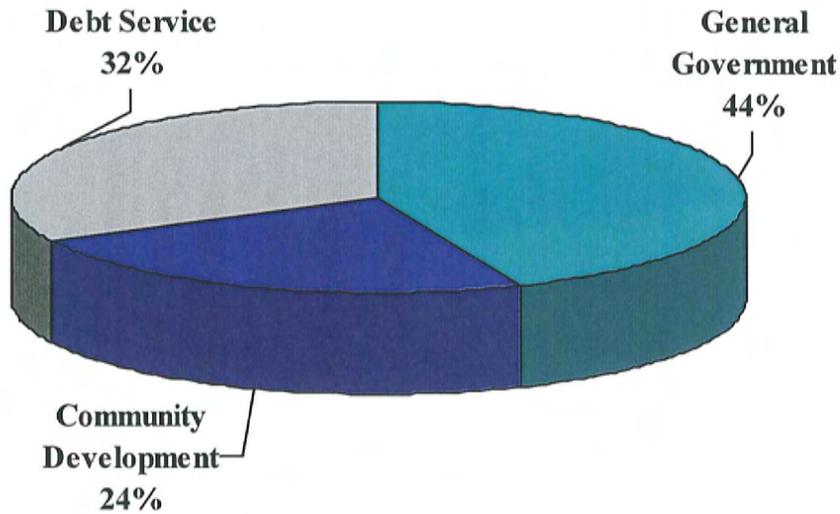
Fiscal Year Ended June 30, 2010

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Some of the more significant changes to expenses from the prior year include:

- General government represents 43.7% of the total expenses. General government expenses increased by \$5.4 million in 2009/10. Nearly all of this increase is due to the 2009 State legislation which mandated redevelopment agencies to make deposits to the Supplemental Education Revenue Augmentation Fund (SERAF) beginning in fiscal year 2009-10. The Agency's required deposit to SERAF was \$5.2 million for fiscal year 2009-10.
- Community development expenses decreased from the prior year by \$1.6 million. The main reason for the decrease was the \$1.2 million reduction in land acquisition costs.

**Expenses - Governmental Activities
Fiscal Year Ended 2010**



See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fiscal Year Ended June 30, 2010

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The Agency's investment in capital assets for its governmental-type activities as of June 30, 2010 and 2009 consists of furniture and equipment with a historical cost of \$7,729. The furniture and equipment are fully depreciated at June 30, 2010 and 2009, therefore capital assets, net of depreciation, equals \$0.

For additional information see Note 4 of the Financial Statements.

Long-term debt. At the end of the current fiscal year, the Agency had total bonded debt outstanding of \$86,669,985. All of this debt represents bonds secured solely by specific revenue sources (i.e., tax allocation bonds).

Signal Hill Redevelopment Agency Outstanding Debt

| | Fiscal Year 2010 | Fiscal Year 2009 | Dollar Change |
|-----------------------|------------------------|------------------------|----------------------|
| Tax allocation bonds | \$ 86,669,985 | \$ 69,031,173 | \$ 17,638,812 |
| Note payable | 3,865,847 | 3,865,847 | - |
| Loan payable | 1,000,000 | 1,000,000 | - |
| Advance from the City | 12,301,668 | 11,183,334 | 1,118,334 |
| Compensated absences | 8,145 | 8,084 | 61 |
| Total | <u>\$ 103,845,645</u> | <u>\$ 85,088,438</u> | <u>\$ 18,757,207</u> |

For additional information see Note 6 of the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The State of California's budgetary problems are a critical element of the economic condition of the Agency. The 2009 SERAF legislation mandates that redevelopment agencies in the State make deposits to their respective county treasury's Supplemental Education Revenue Augmentation Fund ("SERAF") in the aggregate amounts of \$1.7 billion for fiscal year 2009-10 and \$350 million for fiscal year 2010-11. The Agency paid the fiscal year 2009-10 required amount of \$5.16 million and is required to pay the fiscal year 2010-11 amount, estimated to be \$1.06 million, by May 10, 2011.

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fiscal Year Ended June 30, 2010

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (CONTINUED)

The Agency receives the majority of its revenues from tax increment which is derived from property tax. Typically each budget year, a modest 2% growth is projected in tax increments over the last year's budgeted amount. However, overall tax increment for fiscal year 2010-11 is budgeted at \$12.875 million, a decrease of \$842,000 from the fiscal year 2009-10 actual tax increment received. The budget was adjusted to account for assessment appeals and an estimated negative growth.

In November, 2010, ground breaking for the new Police Department facility and Emergency Operations Center began. Proceeds from the sale of the Agency's 2009 Tax Allocation Parity bonds were appropriated this year for the construction of the project. The facility is located on property within the Redevelopment Project boundaries.

The major focus of the Economic Development Program is to attract new retail development within the Signal Hill Auto Center, the Town Center, and the Industrial Specific Plan areas of the community. The Agency adopted plans to expand the Signal Hill Auto Center (Phase II) and is finalizing the property acquisition program. Similar properties are being purchased in the Town Center and Industrial Specific Plan area. Phase III of the property acquisition program was recently approved by the Agency Board in November, 2010. The Agency's authority for eminent domain expired November 17, 2010. Total budget includes \$6.5 million for property acquisition.

The Housing Fund budgeted \$323,070 for its operational costs and \$500,000 for housing rehabilitation grants. The current fiscal year 2011 budget includes \$800,000 for property acquisition. The Housing Fund also supports the debt service related to its share of the bonded indebtedness and repayment of the HELP loan through transfers to the Debt Service Fund. Payments budgeted in fiscal year 2011 total \$1,373,597.

The Redevelopment Agency continues its revitalization efforts. Construction of a recycling and transfer station is under way. The completion of a new supermarket and two discount retail stores contribute to more diverse sales tax revenue sources.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Signal Hill Redevelopment Agency's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director at the City of Signal Hill, 2175 Cherry Avenue, Signal Hill, CA 90755-3799.

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

STATEMENT OF NET ASSETS

June 30, 2010

| | <u>Governmental Activities</u> |
|-----------------------------------------------------|------------------------------------|
| ASSETS: | |
| Cash and investments | \$ 44,062,213 |
| Receivables: | |
| Accounts | 749,110 |
| Interest | 233,960 |
| Note | 150,000 |
| Land and improvements held for resale or lease, net | 17,284,817 |
| Restricted assets: | |
| Restricted cash and investments | 2,067,668 |
| Advances to the City of Signal Hill | 113,749 |
| Deposits | 2,575,740 |
| Deferred charges | 2,073,146 |
| Capital assets (net of accumulated depreciation) | <u>-</u> |
| TOTAL ASSETS | <u>69,310,403</u> |
| LIABILITIES: | |
| Accounts payable | 925,781 |
| Accrued liabilities | 14,226 |
| Unearned revenue | 10,530 |
| Owner participation agreement payable | 859,592 |
| Interest payable | 1,386,625 |
| Deposits | 6,000,000 |
| Noncurrent liabilities: | |
| Due within one year | 3,734,404 |
| Due in more than one year | <u>100,111,241</u> |
| TOTAL LIABILITIES | <u>113,042,399</u> |
| NET ASSETS (DEFICIT): | |
| Restricted for low/moderate income housing | 8,337,477 |
| Restricted for debt service | 11,016,260 |
| Restricted for redevelopment projects | 40,759,912 |
| Unrestricted | <u>(103,845,645)</u> |
| TOTAL NET DEFICIT | <u>\$ (43,731,996)</u> |

See independent auditors' report and notes to basic financial statements.

SIGNAL HILL REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2010

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) |
|-------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|--------------------------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Revenue and Changes in Net Assets |
| | | | | | Governmental Activities |
| Governmental activities: | | | | | |
| General government | \$ 7,356,169 | \$ - | \$ - | \$ - | \$ (7,356,169) |
| Community development | 4,028,270 | - | - | - | (4,028,270) |
| Interest expense | 5,460,340 | - | - | - | (5,460,340) |
| Total governmental activities | <u>\$ 16,844,779</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>(16,844,779)</u> |
| GENERAL REVENUES: | | | | | |
| Taxes: | | | | | |
| | | | | | 13,717,404 |
| | | | | | 919,825 |
| | | | | | 502,615 |
| | | | | | <u>11,652</u> |
| | | | | | <u>15,151,496</u> |
| | | | | | CHANGE IN NET ASSETS (1,693,283) |
| | | | | | NET DEFICIT - BEGINNING OF YEAR (42,038,713) |
| | | | | | <u>NET DEFICIT - END OF YEAR \$ (43,731,996)</u> |

See independent auditors' report and notes to basic financial statements.

SIGNAL HILL REDEVELOPMENT AGENCY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2010

| | Special Revenue | Debt Service | Capital Projects | Total Governmental Funds |
|----------------------------------------------------------------|---------------------|----------------------|----------------------|--------------------------------|
| ASSETS | | | | |
| Cash and investments | \$ 5,558,680 | \$ 10,683,176 | \$ 27,820,357 | \$ 44,062,213 |
| Restricted cash and investments | - | - | 2,067,668 | 2,067,668 |
| Accounts receivable | 141,487 | 597,794 | 9,829 | 749,110 |
| Accrued interest receivable | 28,967 | 73,671 | 131,322 | 233,960 |
| Note receivable | - | - | 150,000 | 150,000 |
| Advances to the City of Signal Hill | 113,749 | - | - | 113,749 |
| Deposits | - | - | 2,575,740 | 2,575,740 |
| Land and improvements held for resale or lease, net | 3,000,000 | - | 14,284,817 | 17,284,817 |
| TOTAL ASSETS | \$ 8,842,883 | \$ 11,354,641 | \$ 47,039,733 | \$ 67,237,257 |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES: | | | | |
| Accounts payable | \$ 14,321 | \$ 651,573 | \$ 259,887 | \$ 925,781 |
| Accrued liabilities payable | 4,822 | - | 9,404 | 14,226 |
| Owner participation agreement payable | - | 859,592 | - | 859,592 |
| Unearned revenue | - | - | 10,530 | 10,530 |
| Deposits | - | - | 6,000,000 | 6,000,000 |
| TOTAL LIABILITIES | 19,143 | 1,511,165 | 6,279,821 | 7,810,129 |
| FUND BALANCES: | | | | |
| Reserved for debt service | - | 9,843,476 | 2,067,668 | 11,911,144 |
| Reserved for note receivable | - | - | 150,000 | 150,000 |
| Reserved for advances | 113,749 | - | - | 113,749 |
| Reserved for deposits | - | - | 2,575,740 | 2,575,740 |
| Reserved for land and improvements held for resale or lease | 3,000,000 | - | 14,284,817 | 17,284,817 |
| Reserved for low and moderate income housing | 5,709,991 | - | - | 5,709,991 |
| Reserved for redevelopment | - | - | 21,681,687 | 21,681,687 |
| TOTAL FUND BALANCES | 8,823,740 | 9,843,476 | 40,759,912 | 59,427,128 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 8,842,883 | \$ 11,354,641 | \$ 47,039,733 | \$ 67,237,257 |

See independent auditors' report and notes to basic financial statements.

SIGNAL HILL REDEVELOPMENT AGENCY

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2010

Fund balances for governmental funds \$ 59,427,128

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 governmental funds:

| | | |
|--------------------------------|----|----------------|
| Furniture and equipment | \$ | 7,729 |
| Less: accumulated depreciation | | <u>(7,729)</u> |

-

Debt issuance costs are reported as an expenditure in the governmental funds in the year that costs are incurred. On the government-wide statements, such costs are reported as deferred charges and amortized over the life of the debt. Unamortized deferred charges at year end are:

2,073,146

Long-term liabilities and related deferred amounts for issuance discount and on refunding applicable to the Agency's governmental activities are not due and payable in the current period and therefore are not reported in the funds:

| | | |
|---------------------------------------------------------------------|----|----------------|
| Tax allocation bonds payable | \$ | (87,440,000) |
| Less: Deferred amount on refunding, net of accumulated amortization | | 408,896 |
| Less: Issuance discounts, net of accumulated amortization | | 361,119 |
| Advances from City of Signal Hill | | (12,301,668) |
| Note payable | | (3,865,847) |
| Loan payable | | (1,000,000) |
| Compensated absences | | <u>(8,145)</u> |

(103,845,645)

Accrued interest payable on long-term liabilities is not being reported in the governmental funds.

(1,386,625)

Net deficit of governmental activities

\$ (43,731,996)

See independent auditors' report and notes to basic financial statements.

SIGNAL HILL REDEVELOPMENT AGENCY

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the year ended June 30, 2010

| | Special Revenue | Debt Service | Capital Projects | Total Governmental Funds |
|---------------------------------------------------------|---------------------|---------------------|----------------------|--------------------------------|
| REVENUES: | | | | |
| Tax increment | \$ 2,743,481 | \$ 10,973,923 | \$ - | \$ 13,717,404 |
| Investment income | 97,083 | 291,953 | 530,789 | 919,825 |
| Rental income | - | - | 502,615 | 502,615 |
| Other revenue | 11,652 | - | - | 11,652 |
| TOTAL REVENUES | <u>2,852,216</u> | <u>11,265,876</u> | <u>1,033,404</u> | <u>15,151,496</u> |
| EXPENDITURES: | | | | |
| Community development - Program administration: | | | | |
| Los Angeles County tax administration fees | 39,230 | 156,920 | - | 196,150 |
| Administrative expenditures | 189,344 | - | 453,848 | 643,192 |
| Professional services | 21,172 | 4,687 | 139,459 | 165,318 |
| Planning, survey and design | 6,547 | - | 125,011 | 131,558 |
| Pass-through agreement | - | 1,054,254 | - | 1,054,254 |
| SERAF payment | - | 5,168,970 | - | 5,168,970 |
| Capital outlay - Community development: | | | | |
| Relocation costs | 12,652 | - | - | 12,652 |
| Rehabilitation grants | 25,000 | - | - | 25,000 |
| Project improvement/construction costs | - | - | 2,155,519 | 2,155,519 |
| Other costs | 10,082 | - | 944,794 | 954,876 |
| Debt service: | | | | |
| Owner participation agreement | - | 859,817 | - | 859,817 |
| Principal retirement | - | 2,865,000 | - | 2,865,000 |
| Interest | - | 4,999,344 | - | 4,999,344 |
| Bond issuance costs | - | - | 338,168 | 338,168 |
| Fiscal agent fees | - | 17,072 | - | 17,072 |
| TOTAL EXPENDITURES | <u>304,027</u> | <u>15,126,064</u> | <u>4,156,799</u> | <u>19,586,890</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>2,548,189</u> | <u>(3,860,188)</u> | <u>(3,123,395)</u> | <u>(4,435,394)</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Bonds issued | - | - | 20,655,000 | 20,655,000 |
| Bond discount | - | - | (228,331) | (228,331) |
| Advances received from the City of Signal Hill | - | 1,118,334 | - | 1,118,334 |
| Transfers in | 230,000 | 1,360,188 | 531,725 | 2,121,913 |
| Transfers out | (1,360,188) | (761,725) | - | (2,121,913) |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(1,130,188)</u> | <u>1,716,797</u> | <u>20,958,394</u> | <u>21,545,003</u> |
| NET CHANGE IN FUND BALANCES | 1,418,001 | (2,143,391) | 17,834,999 | 17,109,609 |
| FUND BALANCES - BEGINNING OF YEAR | <u>7,405,739</u> | <u>11,986,867</u> | <u>22,924,913</u> | <u>42,317,519</u> |
| FUND BALANCES - END OF YEAR | <u>\$ 8,823,740</u> | <u>\$ 9,843,476</u> | <u>\$ 40,759,912</u> | <u>\$ 59,427,128</u> |

See independent auditors' report and notes to basic financial statements.

SIGNAL HILL REDEVELOPMENT AGENCY

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, 2010

Net change in fund balances - total governmental funds \$ 17,109,609

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

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 net assets. Also, governmental funds report the effect of issuance costs, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. These differences in the treatment of long-term debt and related items are as follows:

| | | |
|----------------------------------------------|-----------------------------|--------------|
| Principal payments | \$ 2,865,000 | |
| Proceeds from bond issuance | (20,655,000) | |
| Cost of issuance of new debt | 338,168 | |
| Discount on new debt | 228,331 | |
| Advances from City of Signal Hill | (1,118,334) | |
| Amortization of deferred amount on refunding | (57,445) | |
| Amortization of issuance costs | (139,720) | |
| Amortization of bond discounts | (19,698) | |
| | <u> </u> | (18,558,698) |

Some expenses reported on the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

| | | |
|------------------------------------|-----------------------|----------------------------|
| Net change in accrued interest | \$ (244,133) | |
| Net change in compensated absences | <u> (61)</u> | |
| | | <u> (244,194)</u> |

Change in net assets of governmental activities \$ (1,693,283)

See independent auditors' report and notes to basic financial statements.

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SIGNAL HILL REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity:

The Signal Hill Redevelopment Agency was established in June 1974 and financial activity commenced in July 1974. The only project area is in the central portion of the City of Signal Hill, California.

The Signal Hill Housing Authority was formed December 12, 2000 pursuant to provisions of the California Health and Safety Code. The primary purpose of the Authority is to provide suitable, safe, sanitary housing opportunities for the residents of the City of Signal Hill, California. The Authority has been accounted for as a “blended” component unit of the Agency. Despite being legally separate, the Authority is so intertwined with the Agency that it is, in substance, part of the Agency’s operations. Accordingly, the balances and transactions of the Authority are reported within the Agency’s special revenue fund.

The Agency and the Authority are component units of the City of Signal Hill, California and their financial transactions are also included in the City’s Comprehensive Annual Financial Report.

Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The basic financial statements of the Agency are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Signal Hill Redevelopment Agency has no business-type activities.

See independent auditors’ report.

SIGNAL HILL REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

Government-wide Financial Statements (Continued):

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

The accounting system of the Agency is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. 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.

Fund financial statements for the Agency's governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental funds. The Agency has no nonmajor funds.

The funds of the Agency, all of which are major funds, are described below:

The Special Revenue Fund is used to account for that portion (20%) of tax increment revenues required to be set aside for development of low and moderate income housing.

The Debt Service Fund is used to account for tax increment revenues and bond proceeds required to be set aside for repayment of long-term debt.

The Capital Projects Fund is used to account for financial resources available for project improvements, interest income on invested funds and certain miscellaneous income. The fund is expended primarily for administrative expenses and redevelopment project costs.

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

Measurement Focus:

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements.

On the government-wide Statement of Net Assets and the Statement of Activities, activities are presented using the economic resources measurement focus. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the government are reported.

In the fund financial statements, all governmental funds are accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances (net current assets) are considered a measure of “available spendable resources”. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period. Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their measurement focus. However special reporting treatments are used to indicate that they should not be considered “available spendable resources” since they do not represent net current assets. Recognition of governmental fund type revenue represented by noncurrent receivables is deferred until they become current receivables. Noncurrent portions of other long-term receivables are offset by fund balance reserve accounts. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transaction are recognized in accordance with the requirements of GASB Statement No. 33.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as other financing sources rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

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.

See independent auditors’ report.

SIGNAL HILL REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

Basis of Accounting:

Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

In the government-wide Statement of Net Assets and Statement of Activities, the governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

For government-wide financial reporting the Agency has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

In the fund financial statements, governmental funds are presented using the modified-accrual basis of accounting. Revenues are recognized when they become measurable and available. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. The Agency considers tax increment revenues, intergovernmental revenues, rental income and investment earnings to be available if they are collected within 60 days of the end of the current fiscal period. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed derived tax revenues are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. Imposed nonexchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary nonexchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Cash and Investments:

The Agency's cash and investments, except for cash and investments with fiscal agents, are pooled with other City of Signal Hill, California funds for investment purposes. Investments are stated at fair value (quoted market price or the best available estimate thereof).

Restricted Cash and Investments:

Cash and investments totaling \$2,067,668 are restricted in accordance with bond indentures.

Land and Improvements Held for Resale or Lease:

Land and improvements held for resale or lease are carried in the Special Revenue Fund and Capital Projects Fund at the lower of acquisition cost or estimated net realizable value.

Capital Assets and Depreciation:

Capital assets, which consist of furniture and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial cost of more than \$5,000 and an estimated life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Agency has no infrastructure assets.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net assets. The useful life used for depreciation purposes for the Agency's only capital asset class is as follows:

| | |
|-------------------------|----------|
| Furniture and equipment | 10 years |
|-------------------------|----------|

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Deferred Charges:

Deferred charges represent capitalized costs incurred in connection with the issuance of long-term liabilities. These costs are amortized over the life of the debt on a straight-line basis, which approximates the interest method.

Allocation of Investment Income Among Funds:

Interest income earned on pooled cash and investments is allocated monthly to the various funds based on the month-end cash and investment balances. Changes in fair value of investments are also allocated to investment income of the funds based on investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

Self-Insurance Program:

The Agency participates in the self-insurance program of the City of Signal Hill. Information relating to the self-insurance program can be found in the notes to the basic financial statements of the City of Signal Hill.

Property Taxes and Tax Increment Financing:

The Agency's primary source of revenue comes from property taxes, referred to in the accompanying financial statements as "tax increment revenue". The assessed valuation of all property within each project area was determined on the date of adoption of the Project Area. Except for certain amounts provided by specific agreements, property taxes related to the incremental increase in assessed values after the adoption of the Project Area have been allocated to the Agency, while all property taxes on the "frozen" assessed valuation as of the adoption date have been allocated to the City and other districts.

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments on November 1 and February 1 and become delinquent on December 11 and April 11. The County bills and collects the property taxes and allocates installments to various jurisdictions throughout the year.

The County is permitted by California State constitution, as amended, to levy taxes at 1% of full market value (assessed value). The growth in the full market value is limited to 2% annually and the value of new construction and improvements. The Agency receives a share of this basic levy resulting from incremental growth of the assessed value over a base value established when the Agency project area was formed or amended.

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Property Taxes and Tax Increment Financing (Continued):

The Agency has no power to levy and collect taxes and any legislative property tax de-emphasis might reduce the amount of property tax revenues that would otherwise be available to pay principal and interest on the debt. Broadened property tax exemptions could have a similar effect. Conversely, any increase in the tax rate or assessed valuation, or any reduction or elimination of present exemptions would increase the amount of tax revenues that would be available to pay principal and interest on debt.

Use of Estimates:

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS:

Cash and investments are recorded in the statement of net assets as follows:

| | |
|---------------------------------|----------------------|
| Cash and investments | \$ 44,062,213 |
| Restricted cash and investments | <u>2,067,668</u> |
| | <u>\$ 46,129,881</u> |

Cash and investments are classified as follows at June 30, 2010:

| | |
|---------------------------------------------|----------------------|
| Pooled with City of Signal Hill, California | \$ 44,062,213 |
| Fiscal agent cash investments: | |
| Demand deposits | 1,057,668 |
| Federal National Mortgage Association | <u>1,010,000</u> |
| | <u>\$ 46,129,881</u> |

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)

June 30, 2010

2. CASH AND INVESTMENTS (CONTINUED):

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 (or the Agency's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Agency's investment policy, where more restrictive) that address interest rate risk, credit 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 investment policy.

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio *</u> | <u>Maximum Investment in One Issuer</u> |
|------------------------------------------------------|-------------------------|------------------------------------------|-----------------------------------------|
| United States Treasury Obligations | 5 years | None | None |
| United States Government Sponsored Entity Securities | 5 years | None | None |
| Banker's Acceptances | 180 days | 40% | 10% |
| Time Certificate of Deposits | 1 year | 30% | 10% |
| Commercial Paper | 270 days | 25% | 10% |
| Negotiable Certificates of Deposit | 5 years | 30% | 10% |
| Repurchase Agreements | 1 year | None | None |
| Reverse Repurchase Agreements | 92 days | 20% | None |
| Medium-Term Corporate Notes | 5 years | 30% | 10% |
| Local Agency Investment Fund (LAIF) | N/A | None | None |

N/A Not Applicable

* - Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

Investments Authorized by Debt Agreements:

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy. Investments authorized for funds held by bond trustee include, United States Treasury Obligations, United States Government Sponsored Enterprise Securities, Guaranteed Investment Contracts, Commercial Paper, Local Agency Bonds, Banker's Acceptance and Money Market Mutual Funds. There were no limitations on the maximum amount that can be invested in one issuer, maximum percentage allowed or the maximum maturity of an investment, except for the maturity of Banker's Acceptance which are limited to one year.

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2010

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating 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. The Agency's fiscal agent investment in Federal National Mortgage Association debt securities has a maturity date of August 1, 2013.

Disclosures Relating 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. The Agency's fiscal agent investment in Federal National Mortgage Association debt securities in the amount of \$1,010,000 were rated AAA by Standard and Poor's.

Concentration of Credit Risk

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

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) to 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 the Agency's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2010, the Agency's cash deposits were insured by the Federal Depository Insurance Corporation or collateralized as required under California law. The FNMA investment held by the bond trustee is uninsured, unregistered and not held in the Agency's name.

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)

June 30, 2010

2. CASH AND INVESTMENTS (CONTINUED):

Additional Information:

The Agency's cash and investments are entirely pooled with the City of Signal Hill's cash and investment pool. Information regarding the exposure of City of Signal Hill's cash and investment pool to interest rate risk, credit risk, concentration of credit risk and custodial risk is available in the City of Signal Hill's Comprehensive Annual Financial Report.

3. NOTE RECEIVABLE:

In November, 2009, the Agency entered into an Owner Participation Agreement (OPA) with A & P Property Investments, LLC whereby the Agency is to loan the Owner money for the assistance with the operations of the Owner's auto dealership. In accordance with the agreement, the amounts disbursed shall accrue interest at the rate of 6.25% per year and the loan is deferred for two years prior to beginning repayment. The principal and accrued interest is payable in an annual installments of \$63,746. The balance of the loan outstanding at June 30, 2010 was \$150,000.

4. CAPITAL ASSETS:

A summary of capital assets for the year ended June 30, 2010 is as follows:

| | <u>Balances at</u> <u>July 1, 2009</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balances at</u> <u>June 30, 2010</u> |
|------------------------------------|-------------------------------------------|------------------|------------------|--------------------------------------------|
| Capital assets, being depreciated: | | | | |
| Furniture and equipment | \$ 7,729 | \$ - | \$ - | \$ 7,729 |
| Less accumulated depreciation for: | | | | |
| Furniture and equipment | <u>(7,729)</u> | <u>-</u> | <u>-</u> | <u>(7,729)</u> |
| Net Capital Assets | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

5. ADVANCES TO THE CITY OF SIGNAL HILL:

In February 2003, the City agreed to reimburse the Agency for 50% of certain land acquisition costs associated with a low and moderate income housing project since certain parcels of land would be used to develop a City park. The Agency transferred these parcels to the City for park development in August 2003. The reimbursement amount totaled \$434,372 as of June 30, 2003. The City made an initial reimbursement payment of \$150,000 during the year ended June 30, 2004. The remainder of the reimbursement is payable in ten equal annual amounts of \$28,437 through the year ending June 30, 2014. No interest will accrue on this advance. The balance due from the City of Signal Hill as of June 30, 2010 is \$113,749.

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2010

6. LONG-TERM LIABILITIES:

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

| | Balance at July 1, <u>2009</u> | <u>Additions</u> | <u>Deletions</u> | Balance at June 30, <u>2010</u> | Due Within One <u>Year</u> |
|---------------------------------|--------------------------------------|--------------------------|---------------------------|---------------------------------------|----------------------------------|
| Bonds payable: | | | | | |
| 2001 TABs | \$ 10,400,000 | \$ - | (540,000) | \$ 9,860,000 | \$ 555,000 |
| 2003 TABs Series A | 17,995,000 | - | (1,820,000) | 16,175,000 | 1,875,000 |
| 2003 TABs Series C | 10,675,000 | - | (80,000) | 10,595,000 | 80,000 |
| 2003 TABs Series D | 2,620,000 | - | (130,000) | 2,490,000 | 140,000 |
| 2006 TABs | 13,155,000 | - | (200,000) | 12,955,000 | 215,000 |
| 2007 Refunding TABs | 14,805,000 | - | (95,000) | 14,710,000 | 100,000 |
| 2009 Tax Allocation | | | | | |
| Parity Bonds | - | 20,655,000 | - | 20,655,000 | 765,000 |
| Less deferred amounts: | | | | | |
| For issuance discounts | (152,486) | (228,331) | 19,698 | (361,119) | - |
| On refunding | <u>(466,341)</u> | <u>-</u> | <u>57,445</u> | <u>(408,896)</u> | <u>-</u> |
| Total bonds payable | 69,031,173 | 20,426,669 | (2,787,857) | 86,669,985 | 3,730,000 |
| Note payable | 3,865,847 | - | - | 3,865,847 | - |
| Loan payable | 1,000,000 | - | - | 1,000,000 | - |
| Advances from the | | | | | |
| City of Signal Hill | 11,183,334 | 1,118,334 | - | 12,301,668 | - |
| Compensated absences | <u>8,084</u> | <u>5,152</u> | <u>(5,091)</u> | <u>8,145</u> | <u>4,404</u> |
| Total long-term liabilities | <u>\$ 85,088,438</u> | <u>\$ 21,550,155</u> | <u>\$ (2,792,948)</u> | <u>\$103,845,645</u> | <u>\$ 3,734,404</u> |

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)

June 30, 2010

6. LONG-TERM LIABILITIES (CONTINUED):

A. 2001 Tax Allocation Bonds:

On December 4, 2001, the Agency issued the Signal Hill Redevelopment Project No. 1 2001 Tax Allocation Bonds (the "2001 Bonds") in the amount of \$13,880,000. The proceeds of the bonds were used to advance refund the Signal Hill Redevelopment Project No. 1 1994 Tax Allocation Bonds (the "1994 Bonds") and to provide funds for certain redevelopment activities. The bonds were issued at a net discount of \$11,035. As a result of the advance refunding, the 1994 Bonds are considered to be defeased and the liability for these bonds have been removed from the long-term liabilities. The defeased 1994 Bonds have been retired.

Principal amounts on \$13,880,000 of serial bonds mature annually each October 1 through 2023, and bear interest semiannually on April 1 and October 1 at rates ranging from 2.00% to 4.625%. Bonds maturing on or after October 1, 2013 are subject to optional redemption on any date on or after October 1, 2012 at a price equal to the principal amount plus accrued interest to the date of redemption, without premium.

The reserve requirement for these bonds is covered by a surety bond provided by National Public Finance Guarantee Corp. (National). National's current rating by Moody's Investors Services is Baa1, Developing Outlook.

The annual requirements to amortize outstanding bond indebtedness as of June 30, 2010, including interest, are as follows:

| Year Ending <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|---------------------|---------------------|----------------------|
| 2011 | \$ 555,000 | \$ 408,574 | \$ 963,574 |
| 2012 | 575,000 | 388,085 | 963,085 |
| 2013 | 595,000 | 366,291 | 961,291 |
| 2014 | 615,000 | 343,143 | 958,143 |
| 2015 | 635,000 | 318,450 | 953,450 |
| 2016 - 2020 | 3,545,000 | 1,164,680 | 4,709,680 |
| 2021 - 2024 | <u>3,340,000</u> | <u>314,555</u> | <u>3,654,555</u> |
| Totals | <u>\$ 9,860,000</u> | <u>\$ 3,303,778</u> | <u>\$ 13,163,778</u> |

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2010

6. LONG-TERM LIABILITIES (CONTINUED):

B. 2003 Tax Allocation Bonds - Series A:

On August 28, 2003, the Agency issued the Signal Hill Redevelopment Project No. 1 2003 Tax Allocation Parity Refunding Bonds, Series A (2003 A Bonds) in the amount of \$23,080,000. The 2003 A Bonds were issued at a discount of \$4,924. This discount is being amortized on a straight-line basis as interest expense (\$245 per year) through 2024. Proceeds of the 2003 A Bonds together with an additional \$1,884,899 provided by the Agency were used to defease \$9,720,000 of the 1993 Series A Bonds and \$13,465,000 of the 1993 Series B Bonds and pay the expenses of the bond issuance. These defeased bonds have been retired.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$532,056. This difference, reported as a deduction from bonds payable, is being amortized on a straight-line basis as interest expense on the statement of activities through the year 2016.

Principal amounts on the 2003 A Bonds mature annually each October 1 through 2023, and bear interest semiannually on April 1 and October 1 at rates ranging from 2.0% to 5.25%. The 2003 A Bonds maturing on or after October 1, 2014 are subject to optional redemption, without premium commencing October 1, 2013.

The reserve requirement for these bonds is covered by a surety bond provided by National Public Finance Guarantee Corp. (National). National's current rating by Moody's Investors Services is Baa1, Developing Outlook.

The annual requirements to amortize outstanding bond indebtedness as of June 30, 2010, including interest, are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|----------------------|---------------------|----------------------|
| 2011 | \$ 1,875,000 | \$ 633,839 | \$ 2,508,839 |
| 2012 | 1,945,000 | 563,386 | 2,508,386 |
| 2013 | 2,285,000 | 482,646 | 2,767,646 |
| 2014 | 2,380,000 | 390,774 | 2,770,774 |
| 2015 | 2,500,000 | 290,768 | 2,790,768 |
| 2016 - 2020 | 3,820,000 | 560,096 | 4,380,096 |
| 2021 - 2024 | <u>1,370,000</u> | <u>139,801</u> | <u>1,509,801</u> |
| Totals | <u>\$ 16,175,000</u> | <u>\$ 3,061,310</u> | <u>\$ 19,236,310</u> |

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SIGNAL HILL REDEVELOPMENT AGENCY
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)

June 30, 2010

6. LONG-TERM LIABILITIES (CONTINUED):

C. 2003 Tax Allocation Bonds - Series C:

On December 11, 2003, the Agency issued the Signal Hill Redevelopment Project No. 1 2003 Tax Allocation Parity Refunding Bonds, Series C (2003 C Bonds) in the amount of \$11,130,000. The 2003 C Bonds were issued at a discount of \$129,814. This discount is being amortized on a straight-line basis as interest expense (\$6,545 per year) through 2024. Proceeds of the 2003 C Bonds were used to refinance \$10,215,000 of the 1993 Series A term bonds due October 1, 2023 and pay the expenses of the bond issuance.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$246,328. This difference, reported as a deduction from bonds payable, is being amortized on a straight-line basis as interest expense on the statement of activities through the year 2024.

Principal amounts on the 2003 C Bonds mature annually each October 1 through 2023, and bear interest semiannually on April 1 and October 1 at rates ranging from 1.10% to 4.625%. The 2003 C Bonds maturing on or after October 1, 2014 are subject to optional redemption commencing October 1, 2013 without premium.

The reserve requirement for these bonds is covered by a surety bond provided by National Public Finance Guarantee Corp. (National). National's current rating by Moody's Investors Services is Baa1, Developing Outlook.

The annual requirements to amortize outstanding bond indebtedness as of June 30, 2010, including interest, are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|----------------------|---------------------|----------------------|
| 2011 | \$ 80,000 | \$ 448,465 | \$ 528,465 |
| 2012 | 80,000 | 445,985 | 525,985 |
| 2013 | 85,000 | 443,218 | 528,218 |
| 2014 | 90,000 | 440,110 | 530,110 |
| 2015 | 90,000 | 436,825 | 526,825 |
| 2016 - 2020 | 4,715,000 | 1,795,421 | 6,510,421 |
| 2021 - 2024 | <u>5,455,000</u> | <u>501,272</u> | <u>5,956,272</u> |
| Totals | <u>\$ 10,595,000</u> | <u>\$ 4,511,296</u> | <u>\$ 15,106,296</u> |

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SIGNAL HILL REDEVELOPMENT AGENCY
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)

June 30, 2010

6. LONG-TERM LIABILITIES (CONTINUED):

D. 2003 Tax Allocation Bonds - Series D:

On December 11, 2003, the Agency issued the Signal Hill Redevelopment Project No. 1 2003 Taxable Tax Allocation Parity Bonds, Series D (2003 D Bonds) in the amount of \$3,225,000. Proceeds of the 2003 D Bonds were used to provide funds for certain housing activities of the Agency and pay for the expenses of the bond issuance.

\$1,245,000 of 2003 D term bonds mature October 1, 2013 and bear interest semiannually at a rate of 4.93%. \$1,980,000 of 2003 D term bonds mature October 1, 2024 and bear interest at a rate of 5.98%. The 2003 D Bonds are subject to mandatory redemption without premium commencing October 1, 2004 with respect to the term bonds maturing October 1, 2024. In addition, the 2003 D Bonds maturing October 1, 2024 are subject to optional redemption commencing October 1, 2013 without premium.

The reserve requirement for these bonds is covered by a surety bond provided by National Public Finance Guarantee Corp. (National). National's current rating by Moody's Investors Services is Baa1, Developing Outlook.

The annual requirements to amortize outstanding bond indebtedness as of June 30, 2010, including interest, are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|---------------------|---------------------|---------------------|
| 2011 | \$ 140,000 | \$ 140,096 | \$ 280,096 |
| 2012 | 145,000 | 133,071 | 278,071 |
| 2013 | 110,000 | 126,785 | 236,785 |
| 2014 | 115,000 | 121,239 | 236,239 |
| 2015 | 115,000 | 114,966 | 229,966 |
| 2016 - 2020 | 395,000 | 494,097 | 889,097 |
| 2021 - 2025 | <u>1,470,000</u> | <u>344,747</u> | <u>1,814,747</u> |
| Totals | <u>\$ 2,490,000</u> | <u>\$ 1,475,001</u> | <u>\$ 3,965,001</u> |

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SIGNAL HILL REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2010

6. LONG-TERM LIABILITIES (CONTINUED):

E. 2006 Tax Allocation Bonds:

On September 7, 2006, the Agency issued the 2006 Taxable Tax Allocation Parity Bonds, Series A in the amount of \$13,500,000. Proceeds of the 2006 Taxable Tax Allocation Parity Bonds will be used to (i) finance redevelopment activities of the Agency within or of benefit to the Redevelopment Project, (ii) satisfy the Reserve Requirement for the Bonds and (iii) provide for the cost of issuing the Bonds.

\$1,845,000 of 2006 term bonds mature October 1, 2016 and bear interest payable semiannually at a rate of 5.581%. \$11,660,000 of 2006 D term bonds mature October 1, 2026 and bear interest payable semiannually at a rate of 5.839%. The 2006 Bonds are subject to mandatory redemption without premium commencing October 1, 2007 with respect to the term bonds maturing October 1, 2016 and October 1, 2017 with respect to the term bonds maturing October 1, 2026.

The reserve requirement for these bonds is covered by a surety bond provided by National Public Finance Guarantee Corp. (National). National's current rating by Moody's Investors Services is Baa1, Developing Outlook.

The annual requirements to amortize outstanding bond indebtedness as of June 30, 2010, including interest, are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|----------------------|----------------------|----------------------|
| 2011 | \$ 215,000 | \$ 747,102 | \$ 962,102 |
| 2012 | 225,000 | 734,824 | 959,824 |
| 2013 | 160,000 | 724,080 | 884,080 |
| 2014 | 165,000 | 715,011 | 880,011 |
| 2015 | 165,000 | 705,802 | 870,802 |
| 2016 - 2020 | 1,135,000 | 3,362,333 | 4,497,333 |
| 2021 - 2025 | 4,305,000 | 2,872,057 | 7,177,057 |
| 2026 - 2027 | <u>6,585,000</u> | <u>390,192</u> | <u>6,975,192</u> |
| Totals | <u>\$ 12,955,000</u> | <u>\$ 10,251,401</u> | <u>\$ 23,206,401</u> |

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SIGNAL HILL REDEVELOPMENT AGENCY
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)

June 30, 2010

6. LONG-TERM LIABILITIES (CONTINUED):

F. 2007 Refunding Tax Allocation Bonds:

On November 15, 2007, the Agency issued the 2007 Tax Allocation Refunding Parity Bonds, Series A in the amount of \$14,970,000. The Bonds were issued to (i) refinance the Agency's outstanding 1993 Series B Tax Allocation Parity Bonds which total \$14,375,000, (ii) satisfy the reserve requirement for the Bonds and (iii) provide for the costs of issuing the Bonds. The Agency completed the advance refunding to reduce its total debt service over the next sixteen years by \$1,565,051 and to obtain an economic gain (difference between present value of the old debt and new debt service payments) of \$1,041,197.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$15,811. This difference, reported as a deduction from bonds payable, is being amortized on a straight-line basis as interest expense on the statement of activities through the year 2024.

Principal amounts on the 2007 Refunding Tax Allocation Bonds mature annually each October 1 from 2008 through 2023, and bear interest semiannually beginning October 1, 2008 at rates ranging from 4.0% to 4.3%. The 2007 Refunding Tax Allocation Bonds maturing on or after October 1, 2018 are subject to optional redemption, without premium commencing October 1, 2017.

The reserve requirement for these bonds is covered by a surety bond provided by National Public Finance Guarantee Corp. (National). National's current rating by Moody's Investors Services is Baa1, Developing Outlook.

The annual requirements to amortize outstanding bond indebtedness as of June 30, 2010, including interest, are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|----------------------|---------------------|----------------------|
| 2011 | \$ 100,000 | \$ 603,304 | \$ 703,304 |
| 2012 | 105,000 | 599,204 | 704,204 |
| 2013 | 110,000 | 594,904 | 704,904 |
| 2014 | 115,000 | 590,404 | 705,404 |
| 2015 | 115,000 | 585,804 | 700,804 |
| 2016 - 2020 | 6,545,000 | 2,395,618 | 8,940,618 |
| 2021 - 2024 | 7,620,000 | 666,167 | 8,286,167 |
| Totals | <u>\$ 14,710,000</u> | <u>\$ 6,035,405</u> | <u>\$ 20,745,405</u> |

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SIGNAL HILL REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2010

6. LONG-TERM LIABILITIES (CONTINUED):

G. 2009 Tax Allocation Parity Bonds:

On November 17, 2009, the Agency issued the 2009 Tax Allocation Parity Bonds in the amount of \$20,655,000. The proceeds will be used to (i) finance redevelopment activities of benefit to the Redevelopment Project, (ii) fund the reserve requirement for the Bonds and (iii) provide for the costs of issuing the Bonds. The 2009 Bonds were issued at a discount of \$228,331. This discount is being amortized on a straight-line basis as interest expenses through the year 2027.

Principal amounts on the 2009 Tax Allocation Parity Bonds mature annually each October 1 from 2010 through 2026, and bear interest semiannually beginning April 1, 2010 at rates ranging from 3.0% to 5.375%. The 2009 Tax Allocation Parity Bonds maturing on or after October 1, 2020 are subject to optional redemption, without premium commencing October 1, 2019.

The annual requirements to amortize outstanding bond indebtedness as of June 30, 2010, including interest, are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|----------------------|----------------------|----------------------|
| 2011 | \$ 765,000 | \$ 981,425 | \$ 1,746,425 |
| 2012 | 660,000 | 960,050 | 1,620,050 |
| 2013 | 680,000 | 939,950 | 1,619,950 |
| 2014 | 700,000 | 915,750 | 1,615,750 |
| 2015 | 725,000 | 887,250 | 1,612,250 |
| 2016 - 2020 | 4,320,000 | 3,906,869 | 8,226,869 |
| 2021 - 2025 | 7,005,000 | 2,648,219 | 9,653,219 |
| 2026 - 2027 | 5,800,000 | 315,781 | 6,115,781 |
| Totals | <u>\$ 20,655,000</u> | <u>\$ 11,555,294</u> | <u>\$ 32,210,294</u> |

H. Note Payable:

A \$5,000,000 note payable dated October 29, 1991, resulted from the acquisition of real property held for resale by the Agency. The note bears interest at 10% per annum. Interest and principal payments are due semi-annually on July 30 and January 30 in an amount equal to the sales tax revenue received or to be received by the City from all businesses and activities conducted on the property. Payments will be made for a period of 20 years (ending December 31, 2012) or until interest and principal due on the note is paid in full. In the event that payments are insufficient to fully discharge the note in 20 years, the unpaid balance of principal and interest will be forgiven. At June 30, 2010, the outstanding balance of this note was \$3,865,847.

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SIGNAL HILL REDEVELOPMENT AGENCY
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)

June 30, 2010

6. LONG-TERM LIABILITIES (CONTINUED):

H. Note Payable (Continued):

Based on current available information, estimated sales tax revenue will not be sufficient to pay principal and accrued interest. Based on this, the annual debt requirements at June 30, 2010 are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|------------------------------------|---------------------|---------------------|---------------------|
| 2011 | \$ - | \$ 313,444 | \$ 313,444 |
| 2012 | - | 322,847 | 322,847 |
| 2013 | - | <u>163,809</u> | <u>163,809</u> |
| Subtotal | - | 800,100 | 800,100 |
| Estimated amount to be forgiven | <u>3,865,847</u> | <u>619,035</u> | <u>4,484,882</u> |
| Totals | <u>\$ 3,865,847</u> | <u>\$ 1,419,135</u> | <u>\$ 5,284,982</u> |

I. Loan Payable:

On March 1, 2001 the Agency received a \$1,000,000 HELP (Housing Enabled by Local Partnership) loan from the California Housing Finance Agency. The proceeds of the loan were used to acquire property for rehabilitation, and project sites for construction of multifamily rental housing. The loan bears simple interest at a rate of 3% per annum. The term of the loan is 10 years. Payment of principal and interest on the loan is deferred until March 1, 2011. As of June 30, 2010, accrued unpaid interest totaled \$275,000.

J. Advances from the City of Signal Hill:

The City made an advance to the Agency totaling \$10,000,000 to assist in funding the Agency's operating budget. The advance bears interest at a rate of 10.0% compounded annually. Unpaid interest of \$1,183,334 has accrued on this advance, bringing the total balance due to \$12,301,668 at June 30, 2010. There is no set payment schedule for this advance.

K. Compensated Absences:

There is no fixed payment schedule for earned but unpaid compensated absences.

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SIGNAL HILL REDEVELOPMENT AGENCY
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)

June 30, 2010

7. OPERATING LEASE OBLIGATIONS:

A. The Agency is leasing land used for an Auto Center under an operating lease dated June 30, 1988. The term of the lease expires November 30, 2055. The current period rental payments, which are classified as other costs in the Capital Projects Fund were \$223,300.

Future minimum rental payments to be made by the Agency are due as follows:

| Year Ending June 30, | |
|-------------------------|---------------|
| 2011 | \$ 232,325 |
| 2012 | 238,200 |
| 2013 | 238,200 |
| 2014 | 238,200 |
| 2015 | 238,200 |
| 2016 - 2020 | 1,252,435 |
| 2021 - 2025 | 1,327,650 |
| 2026 - 2030 | 1,400,475 |
| 2031 - 2035 | 1,483,025 |
| 2036 - 2040 | 1,558,290 |
| 2041 - 2045 | 1,642,435 |
| 2046 - 2050 | 1,727,400 |
| 2051 - 2055 | 1,804,165 |
| 2056 | 150,876 |
| Total | \$ 13,531,876 |

The operating lease covers three parcels of land, which are subleased to auto dealers. For the year ended June 30, 2010, the Agency received \$244,303 in rental payments to offset the Agency's lease payments to the lessor.

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SIGNAL HILL REDEVELOPMENT AGENCY
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)

June 30, 2010

7. OPERATING LEASE OBLIGATIONS (CONTINUED):

B. The Agency is leasing land for an Auto Center under an operating lease dated December 21, 1993 and amended May 7, 1996. The term of the lease expires December 31, 2055. The current period rental payments, which are classified as other costs in the Capital Projects Fund were \$211,537.

Future minimum rental payments to be made by the Agency are due as follows:

| Year Ending June 30, | |
|------------------------------|----------------------|
| 2011 | \$ 213,831 |
| 2012 | 213,731 |
| 2013 | 213,731 |
| 2014 | 213,731 |
| 2015 | 216,937 |
| 2016 - 2020 | 1,104,012 |
| 2021 - 2025 | 1,137,127 |
| 2026 - 2030 | 1,171,243 |
| 2031 - 2035 | 1,206,378 |
| 2036 - 2040 | 1,242,567 |
| 2041 - 2045 | 1,279,848 |
| 2046 - 2050 | 1,318,244 |
| 2051 - 2055 | <u>1,357,795</u> |
| Total minimum lease payments | <u>\$ 10,889,175</u> |

The operating lease covers five parcels of land, which are subleased to auto dealers. For the year ended June 30, 2010, the Agency received \$258,312 in rental payments to offset the Agency's lease payments to lessor.

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SIGNAL HILL REDEVELOPMENT AGENCY
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)

June 30, 2010

8. INTERFUND TRANSFERS:

Interfund transfers during the year ended June 30, 2010 are as follows:

| Transfer In to Fund | Transfers Out of Fund | Amount |
|---------------------|-----------------------|--------------|
| Special Revenue | Debt Service | \$ 230,000 |
| Debt Service | Special Revenue | 1,360,188 |
| Capital Projects | Debt Service | 531,725 |
| | | \$ 2,121,913 |

The transfer into the Special Revenue Fund was for partial payment of the deferred obligation for low and moderate income housing. The transfer into the Debt Service Fund was related to payment of debt service. The transfers into the Capital Projects Fund were to cover costs of redevelopment projects.

9. RESERVES OF FUND BALANCES:

An Agency may set up “reserves” of fund equity to segregate fund balances which are appropriate for expenditure in future periods, or which are legally set aside for a specific future use.

The Agency’s reserves at June 30, 2010 are tabulated below, followed by explanations as to the nature and purpose of each reserve.

| | Special Revenue Fund | Debt Service Fund | Capital Projects Fund |
|---------------------------------------------------|----------------------------|-------------------------|-----------------------------|
| RESERVES: | | | |
| Debt service | \$ - | \$ 9,843,476 | \$ 2,067,668 |
| Note receivable | - | - | 150,000 |
| Advances | 113,749 | - | - |
| Deposits | - | - | 2,575,740 |
| Land and improvements held for resale or lease | 3,000,000 | - | 14,284,817 |
| Low and moderate income housing | 5,709,991 | - | - |
| Redevelopment | - | - | 21,681,687 |
| TOTAL RESERVES | \$ 8,823,740 | \$ 9,843,476 | \$ 40,759,912 |

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SIGNAL HILL REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2010

9. RESERVES OF FUND BALANCES (CONTINUED):

- A. Reserved for Debt Service - This reserve represents all amounts accumulated in the debt service fund to be used for future debt service, including amounts held in accordance with bond indentures or similar covenants.
- B. Reserved for Note Receivable - A reserve has been established for a note receivable to indicate that the amount is not an available spendable resource.
- C. Reserved for Advances - A reserve has been established for advances made to the City of Signal Hill, as the amount is not an available spendable resource.
- D. Reserved for Deposits - A reserve has been established for deposits to indicate that the amount is not an available spendable resource.
- E. Reserved for Land and Improvements Held for Resale or Lease - A reserve has been established for land and improvements held for resale or lease, as this amount is not an available spendable resource.
- F. Reserved for Low and Moderate Income Housing - This reserve represents the 20% set-aside of tax increment funds to be used for the development and maintenance of low and moderate income housing.
- G. Reserved for Redevelopment - A reserve has been established for unspent bond proceeds that are restricted specifically for redevelopment projects.

10. LOW AND MODERATE INCOME HOUSING DEFERRED OBLIGATION:

Under redevelopment law, the Agency is required to deposit 20% of property tax increment revenue from 1985-86 and subsequent fiscal years into its low and moderate income housing special revenue fund. For the fiscal year ended June 30, 2010 the Agency has set aside 20% of the property tax increment revenue for low and moderate income housing as required. The Agency has a deferred obligation to fund the Special Revenue Fund for past years in which the Agency did not set aside any property tax increment revenue from Project Area No. 1's original area. The Agency was able to defer this obligation based on certain resolutions passed in 1986, whereby all property tax increment revenues received were being used on certain "pre-existing obligations" and "pre-existing projects". Now that these pre-existing conditions have been satisfied, the Agency is required to make up the deferred obligation. The Agency made a current year transfer of \$230,000 from the Debt Service Fund to the Special Revenue Fund to reduce the deferred obligation to \$3,472,864 as of June 30, 2010.

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SIGNAL HILL REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2010

11. FIRST TIME HOMEBUYER PROGRAM:

The Agency's First Time Homebuyer Program provides downpayment assistance to first time low or moderate income homebuyers. Financial assistance is provided in the form of deferred second mortgages, secured by promissory notes and deeds of trust on the property. The second mortgage loan is due if the unit is sold or if the property no longer qualifies as the buyer's principal residence. The loans are equity participation loans if paid within the first 10 years. The principal loan amount plus a declining percentage of equity (depending on how long the home was owned) is due to the Agency at the time of sale. After 10 years, no equity is due the Agency. After 30 years, the homebuyer has the option of repaying the principal amount in full, or amortizing the principal amount due over 10 years with an interest payment at the prime rate plus 1%. Currently, the Agency has 8 loans outstanding that total \$79,201.

Because these loans do not bear interest for at least 30 years, the present value of the loans is significantly less than the principal amounts. For this reason and because collection may be dependent on equity in the home when sold, the loans are not capitalized on the books of the Agency, but are expensed in the Special Revenue Fund when made.

12. SPRING STREET CORRIDOR JOINT POWERS AUTHORITY:

The Agency entered into a joint powers agreement with the City of Signal Hill, City of Long Beach and the Long Beach Redevelopment Agency on January 11, 1995. The purpose of this agreement was to create a joint power authority (Authority) pursuant to the California Government Code in order to develop and operate public facilities and improvements in the Spring Street Corridor Area.

The Authority is governed by a Board of Directors, which is made up of the five members of the Signal Hill City Council, the four members of the Long Beach City Council, and the Chairman of the Long Beach Redevelopment Agency. Officers of the Authority are elected annually by the Board members.

On December 21, 1995, the joint powers agreement was amended to increase its jurisdiction by including additional areas surrounding the original Spring Street Corridor Area.

The operating expenses are charged to the members on the basis of their prorata share of land in the Corridor.

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SIGNAL HILL REDEVELOPMENT AGENCY
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)

June 30, 2010

12. SPRING STREET CORRIDOR JOINT POWERS AUTHORITY (CONTINUED):

Pursuant to an Owner Participation and Implementation Agreement (OPIA) dated September 19, 1996, the Authority is required to pay a developer a formulated amount based on the sales tax generated at a site developed within the City of Signal Hill. The formula is equal to the amount of sales tax revenue received by the City of Signal Hill in excess of \$1,000,000 but less than \$2,000,000 plus 50% of all amounts in excess of \$2,000,000 on a calendar year basis. The payments are due annually through the calendar year 2010. The source of these payments is to be provided by the Agency. The first source is available tax increment revenue, which is limited based on the amount of the Agency's annual tax increment revenue less amounts required by law to be deposited in the Agency's Special Revenue Fund. The second source is a loan from the City, which would be made from the City's share of sales tax revenue generated from the developed site. No other sources of funds are available for payments. For the year ended June 30, 2010, the amount payable to the developer is \$859,592.

13. LAND AND IMPROVEMENTS HELD FOR RESALE OR LEASE:

A summary of activity related to land and improvements held for resale or lease is as follows:

| | <u>Balances</u> <u>July 1, 2009</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balances</u> <u>June 30, 2010</u> |
|-----------------------|----------------------------------------|------------------|------------------|-----------------------------------------|
| Land and improvements | \$ 7,758,312 | \$ 9,526,505 | \$ - | \$ 17,284,817 |

14. COMMITMENTS AND CONTINGENCIES:

Pursuant to AB 26 4x, a budget trailer bill, California redevelopment agencies were required to make Supplemental Education Revenue Augmentation Fund (SERAF) contributions totaling \$1.7 billion for the fiscal year 2009-2010 and \$350 million for the fiscal year 2010-2011. Under AB 26 4x, agencies may borrow a portion of the required contributions from their low and moderate income housing fund. Alternatively, sponsoring governmental agencies (the cities or counties) may elect to pay the SERAF contributions on behalf of their redevelopment agencies. On October 20, 2009, the California Redevelopment Association filed a class action lawsuit on behalf of all California redevelopment agencies, again challenging the SERAF obligations as unconstitutional. The court ruled that the SERAF obligations were not unconstitutional.

The Agency's SERAF contributions for the fiscal year 2009-2010 was \$5,168,970. The Agency utilized its non-housing funds to make the payment.

The Agency's SERAF contributions for the fiscal year 2010-2011 will be \$1,064,200.

See independent auditors' report.

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SIGNAL HILL REDEVELOPMENT AGENCY

BUDGETARY COMPARISON SCHEDULE

AFFORDABLE HOUSING SPECIAL REVENUE FUND

For the year ended June 30, 2010

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---------------------------------------------------------|---------------------|---------------------|---------------------|---------------------------------------------------------|
| | Original | Final | | |
| REVENUES: | | | | |
| Tax increment | \$ 2,575,000 | \$ 2,575,000 | \$ 2,743,481 | \$ 168,481 |
| Investment income | 141,500 | 141,500 | 97,083 | (44,417) |
| Other income | - | - | 11,652 | 11,652 |
| TOTAL REVENUES | 2,716,500 | 2,716,500 | 2,852,216 | 135,716 |
| EXPENDITURES: | | | | |
| General government - Program administration: | | | | |
| Los Angeles County tax administration fees | 40,000 | 40,000 | 39,230 | 770 |
| Administrative expenditures | 198,940 | 198,940 | 189,344 | 9,596 |
| Professional services | 41,750 | 41,750 | 21,172 | 20,578 |
| Planning, survey and design | 40,000 | 40,000 | 6,547 | 33,453 |
| Capital outlay - Community development: | | | | |
| Relocation costs | 3,700,000 | 3,700,000 | 12,652 | 3,687,348 |
| Rehabilitation grants | 50,000 | 50,000 | 25,000 | 25,000 |
| Other costs | - | - | 10,082 | (10,082) |
| TOTAL EXPENDITURES | 4,070,690 | 4,070,690 | 304,027 | 3,766,663 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (1,354,190) | (1,354,190) | 2,548,189 | 3,902,379 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | 230,000 | 230,000 | 230,000 | - |
| Transfers out | (1,359,848) | (1,359,848) | (1,360,188) | (340) |
| TOTAL OTHER FINANCING SOURCES (USES) | (1,129,848) | (1,129,848) | (1,130,188) | (340) |
| NET CHANGE IN FUND BALANCE | (2,484,038) | (2,484,038) | 1,418,001 | 3,902,039 |
| FUND BALANCE AT BEGINNING OF YEAR | 7,405,739 | 7,405,739 | 7,405,739 | - |
| FUND BALANCE AT END OF YEAR | \$ 4,921,701 | \$ 4,921,701 | \$ 8,823,740 | \$ 3,902,039 |

See independent auditors' report and note to required supplementary information

SIGNAL HILL REDEVELOPMENT AGENCY

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

1. BUDGET AND BUDGETARY ACCOUNTING:

In conjunction with the City's budgeting process, the Agency adopts an annual operating budget for the Special Revenue Fund that is substantially on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control, that is, the level at which expenditures cannot exceed appropriations, is the program level for this fund.

The budgets of the Agency's Debt Service and Capital Projects Funds are primarily "long-term" budgets, which emphasize major programs and capital outlay plans extending over a number of years. Because of the long-term nature of projects, "annual" budget comparisons are not considered meaningful, and accordingly, no budgetary information is included in the accompanying financial statements.

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

COMPUTATION OF THE EXCESS SURPLUS OF THE
AFFORDABLE HOUSING SPECIAL REVENUE FUND

July 1, 2009

| | | <u>All Project Areas</u> |
|--------------------------------------------------------------|--------------------------|------------------------------|
| OPENING FUND BALANCE - JULY 1, 2009 | | \$ 7,405,739 |
| LIMITATION (GREATER OF \$1,000,000 OR FOUR YEARS SET-ASIDE): | | |
| Set-aside for last four years: | | |
| 2008 - 2009 | \$ 2,748,119 | |
| 2007 - 2008 | 2,579,858 | |
| 2006 - 2007 | 2,549,416 | |
| 2005 - 2006 | <u>2,196,909</u> | |
| TOTAL SET-ASIDE FOR LAST FOUR YEARS | <u>\$ 10,074,302</u> | |
| Base limitation | <u>\$ 1,000,000</u> | |
| GREATER AMOUNT | | <u>10,074,302</u> |
| COMPUTED EXCESS SURPLUS - JULY 1, 2009 | | <u>\$ -</u> |

See independent auditors' report.

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December 13, 2010

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

To the Honorable Chairman and
Members of the Agency
Signal Hill Redevelopment Agency
Signal Hill, California

We have audited the financial statements of the governmental activities and each major fund of the Signal Hill Redevelopment Agency, (a component unit of the City of Signal Hill, California) as of and for the year ended June 30, 2010, which collectively comprise the Signal Hill Redevelopment Agency's basic financial statements and have issued our report thereon dated December 13, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis.

Internal Control Over Financial Reporting (Continued)

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 basic financial statements of the Signal Hill Redevelopment Agency are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the Guidelines For Compliance Audits of California Redevelopment Agencies, issued by the State Controller and as interpreted in the Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Financial Disclosures and Reporting

Health and Safety Code Section 33080.4 requires the Signal Hill Redevelopment Agency to produce and submit on a timely basis the Blight Progress Report and the Property Report to its legislative body and the State Controller. These reports were not produced or submitted for the year ended June 30, 2009.

Housing Assistance

Health and Safety Code Section 34418 requires the Signal Hill Redevelopment Agency to monitor the levels of available affordable housing to low and moderate income households. Agencies shall require property owners or managers of such housing to submit an annual report to the agency. This information obtained by the Agency is to be reported annually to the Department of Housing and Community Development and to the State Controller's Office. We noted that the Agency did not receive the required annual reports from the property managers of the affordable housing.

This report is intended for the information and use of the Agency Members and management of the Signal Hill Redevelopment Agency, others within the entity, 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.

Diell, Evans and Company, LLP