

SEAL BEACH REDEVELOPMENT AGENCY  
SEAL BEACH, CALIFORNIA

Financial Statements

Year ended June 30, 2008

(with Independent Auditors' Report Thereon)

SEAL BEACH REDEVELOPMENT AGENCY

Financial Statements

Year ended June 30, 2008

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet Governmental Funds	7
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	8
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	9
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statements of Activities	10
Notes to Financial Statements	11
Report on Compliance and Other Matters and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25



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Seal Beach Redevelopment Agency  
Seal Beach, California

### **INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Seal Beach Redevelopment Agency (Agency), a component unit of the City of Seal Beach, California as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the Seal Beach Redevelopment Agency for the year ended June 30, 2007 which were audited by other auditors and whose report dated November 28, 2007 expressed unqualified opinions on the financial statements.

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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 Agency as of June 30, 2008, and the respective changes in financial position of the Agency for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Agency has not presented the *management's discussion and analysis* that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2008, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

*Mayer Hoffman McCann P.C.*

Irvine, California  
December 19, 2008

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SEAL BEACH REDEVELOPMENT AGENCY

Statement of Net Assets

June 30, 2008

(With comparative data for 2007)

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Assets:		
Cash and investments (note 2)	\$ 5,060,570	5,831,227
Cash and investments with fiscal agent (note 2)	761,273	761,487
Receivables:		
Accounts	5,228	19,748
Taxes	2,222	5,767
Loans (note 3)	1,861,571	1,670,667
Capital assets (note 5):		
Land	403,192	-
Other capital assets, net	729,203	-
	<u>8,823,259</u>	<u>8,288,896</u>
Liabilities:		
Accounts payable and accrued liabilities	38,881	42,139
Interest payable	114,988	92,552
Long-term liabilities (notes 6):		
Due within one year	405,653	384,453
Due in more than one year	6,500,856	6,906,510
	<u>7,060,378</u>	<u>7,425,654</u>
Net assets:		
Invested in capital assets, net of related debt	1,025,886	1,056,987
Restricted for:		
Low and moderate housing	3,400,233	3,503,180
Unrestricted	<u>(2,663,238)</u>	<u>(3,696,925)</u>
	<u>\$ 1,762,881</u>	<u>863,242</u>

See accompanying notes to the basic financial statements.

SEAL BEACH REDEVELOPMENT AGENCY

Statement of Activities

Year ended June 30, 2008

(With comparative data for 2007)

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>
Governmental activities:				
Low and moderate income housing	\$ 25,471	-	-	-
Community development	2,356,893	-	-	-
Interest and fiscal charges	<u>386,080</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 2,768,444</u>	<u>-</u>	<u>-</u>	<u>-</u>

General revenues:

Taxes:

    Tax increment

    Investment income

Total general revenues

Change in net assets

Net assets at beginning of year, as restated (note 10)

Net assets at end of year

See accompanying notes to the basic financial statements.

Net Governmental Activities	
<u>2008</u>	<u>2007</u>
(25,471)	(26,213)
(2,356,893)	(3,614,148)
<u>(386,080)</u>	<u>(376,677)</u>
<u>(2,768,444)</u>	<u>(4,017,038)</u>
2,416,977	3,036,585
<u>253,156</u>	<u>383,887</u>
<u>2,670,133</u>	<u>3,420,472</u>
(98,311)	(596,566)
<u>1,861,192</u>	<u>1,459,808</u>
<u>\$ 1,762,881</u>	<u>863,242</u>

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SEAL BEACH REDEVELOPMENT AGENCY  
Governmental Funds - Balance Sheet  
June 30, 2008  
(With comparative data for 2007)

<u>Assets</u>	Riverfront Area				Totals	
	Special Revenue	Capital Projects	Debt Service		2008	2007
	Low and Moderate Housing	Projects	Tax Increment	Bonds		
Assets:						
Cash and investments (note 2)	\$ 1,577,004	2,883,519	600,047	-	5,060,570	5,831,227
Receivables:						
Accounts	539	4,689	-	-	5,228	19,748
Taxes	-	-	2,222	-	2,222	5,767
Loans (note 3)	1,861,571	-	-	-	1,861,571	1,670,667
Restricted cash and investments with fiscal agent (note 2)	-	-	-	761,273	761,273	761,487
 Total assets	\$ 3,439,114	2,888,208	602,269	761,273	7,690,864	8,288,896
<u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts payable	\$ 38,881	-	-	-	38,881	41,977
Other accrued liabilities	-	-	-	-	-	162
Total liabilities	38,881	-	-	-	38,881	42,139
Fund balances:						
Reserved for:						
Encumbrances	-	-	-	-	-	68,000
Low and moderate housing	1,538,662	-	-	-	1,538,662	1,832,513
Loans receivable	1,861,571	-	-	-	1,861,571	1,670,667
Unreserved:						
Designated for:						
Debt service	-	-	602,269	761,273	1,363,542	1,365,837
Capital projects	-	2,888,208	-	-	2,888,208	3,309,740
 Total fund balances	3,400,233	2,888,208	602,269	761,273	7,651,983	8,246,757
 Total liabilities and fund balances	\$ 3,439,114	2,888,208	602,269	761,273	7,690,864	8,288,896

See accompanying notes to the basic financial statements.

SEAL BEACH REDEVELOPMENT AGENCY  
Governmental Funds  
Reconciliation of the Balance Sheet of Governmental Funds to  
the Statement of Net Assets  
June 30, 2008

Fund balances of governmental funds	\$ 7,651,983
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of depreciation, have not been included as financial resources in governmental fund activity.	
Capital assets	2,358,826
Accumulated depreciation	(1,226,431)
Long term liabilities that have not been included in the governmental fund activity.	
Bonds payable	(6,800,000)
Other long-term liabilities	(106,509)
Accrued interest payable for the current portion of interest due on Long term debt has not been reported in the governmental funds.	<u>(114,988)</u>
Net assets of governmental activities	<u>\$ 1,762,881</u>

See accompanying notes to the basic financial statements.

SEAL BEACH REDEVELOPMENT AGENCY

Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2008

(With comparative data for 2007)

	Riverfront Area				Totals	
	Special Revenue	Capital Projects	Debt Service			
	Low and Moderate Housing	Projects	Tax Increment	Bonds	2008	2007
Revenues:						
Taxes and assessments	\$ 483,935	-	1,933,042	-	2,416,977	3,036,585
Use of money and property	<u>78,688</u>	<u>92,722</u>	<u>39,084</u>	<u>42,662</u>	<u>253,156</u>	<u>383,887</u>
Total revenues	<u>562,623</u>	<u>92,722</u>	<u>1,972,126</u>	<u>42,662</u>	<u>2,670,133</u>	<u>3,420,472</u>
Expenditures:						
Current:						
General government	-	21,295	-	4,176	25,471	26,213
Community development	553,571	-	27,431	-	581,002	341,701
Debt service:						
Principal	-	14,454	-	370,000	384,454	368,640
Interest and fiscal charges	<u>-</u>	<u>6,130</u>	<u>-</u>	<u>357,514</u>	<u>363,644</u>	<u>380,797</u>
Total expenditures	<u>553,571</u>	<u>41,879</u>	<u>27,431</u>	<u>731,690</u>	<u>1,354,571</u>	<u>1,117,351</u>
Excess (deficiency) of revenues over (under) expenditures	<u>9,052</u>	<u>50,843</u>	<u>1,944,695</u>	<u>(689,028)</u>	<u>1,315,562</u>	<u>2,303,121</u>
Other financing sources (uses):						
Transfers in (note 9)	-	1,257,962	-	688,814	1,946,776	1,899,880
Transfers out (note 9)	-	-	(1,946,776)	-	(1,946,776)	(1,899,880)
Transfers to the City (note 9)	<u>-</u>	<u>(1,730,336)</u>	<u>-</u>	<u>-</u>	<u>(1,730,336)</u>	<u>(3,272,447)</u>
Total other financing sources (uses)	<u>-</u>	<u>(472,374)</u>	<u>(1,946,776)</u>	<u>688,814</u>	<u>(1,730,336)</u>	<u>(3,272,447)</u>
Net change in fund balances	9,052	(421,531)	(2,081)	(214)	(414,774)	(969,326)
Fund balances at beginning of year, as restated (note 10)	<u>3,391,181</u>	<u>3,309,739</u>	<u>604,350</u>	<u>761,487</u>	<u>8,066,757</u>	<u>9,216,083</u>
Fund balances at end of year	<u>\$ 3,400,233</u>	<u>2,888,208</u>	<u>602,269</u>	<u>761,273</u>	<u>7,651,983</u>	<u>8,246,757</u>

See accompanying notes to the basic financial statements.

SEAL BEACH REDEVELOPMENT AGENCY  
 Reconciliation of the Statement of Revenues, Expenditures  
 and Changes in Fund Balances of Governmental Funds  
 to the Statement of Activities  
 Year ended June 30, 2008

Net changes in fund balances - total governmental funds \$ (414,774)

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Depreciation expense (45,555)

Repayment of bond principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 370,000

Additions and repayments of other long-term liabilities are recorded as revenues and expenditures in the governmental funds, but increase or decrease long-term liabilities in the statement of net assets. 14,454

The statement of net assets includes accrued interest on long term debt. (22,436)

Changes in net assets of governmental activities \$ (98,311)

See accompanying notes to the basic financial statements.

# SEAL BEACH REDEVELOPMENT AGENCY

## Notes to the Basic Financial Statements

Year ended June 30, 2008

### (1) Summary of Significant Accounting Policies

#### (a) Organization and Tax Increment Financing

The Seal Beach Redevelopment Agency (Agency) is a blended component unit of a reporting entity which consists of the following primary government and component units:

Reporting Entity:

Primary Government:

- City of Seal Beach (City)

Component Units:

- Seal Beach Redevelopment Agency
- Seal Beach Public Financing Authority

The attached basic financial statements contain information relative only to the Seal Beach Redevelopment Agency as one component unit that is an integral part of the total reporting entity. They do not contain financial data relating to the other component units.

The Agency was established in 1967 pursuant to the California Community Redevelopment Laws.

The Agency's initial project area, the Riverfront Redevelopment Project, was established March 3, 1969, and amended in August 1974, December 1975, August 1981, February 1989, December 1994, and October 1997. The amended project area encompasses approximately 200 acres with the bulk of the project area located along the northwestern boundary of the City of Seal Beach. Work within the project area to date includes construction of a police facility, relocation of the City's maintenance yard, work on a major sewage treatment problem, development of park space, development of a library and senior citizen's facility, development of residential areas, and other similar projects.

The Agency's primary source of revenue, other than loans and advances from the City and bond proceeds, comes from property taxes, referred to in the accompanying financial statements as "taxes and assessments." Property taxes allocated to the Agency are computed in the following manner:

# SEAL BEACH REDEVELOPMENT AGENCY

## Notes to the Basic Financial Statements

(Continued)

### (1) Summary of Significant Accounting Policies, (Continued)

1. The assessed valuation of all property within the project area is determined on the date of adoption of the Redevelopment Plan.
2. Property taxes related to the incremental increase in assessed values after the adoption of the Redevelopment Plan are allocated to the Agency; all taxes on the “frozen” assessed valuation of the property are allocated to the City and other districts.

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

### (b) Basis of Accounting and Measurement Focus

#### Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current available financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

(c) Activities in Major Funds

The Agency reports the following major governmental funds:

Riverfront Area Capital Projects Fund - Accounts for redevelopment project costs and administrative expenses and the source of funds for such costs.

Riverfront Area Low and Moderate Housing Special Revenue Fund - Accounts for low and moderate income housing expenditures.

Riverfront Area Tax Increment Debt Service Fund - Accounts for tax increment revenues, bond proceeds required to be set aside for future debt service and related interest income.

Riverfront Area Bonds Debt Service Fund - The fund are used to repay principal and interest on indebtedness of the Agency.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then to use unrestricted resources as they are needed.

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(d) Cash and Investments

For financial reporting purposes, investments are adjusted to their fair value whenever the difference between fair value and the carrying amount is material. Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

(e) Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other fund” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). There are no outstanding balances between funds at June 30, 2008.

All trade and property tax receivables are shown net of an allowance for uncollectible. Property tax revenue is recognized on the modified accrual basis, that is, in the fiscal year for which the taxes have been levied providing they become available.

(f) Restricted Assets

Certain proceeds of debt issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. In addition, funds have been restricted for future capital improvements by City resolution.

(g) Capital Assets

Capital assets (including infrastructure) are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. Generally, capital asset purchases in excess of \$5,000 are capitalized.

Depreciation has been provided using the straight-line method over the estimated useful life of the asset in the government-wide financial statements. The Commission’s capital asset useful lives are as follows:

Building and Improvements	20-99 years
Machinery & Equipment	5-25 years

# SEAL BEACH REDEVELOPMENT AGENCY

## Notes to the Basic Financial Statements

(Continued)

### (1) Summary of Significant Accounting Policies, (Continued)

#### (h) Long-term Obligations

In the government-wide financial statements, long-term debt is reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### (i) Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### (j) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

#### (k) Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived.

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(1) Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the fund balance, is employed in the governmental funds. Encumbrances are reported as reservations of fund balances since they do not constitute as expenditures or liabilities. Encumbrances at year-end are re-appropriated in the following year.

(2) Cash and Investments

Cash and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$ 5,060,570
Restricted:	
Cash and investments with fiscal agent	<u>761,273</u>
Total cash and investments	<u>\$ 5,821,843</u>

Cash and investments as of June 30, 2008 consist of the following:

Investments	<u>\$ 5,821,843</u>
Total cash and investments	<u>\$ 5,821,843</u>

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

The table below identifies the *investment types* that are authorized for the City by the California Government Code Section 53601 or the City's investment policy, where more restrictive. The table also identifies certain provisions of the California Government Code (or the City's investment policy if 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 trustees that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

<u>Authorized Investment Type</u>	<u>Maximum* Maturity</u>	<u>Maximum* Percentage of Portfolio</u>	<u>Maximum* Investment in One Issuer</u>
U S Treasury Securities	5 years	100%	None
U S Agency Securities	5 years	100%	None
Bankers' Acceptance	180 days	40%	30%
Commercial Paper	180 days	25%	None
Negotiable CDs	5 years	30%	None
Repurchase Agreements	90 days	100%	None
Medium Term Notes	5 years	30%	None
Mutual Funds	N/A	15%	None
Local Agency Investment Fund (LAIF)	N/A	100%	None

\* Based on state law requirements or investment policy requirements whichever is more restrictive.

Investments Authorized by Debt Agreements

Investment 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 City's investment policy. The table below identifies the *investment types* that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address *interest rate risk, credit risk, and concentration of credit risk.*

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U S Treasury Securities	None	None	None
U S Agency Securities	None	None	None
Bankers' Acceptance	180 days	None	30%
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 days	None	None
Local Agency Investment Fund	None	None	None

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(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 is to changes in market interest rates. One of the ways that the City 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.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity.

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
State investment pool	\$ 5,060,570	5,060,570	-	-
Held by Fiscal Agent:				
Money Market	20,535	20,535	-	-
Investment Contracts	<u>740,738</u>	<u>-</u>	<u>-</u>	<u>740,738</u>
<b>Total</b>	<b><u>\$ 5,821,843</u></b>	<b><u>5,081,105</u></b>	<b><u>-</u></b>	<b><u>740,738</u></b>

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government code or the City's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type:

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Total</u>	<u>Remaining as of Year End</u>	
			<u>AA</u>	<u>Unrated</u>
State investment pool	N/A	\$ 5,060,570	-	5,060,570
Held by Fiscal Agent:				
Money Market	N/A	20,535	-	20,535
Investment Contracts	AA	<u>740,738</u>	<u>740,738</u>	<u>-</u>
<b>Total</b>		<b><u>\$ 5,821,843</u></b>	<b><u>740,738</u></b>	<b><u>5,081,105</u></b>

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Concentration of Credit Risk

The investment policy of the City contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represent 5% or more of total City investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Valuation</u>
AIG	Investment Contract	\$ 740,738

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 City'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 City. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured City deposits.

Investments held by a bond trustee are selected under the terms of the applicable trust agreement. The trustee acquires the investment and holds the investment on behalf of the reporting government.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(3) Loans Receivable

Loans receivable consist of the following at June 30, 2008:

Riverfront Project Area Capital Projects:	
Low and Moderate Housing Fund:	
Seal Beach Trailer Park	\$ 879,627
Various rehabilitation loans	<u>981,944</u>
Total	<u>\$ 1,861,571</u>

The loans are long-term in nature and all reserved in the fund financial statements.

(4) Property Taxes

Under California Law, property taxes are assessed and collected by the counties up to 1% of the assessed value, plus other increases approved by the voters. The property taxes are recorded initially in a pool, and are then allocated to the cities based on complex formulas. Accordingly, the City of Seal Beach accrues only those taxes that are received from the County within sixty days after year-end.

Lien date	January 1
Levy date	July 1
Due dates	November 1 and February 1
Collection dates	December 10 and April 10

The Agency's primary source of revenue comes from property taxes. Property taxes allocated to the Agency are computed in the following manner:

- (a) The assessed valuation of all property within the project area is determined on the date of adoption of the Redevelopment Plan.
- (b) Property taxes related to the incremental increase in assessed values after the adoption of the Redevelopment Plan are allocated to the Agency; all taxes on the "frozen" assessed valuation of the property are allocated to the City and other districts.
- (c) Property taxes allocated to the Agency above certain thresholds are subject to statutory pass-through requirements to the city and other districts.

The Agency has no power to levy and collect taxes and any legislative property tax shift might reduce the amount of tax revenues that would otherwise be available to pay the principal of, and interest on 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.

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(5) Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balances at June 30, 2007 (as restated)	Additions	Deletions	Balances at June 30, 2008
Building and improvements	\$ 1,890,850	-	-	1,890,850
Equipment and vehicles	<u>64,784</u>	<u>-</u>	<u>-</u>	<u>64,784</u>
Total cost of depreciable assets	<u>1,955,634</u>	<u>-</u>	<u>-</u>	<u>1,955,634</u>
Less accumulated depreciation for:				
Building and improvements	(1,161,423)	(39,077)	-	(1,200,500)
Equipment and vehicles	<u>(19,453)</u>	<u>(6,478)</u>	<u>-</u>	<u>(25,931)</u>
Total accumulated depreciation	<u>(1,180,876)</u>	<u>(45,555)</u>	<u>-</u>	<u>(1,226,431)</u>
Net depreciable assets	774,758	(45,555)	-	729,203
Capital assets not depreciated:				
Land	<u>403,192</u>	<u>-</u>	<u>-</u>	<u>403,192</u>
Capital assets, net	<u>\$ 1,177,950</u>	<u>(45,555)</u>	<u>-</u>	<u>1,132,395</u>

Depreciation expense was charged in the following function of the Statement of Activities:

Community development \$ 45,555

(6) Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Due Within One year
Capital Improvement Lease	\$ 120,963	-	(14,454)	106,509	15,653
2000 Tax Allocation Bonds Series A	6,640,000	-	(340,000)	6,300,000	355,000
2000 Tax Allocation Bonds Series B	<u>530,000</u>	<u>-</u>	<u>(30,000)</u>	<u>500,000</u>	<u>35,000</u>
Total	<u>\$ 7,290,963</u>	<u>-</u>	<u>(384,454)</u>	<u>6,906,509</u>	<u>405,653</u>

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(6) Long-Term Liabilities, (Continued)

Capital Improvement Lease

The Agency is obligated for a portion of Capital Improvement Leases for improvements related to City facilities that the Agency operates. The balance of this capital lease obligation is \$106,509.

<u>Year Ended June 30,</u>	<u>Capital Improvement Lease</u>	
	<u>Principal</u>	<u>Interest</u>
	\$ 15,653	5,340
2009	17,081	4,484
2010	18,763	3,546
2011	20,572	2,516
2012	22,516	1,388
2013	<u>11,924</u>	<u>238</u>
Total	<u>\$ 106,509</u>	<u>17,512</u>

Tax Allocation Bonds

On December 20, 2000, the Agency issued 2000 Tax Allocation Refunding Bonds for the Riverfront Redevelopment Project in the amounts of \$8,520,000 and \$685,000 for Series A and B, respectively. Interest rate on the bonds varies from 4% to 5.375%. The Agency used the proceeds of Series A Bonds to finance the refunding of the 1986 Tax Allocation Bonds and \$3,715,000 of 1991 Tax Allocation Bonds. The Series B Bonds were used to pay bond issuance costs and finance certain redevelopment activities of the Agency.

The Series A Bonds are payable exclusively from Tax revenues and certain funds and accounts held under the indenture. Series B Bonds are subordinate to the Series A Bonds and are to be paid exclusively from Surplus Tax Revenues and certain funds and accounts held under the indenture. The balances in the Series A and B bonds at June 30, 2008 were \$6,300,000 and \$500,000, respectively.

The following schedule illustrates the debt service requirements to maturity for long-term debt outstanding as of June 30, 2008.

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(6) Long-Term Liabilities, (Continued)

<u>Year Ended June 30,</u>	<u>2000 Tax Allocation Refunding Bonds, Series A</u>		<u>2000 Subordinate Tax Allocation Bonds, Series B</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 355,000	311,964	35,000	26,916
2010	370,000	292,933	35,000	25,122
2011	390,000	272,983	40,000	23,200
2012	410,000	253,315	40,000	21,150
2013	430,000	233,780	40,000	18,975
2014-2018	2,480,000	823,235	250,000	54,915
2019-2023	1,680,000	208,316	60,000	1,725
2024-2029	<u>185,000</u>	<u>4,971</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 6,300,000</u>	<u>2,401,497</u>	<u>500,000</u>	<u>172,003</u>

(7) Insurance Coverage

Insurance coverage has been obtained by the City of Seal Beach for the City and all authorities under its control. Information related to the Agency’s insurance coverage can be obtained by contacting the City.

(8) Low and Moderate Income Housing Fund Excess Surplus

Section 33334.12 (g)(1) of the Health and Safety Code defines Excess/Surplus applicable to Low and Moderate Income Housing Fund. This section allows redevelopment agencies to maintain only a certain amount of monies within these funds without incurring penalties. The amount which can be retained is specified by this section as “any unexpended and unencumbered amount in an Agency’s Low and Moderate Income Housing Fund that exceeds the greater of one million dollars (\$1,000,000) or the aggregate amount deposited into the Low and Moderate Income Housing Fund pursuant to Sections 33334.3 and 33334.6 during the Agency’s preceding four fiscal years”.

A computation of the requirements of this section of the code has indicated that as of July 1, 2007, there is an excess/surplus of \$421,470. The Agency has plans in place to expend these funds in future years.

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(9) Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2008 is as follows:

	<u>Transfers Out Riverfront Area</u>	
	<u>Debt Service</u>	
	<u>Tax</u>	<u>Capital</u>
	<u>Increment</u>	<u>Projects</u>
Transfers In:		
Riverfront Area:		
Capital Projects	\$ 1,257,962	-
Bonds Debt Service	688,814	-
Transfer to City	<u>-</u>	<u>1,730,336</u>
Total	<u>\$ 1,946,776</u>	<u>1,730,336</u>

Transfers were made to move funds from Tax Increment to fund Capital Projects, and from Tax Increment to cover debt service payments in the Bonds fund.

(10) Restatement of Net Assets/Fund Balance

The June 30, 2007 fund balances in the fund financial statements have been restated as follows:

	<u>Low and</u>
	<u>Moderate Housing</u>
	<u>Fund</u>
Fund balance at the beginning of the year, as previously reported	\$ 3,571,181
To reflect \$180,000 paid to vendors in fiscal year 2008 for expenses related to fiscal year 2007	<u>(180,000)</u>
Fund balance at the beginning of the year, as restated	<u>\$ 3,391,181</u>

The June 30, 2007 net assets in the government-wide financial statements have been restated as follows:

Net assets at the beginning of the year, as previously reported	\$ 863,242
To reflect capital assets of the redevelopment agency	1,177,950
To reflect restatements in the fund financial statements	<u>(180,000)</u>
Net assets at the end of the year, as restated	<u>\$ 1,861,192</u>



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Board of Directors  
Seal Beach Redevelopment Agency  
Seal Beach, California

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

We have audited the financial statements of the Seal Beach Redevelopment Agency (Agency), a component unit of the City of Seal Beach, California as of and for the year ended June 30, 2008, and have issued our report thereon dated December 19, 2008. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Seal Beach Redevelopment Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a of Directors combination of control deficiencies, that adversely affects the Agency's ability to initiate, Board authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

Seal Beach Redevelopment Agency  
Page Two

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

This report is intended for the information of the Board of Directors, management and others within the Seal Beach Redevelopment Agency and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

*Mayer Hoffman McCann P.C.*

Irvine, California  
December 19, 2008