



**SEAL BEACH REDEVELOPMENT AGENCY
SEAL BEACH, CALIFORNIA**

FINANCIAL STATEMENTS

JUNE 30, 2011

Lance Soll & Lunghard, LLP

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SEAL BEACH REDEVELOPMENT AGENCY
SEAL BEACH, CALIFORNIA

FINANCIAL STATEMENTS

JUNE 30, 2011

SEAL BEACH REDEVELOPMENT AGENCY

JUNE 30, 2011

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CERTIFIED PUBLIC ACCOUNTANTS

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A Professional Corporation
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Seal Beach Redevelopment Agency
Seal Beach, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information 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, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the Agency for the year ended June 30, 2010 and was audited by other auditors whose report thereon, dated November 24, 2010, expressed an unqualified opinion.

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 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 the 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Agency, as of June 30, 2011, and the respective changes in financial position, and budgetary comparisons for the Low and Moderate Housing Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We would like to draw the reader's attention to Note 12 – "California Redevelopment Agency Uncertainty". The note provides information on two bills passed, AB1X26 and 27 which dissolve redevelopment agencies effective October 1, 2011 and provide an option to avoid dissolution by making certain defined payments.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2011, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



Board of Directors
Seal Beach Redevelopment Agency
Seal Beach, California

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

The Agency has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Lance, Soll & Lingham, LLP

Brea, California
October 31, 2011



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE

Board of Directors
Seal Beach Redevelopment Agency
Seal Beach, California

Compliance

We have audited Seal Beach Redevelopment Agency's (Agency) compliance with the California Health and Safety Code as required by Section 33080.1 for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on redevelopment program has occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable to the redevelopment program for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported under *Government Auditing Standards*.

Annual Reports

In accordance with the California Health and Safety Code Section 33080.1, the Agency is required to produce and present an annual report (due six months following the end of the Agency's fiscal year to date) to the State Controllers' Office and the Agency's legislative body. For fiscal year end June 30, 2010, the Agency did not submit the following reports to the State Controller's Office or the Agency's legislative body:

1. State Controller's Report
2. A description of the agency's progress, including specific actions and expenditures, in alleviating blight in the previous fiscal year.
3. List of Expiration of Time Limits, including



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- a. The time limit for commencement for eminent domain proceedings to acquire property within the project area.
- b. The time limit for the establishment of loans, advances and indebtedness to finance the redevelopment project.
- c. The time limit for the effectiveness of the redevelopment plan.
- d. The time limit to repay the indebtedness with the proceeds of property taxes.

Management Response:

This has been corrected and the City took action and filed the report with the board on October 10, 2011 at the Redevelopment Agency meeting.

Five-Year Implementation Plan

On or before December 31, 1994, and each five years thereafter, Health and Safety Code Section 33490 requires that each agency that has adopted a redevelopment plan prior to December 31, 1993, to adopt, after a public hearing, an implementation plan that shall contain the specific goals and objectives of the agency for the project area, the specific programs, including potential projects, and estimated expenditures proposed to be made during the next five years, and an explanation of how the goals and objectives, programs and expenditures proposed to be made during the next five year, and an explanation of how the goals and objectives, programs and expenditures will eliminate blight within the project area and implement the requirements of Section 33333.10, if applicable, and Sections 33334.2, 33334.4, 33334.6 and 33413. The implementation plan related to the fiscal periods 2009-2010 through 2013-2014 was not adopted within the time frame, but adopted on June 13, 2011.

Management Response:

This has been corrected and the City took corrective action by adopting the five-year implementation plan on June 13, 2011.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance.



CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Seal Beach Redevelopment Agency
Seal Beach, California

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We did not audit the Agency's responses to the findings described above and, accordingly, we express no opinion on it.

This report is intended for the information of management and the California State Controller and it is not intended to be and should not be used by anyone other than these specified parties.

Lance, Solt & Lughard, LLP

Brea, California
October 31, 2011

SEAL BEACH REDEVELOPMENT AGENCY

STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities	
	2011	2010
Assets:		
Cash and investments (Note 3)	\$ 6,087,706	\$ 5,848,040
Restricted assets:		
Cash and investments with trustees (Note 3)	740,769	740,769
Receivables:		
Tax increment	2,822	17,535
Accounts	10,484	4,364
Loans (Note 4)	1,957,603	1,848,230
Capital assets (Net of Depreciation): (Note 6)		
Land	403,192	403,192
Intangible assets	900,000	
Other capital assets, net	594,517	638,708
Total Assets	10,697,093	9,500,838
Liabilities:		
Accounts payable and accrued expenses	147,155	199,218
Other current liabilities	300	-
Long-term liabilities: (Note 7)		
Due within one year	470,572	448,763
Due in more than one year	6,359,440	5,630,012
Total Liabilities	6,977,467	6,277,993
Net Assets:		
Invested in capital assets, net of related debt	1,842,697	968,125
Restricted for:		
Low and moderate housing	3,327,180	3,116,539
Debt service	1,946,488	-
Unrestricted	(3,396,739)	(861,819)
Total Net Assets	\$ 3,719,626	\$ 3,222,845

SEAL BEACH REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Program Revenues			Net Governmental Activities		
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	2011	2010
Functions/Programs						
Governmental Activities:						
General government	\$ 956,705	\$ -	\$ -	\$ -	\$ (956,705)	\$ (54,638)
Community development	268,646	-	-	-	(268,646)	(887,489)
Interest on long-term debt	290,944	-	-	-	(290,944)	(315,464)
Contributions to other governments	253,512	-	-	-	(253,512)	-
Total Governmental Activities	\$ 1,769,807	\$ -	\$ -	\$ -	(1,769,807)	(1,257,591)
General Revenues:						
Taxes (net of pass-through payments)					2,228,383	1,000,448
Use of money and property					38,205	50,812
Total general revenues					2,266,588	1,051,260
Change in Net Assets					496,781	(206,331)
Net Assets at Beginning of Year					3,222,845	3,429,176
Net Assets at End of Year					\$ 3,719,626	\$ 3,222,845

SEAL BEACH REDEVELOPMENT AGENCY

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	Riverfront Area			
	Special Revenue	Capital Projects	Debt Service	Debt Service
	Low and Moderate Housing	Project	Tax Increment	Bonds
Assets:				
Cash and investments	\$ 1,378,995	\$ 3,506,607	\$ 1,202,104	\$ -
Cash and investments with trustee	-	-	-	740,769
Receivables:				
Tax increment	-	-	2,822	-
Accounts	1,798	7,893	793	-
Loans (Note 4)	1,957,603	-	-	-
Total Assets	\$ 3,338,396	\$ 3,514,500	\$ 1,205,719	\$ 740,769
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 11,216	\$ 43,609	\$ -	\$ -
Accrued payroll	-	300	-	-
Total Liabilities	11,216	43,909	-	-
Fund Balances:				
Nonspendable:				
Long-term receivables	1,957,603	-	-	-
Restricted for:				
Debt service	-	-	1,205,719	740,769
Low and moderate income housing	1,369,577	-	-	-
Assigned to:				
Capital projects	-	3,470,591	-	-
Debt service	-	-	-	-
Total Fund Balances	3,327,180	3,470,591	1,205,719	740,769
Total Liabilities and Fund Balances	\$ 3,338,396	\$ 3,514,500	\$ 1,205,719	\$ 740,769

SEAL BEACH REDEVELOPMENT AGENCY

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>Riverfront Area</u>	
	<u>Totals</u>	
	<u>2011</u>	<u>2010</u>
Assets:		
Cash and investments	\$ 6,087,706	\$ 5,848,040
Cash and investments with trustee	740,769	740,769
Receivables:		
Tax increment	2,822	17,535
Accounts	10,484	4,364
Loans (Note 4)	1,957,603	1,848,230
	<u>1,957,603</u>	<u>1,848,230</u>
Total Assets	<u>\$ 8,799,384</u>	<u>\$ 8,458,938</u>
Liabilities and Fund Balances:		
Liabilities:		
Accounts payable	\$ 54,825	\$ 98,103
Accrued payroll	300	-
	<u>55,125</u>	<u>98,103</u>
Total Liabilities	<u>55,125</u>	<u>98,103</u>
Fund Balances:		
Nonspendable:		
Long-term receivables	1,957,603	1,848,230
Restricted for:		
Debt service	1,946,488	740,769
Low and moderate income housing	1,369,577	1,268,309
Assigned to:		
Capital projects	3,470,591	4,073,434
Debt service	-	430,093
	<u>3,470,591</u>	<u>4,073,434</u>
Total Fund Balances	<u>8,744,259</u>	<u>8,360,835</u>
Total Liabilities and Fund Balances	<u>\$ 8,799,384</u>	<u>\$ 8,458,938</u>

SEAL BEACH REDEVELOPMENT AGENCY

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Fund balances of governmental funds	\$ 8,744,259
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	1,897,709
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds	
Bonds payable	(5,575,000)
Capital Property Improvement Lease	(55,012)
Loans from City	(1,200,000)
Accrued interest payable for the current portion of interest due on Tax Allocation Bonds has not been reported in the governmental funds.	<u>(92,330)</u>
Net assets of governmental activities	<u><u>\$ 3,719,626</u></u>

SEAL BEACH REDEVELOPMENT AGENCY

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Riverfront Area			
	Special Revenue <u>Low and Moderate Housing</u>	Capital Projects <u>Project</u>	Debt Service <u>Tax Increment</u>	Debt Service <u>Bonds</u>
Revenues:				
Taxes and assessments	\$ 445,677	\$ -	\$ 1,782,706	\$ -
Use of money and property	7,436	24,334	6,355	80
Total Revenues	453,113	24,334	1,789,061	80
Expenditures:				
Current:				
General government	-	904,868	-	7,646
Community development	242,472	-	26,174	-
Capital outlay	-	900,000	-	-
Debt service				
Principal	-	18,763	-	430,000
Interest and fiscal charges	-	3,546	-	296,183
Total Expenditures	242,472	1,827,177	26,174	733,829
Excess (Deficiency) of Revenues Over (Under) Expenditures	210,641	(1,802,843)	1,762,887	(733,749)
Other Financing Sources (Uses):				
Transfers in	-	-	-	733,749
Transfers out	-	-	(733,749)	-
Long-term debt issued	-	1,200,000	-	-
Payment to Educational Revenue Augmentation Fund	-	-	(253,512)	-
Total Other Financing Sources (Uses):	-	1,200,000	(987,261)	733,749
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	210,641	(602,843)	775,626	-
Fund Balances:				
Beginning of Year	3,116,539	4,073,434	430,093	740,769
End of Year	\$ 3,327,180	\$ 3,470,591	\$ 1,205,719	\$ 740,769

SEAL BEACH REDEVELOPMENT AGENCY

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Riverfront Area</u>	
	<u>Totals</u>	
	<u>2011</u>	<u>2010</u>
Revenues:		
Taxes and assessments	\$ 2,228,383	\$ 2,231,790
Use of money and property	38,205	50,812
Total Revenues	<u>2,266,588</u>	<u>2,282,602</u>
Expenditures:		
Current:		
General government	912,514	54,638
Community development	268,646	842,589
Capital outlay	900,000	-
Debt service		
Principal	448,763	422,081
Interest and fiscal charges	299,729	322,538
Total Expenditures	<u>2,829,652</u>	<u>1,641,846</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(563,064)</u>	<u>640,756</u>
Other Financing Sources (Uses):		
Transfers in	733,749	-
Transfers out	(733,749)	-
Long-term debt issued	1,200,000	-
Payment to Educational Revenue Augmentation Fund	<u>(253,512)</u>	<u>(1,231,342)</u>
Total Other Financing Sources (Uses):	<u>946,488</u>	<u>(1,231,342)</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	383,424	(590,586)
Fund Balances:		
Beginning of Year	<u>8,360,835</u>	<u>8,951,421</u>
End of Year	<u>\$ 8,744,259</u>	<u>\$ 8,360,835</u>

SEAL BEACH REDEVELOPMENT AGENCY

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Net change in fund balances - total governmental funds	\$ 383,424
Amounts reported for governmental activities in the statement of activities because:	
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	448,763
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is capitalized and allocated over their estimated useful lives through depreciation expense:	
Capital outlay expenditures removed	900,000
Depreciation	(44,191)
Proceeds of debt is revenue in the governmental funds, but these are additions to the statement of net assets.	
Advance from City	(1,200,000)
Expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Current accrual of interest due on bonds	(92,330)
Prior year accrual of interest due on bonds	101,115
Change in net assets of governmental activities	<u>\$ 496,781</u>

SEAL BEACH REDEVELOPMENT AGENCY

BUDGETARY COMPARISON STATEMENT
 LOW AND MODERATE INCOME HOUSING SPECIAL REVENUE FUND
 FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Tax increment revenue	\$ 483,200	\$ 483,200	\$ 445,677	\$ (37,523)
Use of money and property	80,000	80,000	7,436	(72,564)
Total Revenues	563,200	563,200	453,113	(110,087)
Expenditures:				
Current:				
Community development	796,500	796,500	242,472	554,028
Total Expenditures	796,500	796,500	242,472	554,028
Net Change in Fund Balances	(233,300)	(233,300)	210,641	(664,115)
Fund Balance - Beginning of Year	3,116,539	3,116,539	3,116,539	-
Fund Balance - End of Year	\$ 2,883,239	\$ 2,883,239	\$ 3,327,180	\$ 443,941

SEAL BEACH COMMUNITY REDEVELOPMENT AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Organization and Summary of Significant Accounting Policies

a. Description of the Reporting Entity

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:

The assessed valuation of all property within the project area is determined on the date of adoption of the Redevelopment Plan.

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.

SEAL BEACH COMMUNITY REDEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2011

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

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. 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.

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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.

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.

SEAL BEACH COMMUNITY REDEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2011

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

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 is 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.

d. Assets, Liabilities and Net Assets or Equity

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.

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, 2011.

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.

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.

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.

SEAL BEACH COMMUNITY REDEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2011

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

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 and Equipment	5-25 years

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 cost 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.

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.

II. SIGNIFICANT ACCOUNTING POLICIES

Note 2: Stewardship, Compliance and Accountability

a. Budgetary Data

General Budget Policies

The City Council approves each year's budget submitted by the City Manager prior to the beginning of the new fiscal year. Public hearings are conducted prior to its adoption by the Council. Supplemental appropriations, when required during the period, are also approved by the Council. The City Manager may make transfers of appropriations within and between functions and programs, in accordance with Fiscal Policy, as long as such transfers do not increase the adopted annual budget appropriations. Budget amendments which exceed total adopted appropriations require the approval of the City Council. The legal level of budgetary control is at the function level. During the year, several supplemental appropriations were necessary. At fiscal year-end, all operating budget appropriations lapse.

SEAL BEACH COMMUNITY REDEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS (Continued)
 JUNE 30, 2011

Note 2: Stewardship, Compliance and Accountability (Continued)

Budget Basis of Accounting

Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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.

Note 3: Cash and Investments

Cash and investments as of June 30, 2011 are reported in the accompanying financial statement as follows:

Statement of Net Assets:		
Cash and investments		\$ 6,087,706
Restricted:		
Cash and investments with fiscal agent		<u>740,769</u>
Total cash and investments		<u>\$ 6,828,475</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.

<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%	10%
Negotiable CDs	5 years	30%	None
Medium term notes	5 years	30%	None
Money market mutual funds	89 days	15%	10%
Local Agency Investment Fund (LAIF)	None	100%	None

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

SEAL BEACH COMMUNITY REDEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2011

Note 3: Cash and Investments (Continued)

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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	89 days	None	None
Investment contracts	30 days	None	None
Local Agency Investment Fund (LAIF)	None	None	None

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.

Investment Type	Total	Remaining Maturity (in Months) 12 Months or Less
Local Agency Investment Fund	\$ 6,087,706	\$ 6,087,706
Held by fiscal agent:		
Money market mutual funds	740,769	740,769
Total	\$ 6,828,475	\$ 6,828,475

SEAL BEACH COMMUNITY REDEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2011

Note 3: Cash and Investments (Continued)

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:

Investment Type	Minimum Legal Rating	Total	Remaining as
			Year End
			Unrated
Local Agency Investment Fund Held by fiscal agent:	N/A	\$ 6,087,706	\$ 6,087,706
Money market mutual funds	N/A	740,769	740,769
Total		<u>\$ 6,828,475</u>	<u>\$ 6,828,475</u>

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. The City had no investment contracts 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.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (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:

On August 5, 2011, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the United States of America to AA+ from AAA. As a result, on August 8, 2011, Standard & Poor's Ratings Services lowered its issuer credit ratings and related issue ratings on various Federal Home Loan Bank, Federal Farm Credit Bank, Fannie Mae and Freddie Mac to AA+ from AAA. In addition, the ratings on 126 Federal Deposit Insurance Corp.–guaranteed debt issues from 30 financial institutions under the Temporary Liquidity. The City also invests in LAIF which invests in various underlying securities, including the federal agency securities listed above. While LAIF is not rated, the federal agency securities are, and these have been affected by this rating change as well.

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,

SEAL BEACH COMMUNITY REDEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2011

Note 3: Cash and Investments (Continued)

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.

Note 4: Loans Receivable

Loans receivable consist of the following at June 30, 2011:

Riverfront Project Area Capital Projects:	
Low and Moderate Housing Fund:	
Seal Beach Trailer Park	\$ 795,833
Various rehabilitation loans	1,161,770
Total	<u>\$ 1,957,603</u>

Note 5: 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.

SEAL BEACH COMMUNITY REDEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 5: Property Taxes (Continued)

- 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.
- d. 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.

Note 6: Capital Assets

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

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not depreciated:				
Land	\$ 403,192	\$ -	\$ -	\$ 403,192
Intangible assets - land easement	-	900,000		900,000
Total Capital Assets, Not Being Depreciated	403,192	900,000	-	1,303,192
Capital assets, being depreciated:				
Building and improvements	1,890,850	-	-	1,890,850
Equipment and vehicles	64,784	-	-	64,784
Total Capital Assets, Being Depreciated	1,955,634	-	-	1,955,634
Less accumulated depreciation:				
Building and improvements	1,278,038	37,714	-	1,315,752
Equipment and vehicles	38,888	6,477	-	45,365
Total Accumulated Depreciation	1,316,926	44,191	-	1,361,117
Total Capital Assets, Being Depreciated, Net	638,708	(44,191)	-	594,517
Total Capital Assets, Net	\$ 1,041,900	\$ 855,809	\$ -	\$ 1,897,709

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

Community development	<u>\$ 44,191</u>
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SEAL BEACH COMMUNITY REDEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 7: Long- Term Liabilities

The following is a schedule of changes in long-term debt of the Agency for the fiscal year ended June 30, 2011:

	Outstanding July 1, 2010	Additions	Deletions	Outstanding June 30, 2011	Due Within One Year
City Loans - Principal	\$ -	\$ 1,200,000	\$ -	\$ 1,200,000	\$ -
Capital Improvement Lease	73,775	-	18,763	55,012	20,572
2000 Tax Allocation Bond Series A	5,575,000	-	390,000	5,185,000	410,000
2000 Tax Allocation Bond Series B	430,000	-	40,000	390,000	40,000
Total	<u>\$ 6,078,775</u>	<u>\$ 1,200,000</u>	<u>\$ 448,763</u>	<u>\$ 6,830,012</u>	<u>\$ 470,572</u>

Loans from the City of Seal Beach

During the current year, the City of Seal Beach made a loan to the Agency in the amount of \$1,200,000 for the acquisition of a sewer easement from the Bay City Partners (BCP). The loan bears interest at 6% per year, and the Agency will repay the City the original balance of the loan, plus accrued interest, in three equal installments commencing July 10, 2012. As of June 30, 2011, the outstanding balance of the loan is \$1,200,000.

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 \$55,012.

Year Ending June 30,	Capital Improvement Lease	
	Principal	Interest
2012	\$ 20,572	\$ 2,516
2013	22,516	1,388
2014	11,924	238
Total	<u>\$ 55,012</u>	<u>\$ 4,142</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, 2011 were \$5,185,000 and \$390,000, respectively.

SEAL BEACH COMMUNITY REDEVELOPMENT AGENCY

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Note 7: Long-Term Liabilities (Continued)

The following schedule illustrates the debt service requirements to maturity for long-term debt outstanding as of June 30, 2011.

Year Ending June 30,	2000 Tax Allocation Refunding Bonds, Series A		2000 Tax Allocation Refunding Bonds, Series B	
	Principal	Interest	Principal	Interest
2012	\$ 410,000	\$ 253,315	\$ 40,000	\$ 21,150
2013	430,000	233,780	40,000	18,975
2014	450,000	212,875	45,000	16,531
2015	470,000	190,325	45,000	13,944
2016	495,000	166,200	50,000	11,213
2017-2021	2,405,000	423,721	170,000	14,950
2022-2026	525,000	43,403	-	-
Total	<u>\$ 5,185,000</u>	<u>\$ 1,523,619</u>	<u>\$ 390,000</u>	<u>\$ 96,763</u>

Note 8: Pledged Revenue

The Agency has debt issuances outstanding that are collateralized by the pledging of certain revenues. The amount and term of the remainder of these commitments are indicated in the debt service to maturity tables presented in the accompanying notes. The purposes for which the proceeds of the related debt issuances were utilized are disclosed in the debt descriptions in the accompanying notes. For the current year, debt service payments as a percentage of the pledged gross revenue (or net of certain expenses where so required by the debt agreement) are indicated in the table below. These percentages also approximate the relationship of debt service to pledged revenue for the remainder of the term of the commitment:

Description of Pledged Revenue	Annual Amount of Revenue	Annual Debt Service Payments (of all debt secured by this revenue)	Debt Service as a Percentage of Pledged Revenue
Tax increment- Riverfront Project Area	\$ 1,782,706	\$ 726,183	40.7%

Note 9: 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.

Note 10: 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"

SEAL BEACH COMMUNITY REDEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Note 10: Low and Moderate Income Housing Fund Excess Surplus (Continued)

A computation of the requirements of this section of the code has indicated that as of June 30, 2011, there is no excess surplus.

Note 11: Transactions with the State of California

On July 23, 2009, the State adopted legislation, requiring a shift of monies during fiscal years 2009-2010 and 2010-2011 to be deposited into the County "Supplemental Educational Revenue Augmentation Fund (SERAF). These monies were to be distributed to meet the State's Prop 98 obligations to schools. The California Redevelopment Association (CRA) and its member agencies filed a legal action in an attempt to stop these amounts from having to be paid; however, in May 2010 the Sacramento Superior Court upheld the legislation.

The payment of the SERAF was due on May 10, 2011 for fiscal year 2010-2011 and it was made in the amount of \$253,512. To accomplish the payment, the Agency utilized \$253,512 from its available resources.

Note 12: California Redevelopment Agency Uncertainty

On July 18, 2011, the California Redevelopment Association ("CRA") and the League of California Cities ("League") filed a petition for writ of mandate with the California Supreme Court, requesting the Court to declare unconstitutional two bills that were passed as part of the 2011-12 State Budget, AB1X 26 and 27. AB1X 26 dissolves redevelopment agencies effective October 1, 2011. AB1X 27, give redevelopment agencies an option to avoid dissolution if it commits to making defined payments for the benefit of the State, school districts and certain special districts. In 2011-12, these payments amount to a state-wide total of \$1.7 billion. In 2012-13 and subsequent years, the payments total \$400 million, annually. Each city or county's share of these payments is determined based on its proportionate share of state-wide tax increment.

In accordance with AB1X 27, the City Council of the City of Seal Beach adopted Ordinance No. 1612 on August 8, 2011 to provide for the continuation of the Agency and make the defined payments. However, because of the effect of the Stay Order, the authority for the Agency to engage in most activities, as of the date of this Annual Report, continues to be in suspension.

The Supreme Court heard oral arguments on November 10, 2011, but has not issued its decision as of the date of this Annual Report. It is uncertain whether the Supreme Court will strike down, uphold or modify some or all of the provisions of AB X1 26 and 27. If AB X1 26 and 27 are upheld in whole or in part, it may take some time to ascertain the mechanics and practical effects of the implementation of the upheld provisions. For example, under AB X1 26, if a redevelopment agency is dissolved, a successor agency to the redevelopment agency will be required to make payments for enforceable obligations, including previously issued agency bonds, listed in Recognized Obligation Payment Schedules. However, AB X1 26 establishes a flow of revenues to repay bonds that is different from the flow of tax increment currently provided in the Community Redevelopment Law.

As of the time of the issuance of this report, the outcome of AB1X 26 and 27 upon the Agency is unknown and consequently the status and even future existence of the Agency is uncertain as such. If AB1X 27 is upheld, the Agency will be required to make a payment to the State in the estimated amount of \$937,868, by January 15, 2012 to avoid dissolution.

SEAL BEACH REDEVELOPMENT AGENCY

COMPUTATION OF LOW AND MODERATE
INCOME HOUSING FUNDS
EXCESS/SURPLUS

	Low and Moderate Housing Funds July 1, 2010	Low and Moderate Housing Funds July 1, 2011
Opening Fund Balance	\$ 3,116,539	\$ 3,327,180
Less Unavailable Amounts:		
Loans receivable	\$ (1,848,230)	\$ (1,957,603)
	<u>(1,848,230)</u>	<u>(1,957,603)</u>
Available Low and Moderate Income Housing Funds	1,268,309	1,369,577
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-Aside for last four years:		
2010 - 2011	\$ -	\$ 445,677
2009 - 2010	484,743	484,743
2008 - 2009	483,395	483,395
2007 - 2008	610,409	610,409
2006 - 2007	284,609	-
	<u>1,863,156</u>	<u>2,024,224</u>
Total	<u>\$ 1,863,156</u>	<u>\$ 2,024,224</u>
Base Limitation	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Greater amount	<u>1,863,156</u>	<u>2,024,224</u>
Computed Excess/Surplus	<u>None</u>	<u>None</u>