

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

FINANCIAL STATEMENTS

JANUARY 31, 2012

SEAL BEACH REDEVELOPMENT AGENCY
SEAL BEACH, CALIFORNIA

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SEAL BEACH REDEVELOPMENT AGENCY

JANUARY 31, 2012

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CERTIFIED PUBLIC ACCOUNTANTS

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- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
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- Deborah A. Harper, CPA

Brandon W. Burrows, CPA, Retired

INDEPENDENT AUDITORS' REPORT

Board of Directors
Seal Beach Redevelopment Agency
City of 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 Seal Beach, California, as of and for the seven months ended January 31, 2012, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 January 31, 2012, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We would like to draw the reader's attention to Note 12 – "California Redevelopment Agency Dissolution". The note provides information on two bills passed, AB X1 26 and AB X1 27 which dissolve redevelopment agencies as of January 31, 2012, based on the California Supreme Court ruling dated December 29, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2012, 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.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other



Board of Directors

Seal Beach Redevelopment Agency

knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements as a whole. 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 & Lughard, LLP

Brea, California
December 18, 2012



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

Board of Director
Seal Beach Redevelopment Agency
City of Seal Beach, California

We have audited the financial statements of the governmental activities, and each major fund, of the Seal Beach Redevelopment Agency, California, (the Agency) as of and for the seven months ending January 31, 2012, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 18, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Seal Beach Redevelopment Agency, California, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Board of Director
Seal Beach Redevelopment Agency
City of Seal Beach, California

This report is intended solely for the information and use of management, the City Council, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Lance, Soll & Lingham, LLP

Brea, California
December 18, 2012

SEAL BEACH REDEVELOPMENT AGENCY**STATEMENT OF NET ASSETS****JANUARY 31, 2012**

	Governmental Activities
Assets:	
Cash and investments (Note 3)	\$ 6,532,263
Restricted assets:	
Cash and investments with trustees (Note 3)	740,770
Receivables:	
Accounts	593
Loans (Note 4)	1,985,016
Capital assets (Net of Depreciation): (Note 7)	
Land	403,192
Other capital assets, net	434,825
Total Assets	10,096,659
Liabilities:	
Accounts payable and accrued expenses	348,631
Long-term liabilities: (Note 8)	
Due within one year	470,000
Due in more than one year	4,655,000
Total Liabilities	5,473,631
Net Assets:	
Invested in capital assets, net of related debt	838,017
Restricted for:	
Low and moderate housing	3,327,180
Debt service	2,378,459
Unrestricted	(1,920,628)
Total Net Assets	\$ 4,623,028

SEAL BEACH REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES
FOR THE SEVEN MONTHS ENDING JANUARY 31, 2012

		Program Revenues			Net Governmental Activities
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	
	<u>Expenses</u>				
Functions/Programs					
Governmental Activities:					
General government	\$ 116,621	\$ -	\$ -	\$ -	\$ (116,621)
Community development	316,478	-	-	-	(316,478)
Interest on long-term debt	160,675	-	-	-	(160,675)
Total Governmental Activities	\$ 593,774	\$ -	\$ -	\$ -	(593,774)
General Revenues:					
Taxes (net of pass-through payments)					1,293,369
Use of money and property					2,843
Extraordinary gain/(loss) on dissolution of redevelopment agency (Note 8)					<u>1,239,784</u>
Total General Revenues and Extraordinary Items					<u>2,535,996</u>
Change in Net Assets					1,942,222
Net Assets at July 1					<u>3,719,626</u>
Restatement of Net Assets					<u>(1,038,820)</u>
Net Assets at January 31					<u>\$ 4,623,028</u>

SEAL BEACH REDEVELOPMENT AGENCY

BALANCE SHEET
GOVERNMENTAL FUNDS
JANUARY 31, 2012

	Riverfront Area			
	Special Revenue	Capital Projects	Debt Service	Debt Service
	Low and Moderate Housing	Project	Tax Increment	Bonds
Assets:				
Cash and investments	\$ 1,484,985	\$ 3,409,691	\$ 1,637,587	\$ -
Cash and investments with trustee	-	-	-	740,770
Receivables:				
Accounts	127	364	102	-
Loans (Note 4)	1,985,016	-	-	-
Total Assets	\$ 3,470,128	\$ 3,410,055	\$ 1,637,689	\$ 740,770
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 197,911	\$ 42,164	\$ -	\$ -
Total Liabilities	197,911	42,164	-	-
Fund Balances:				
Nonspendable:				
Long-term receivables	1,985,016	-	-	-
Restricted for:				
Debt service	-	-	1,637,689	740,770
Low and moderate income housing	1,287,201	-	-	-
Assigned to:				
Capital projects	-	3,367,891	-	-
Total Fund Balances	3,272,217	3,367,891	1,637,689	740,770
Total Liabilities and Fund Balances	\$ 3,470,128	\$ 3,410,055	\$ 1,637,689	\$ 740,770

SEAL BEACH REDEVELOPMENT AGENCY

BALANCE SHEET
GOVERNMENTAL FUNDS
JANUARY 31, 2012

	<u>Riverfront Area</u>
	<u>Total</u>
Assets:	
Cash and investments	\$ 6,532,263
Cash and investments with trustee	740,770
Receivables:	
Accounts	593
Loans (Note 4)	<u>1,985,016</u>
Total Assets	<u>\$ 9,258,642</u>
Liabilities and Fund Balances:	
Liabilities:	
Accounts payable	<u>\$ 240,075</u>
Total Liabilities	<u>240,075</u>
Fund Balances:	
Nonspendable:	
Long-term receivables	1,985,016
Restricted for:	
Debt service	2,378,459
Low and moderate income housing	1,287,201
Assigned to:	
Capital projects	<u>3,367,891</u>
Total Fund Balances	<u>9,018,567</u>
Total Liabilities and Fund Balances	<u>\$ 9,258,642</u>

SEAL BEACH REDEVELOPMENT AGENCY

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JANUARY 31, 2012**

Fund balances of governmental funds	\$ 9,018,567
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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	838,017
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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	(5,125,000)

Accrued interest payable for the current portion of interest due on Tax Allocation Bonds has not been reported in the governmental funds.	<u>(108,556)</u>
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Net assets of governmental activities	<u>\$ 4,623,028</u>
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SEAL BEACH REDEVELOPMENT AGENCY

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE SEVEN MONTHS ENDING JANUARY 31, 2012

	Riverfront Area			
	Special Revenue	Capital Projects	Debt Service	Debt Service
	Low and Moderate Housing	Project	Tax Increment	Bonds
Revenues:				
Taxes and assessments	\$ 258,674	\$ -	\$ 1,034,695	\$ -
Use of money and property	2,841	8,193	(8,236)	45
Total Revenues	261,515	8,193	1,026,459	45
Expenditures:				
Current:				
General government	-	93,676	-	2,073
Community development	316,478	-	-	-
Debt service				
Principal	-	15,228	-	450,000
Interest and fiscal charges	-	1,989	-	142,460
Total Expenditures	316,478	110,893	-	594,533
Excess (Deficiency) of Revenues Over (Under) Expenditures	(54,963)	(102,700)	1,026,459	(594,488)
Other Financing Sources (Uses):				
Transfers in	-	-	-	594,489
Transfers out	-	-	(594,489)	-
Total Other Financing Sources (Uses):	-	-	(594,489)	594,489
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(54,963)	(102,700)	431,970	1
Fund Balances:				
July 1	3,327,180	3,470,591	1,205,719	740,769
January 31	\$ 3,272,217	\$ 3,367,891	\$ 1,637,689	\$ 740,770

SEAL BEACH REDEVELOPMENT AGENCY

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE SEVEN MONTHS ENDING JANUARY 31, 2012**

	<u>Riverfront Area</u>
	<u>Total</u>
Revenues:	
Taxes and assessments	\$ 1,293,369
Use of money and property	2,843
Total Revenues	<u>1,296,212</u>
Expenditures:	
Current:	
General government	95,749
Community development	316,478
Debt service	
Principal	465,228
Interest and fiscal charges	144,449
Total Expenditures	<u>1,021,904</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>274,308</u>
Other Financing Sources (Uses):	
Transfers in	594,489
Transfers out	(594,489)
Total Other Financing Sources (Uses):	<u>-</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>274,308</u>
Fund Balances:	
July 1	8,744,259
January 31	<u><u>\$ 9,018,567</u></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 SEVEN MONTHS ENDING JANUARY 31, 2012**

Net change in fund balances - total governmental funds **\$ 274,308**

Amounts reported for governmental activities in the statement of activities
are different 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. 465,228

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:
Depreciation (20,872)

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 (108,556)
Prior year accrual of interest due on bonds 92,330

Extraordinary gains and losses relating to long term liabilities reported in the
statement of activities do not require the use of current financial resources
and therefore, are not reported in the governmental funds.
Long-term liabilities 1,239,784

Change in net assets of governmental activities **\$ 1,942,222**

SEAL BEACH REDEVELOPMENT AGENCY

BUDGETARY COMPARISON STATEMENT
 LOW AND MODERATE INCOME HOUSING SPECIAL REVENUE FUND
 FOR THE SEVEN MONTHS ENDED JANUARY 31, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Tax increment revenue	\$ 446,800	\$ 258,674	\$ 258,674	\$ -
Use of money and property	5,000	2,714	2,841	127
Total Revenues	451,800	261,388	261,515	127
Expenditures:				
Current:				
Community development	880,000	314,107	316,478	(2,371)
Total Expenditures	880,000	314,107	316,478	(2,371)
Net Change in Fund Balances	(428,200)	(52,719)	(54,963)	(2,244)
Fund Balance - July 1	3,327,180	3,327,180	3,327,180	-
Fund Balance - January 31	\$ 2,898,980	\$ 3,274,461	\$ 3,272,217	\$ (2,244)

SEAL BEACH COMMUNITY REDEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS JANUARY 31, 2012

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 redevelopment agency was dissolved as of January 31, 2012, through the Supreme Court decision on Assembly Bill 1X 26. See Note 12 for more information on the dissolution.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JANUARY 31, 2012

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 is 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) JANUARY 31, 2012

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 January 31, 2012.

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) JANUARY 31, 2012

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 Agency'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 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.

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)**
JANUARY 31, 2012

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 January 31, 2012, are reported in the accompanying financial statement as follows:

Statement of Net Assets:	
Cash and investments	\$ 6,532,263
Restricted:	
Cash and investments with fiscal agent	<u>740,770</u>
Total cash and investments	<u>\$ 7,273,033</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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
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) JANUARY 31, 2012

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
Cash in Bank Pooled with City of Seal Beach	\$ 6,532,263	\$ 6,532,263
Held by fiscal agent:		
Money market mutual funds	740,770	740,770
Total	<u>\$ 7,273,033</u>	<u>\$ 7,273,033</u>

SEAL BEACH COMMUNITY REDEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JANUARY 31, 2012

Note 3: Cash and Investments (Continued)

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:

Investment Type	Minimum Legal Rating	Remaining at Year End	
		Total	Unrated
Cash in Bank Pooled with City of Seal Beach	N/A	\$ 6,532,263	\$ 6,532,263
Held by fiscal agent:			
Money market mutual funds	N/A	740,770	740,770
Total		<u>\$ 7,273,033</u>	<u>\$ 7,273,033</u>

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.

A provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction account at all FDIC-insured institutions. This provision was effective from December 31, 2010 and will remain effective until December 31, 2012. Noninterest-bearing transaction accounts is defined as an account (1) with respect to which interest is neither accrued nor paid; (2) on which the depositor or account holder is permitted to make withdrawals by negotiable or transferable instrument, payment orders of withdrawal, telephone or other electronic media transfers, or other similar items for the purpose of making payments or transfers to third parties or others; and (3) on which the FDIC-insured depository institutions does not reserve the right to require advance notice of an intended withdrawal. As of June 30, 2012, the City maintains cash deposits that are temporarily covered by this provision.

SEAL BEACH COMMUNITY REDEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JANUARY 31, 2012

Note 3: 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. See the City's CAFR for any investments that represent 5% or more of the total investments.

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 January 31, 2012:

Riverfront Project Area Capital Projects:

Low and Moderate Housing Fund:

Seal Beach Trailer Park	\$ 766,209
Various rehabilitation loans	1,218,807
Total	<u>\$ 1,985,016</u>

Note 5: Interfund Transfers

	<u>Transfer Out:</u>
	Debt Service: Tax Increment
	<u> </u>
<u>Transfer In:</u>	
Debt Service: Bonds	\$ 594,489
Total	<u>\$ 594,489</u>

Transfers were performed for debt service payments.

Note 6: Property Taxes

All property taxes are levied and collected by the County Auditor of the County of Orange and paid to the various taxing entities including the Agency. Secured taxes are due on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured taxes are due on July 1 and become delinquent on August 31. The lien date for secured and unsecured property taxes is January 1 of the preceding fiscal year. Property tax increment revenues include only property taxes resulting from increased assessed values and are recognized in the fiscal year for which the taxes have been levied, provided they become available and measurable within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Due to the dissolution of the Agency, for the seven months ended January 31, 2012, the Agency only received tax increment related to the first levy.

SEAL BEACH COMMUNITY REDEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JANUARY 31, 2012

Note 7: Capital Assets

Capital asset activity for the year ended January 31, 2012, was as follows:

	Beginning Balance	Adjustments*	Adjusted Beginning balance	Additions	Deletions	Ending Balance
Capital assets, not depreciated:						
Land	\$ 403,192	\$ -	\$ 403,192	\$ -	\$ -	\$ 403,192
Intangible assets - land easement	900,000	(900,000)	-	-	-	-
Total Capital Assets, Not Being Depreciated	1,303,192	(900,000)	403,192	-	-	403,192
Capital assets, being depreciated:						
Building and improvements	1,890,850	(420,562)	1,470,288	-	-	1,470,288
Equipment and vehicles	64,784	-	64,784	-	-	64,784
Total Capital Assets, Being Depreciated	1,955,634	(420,562)	1,535,072	-	-	1,535,072
Less accumulated depreciation:						
Building and improvements	1,315,752	(281,742)	1,034,010	17,093	-	1,051,103
Equipment and vehicles	45,365	-	45,365	3,779	-	49,144
Total Accumulated Depreciation	1,361,117	(281,742)	1,079,375	20,872	-	1,100,247
Total Capital Assets, Being Depreciated, Net	594,517	(138,820)	455,697	(20,872)	-	434,825
Total Capital Assets, Net	\$ 1,897,709	\$ (1,038,820)	\$ 858,889	\$ (20,872)	\$ -	\$ 838,017

* Adjustment is to properly state the beginning capital asset balance.

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

Community development	<u>\$ 20,872</u>
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Note 8: Long- Term Liabilities

The following is a schedule of changes in long-term debt of the Agency for the fiscal year ended January 31, 2012:

	Outstanding July 1, 2011	Adjustment	Additions	Deletions	Transfer to City	Outstanding January 31, 2012	Due Within One Year
City Loans - Principal	\$ 1,200,000	\$ (1,200,000) *	\$ -	\$ -	\$ -	\$ -	\$ -
Capital Improvement Lease	55,012	-	-	15,228	(39,784) **	-	-
2000 Tax Allocation Bond Series A	5,185,000	-	-	410,000	-	4,775,000	430,000
2000 Tax Allocation Bond Series B	390,000	-	-	40,000	-	350,000	40,000
Total	<u>\$ 6,830,012</u>	<u>\$ (1,200,000)</u>	<u>\$ -</u>	<u>\$ 465,228</u>	<u>\$ (39,784)</u>	<u>\$ 5,125,000</u>	<u>\$ 470,000</u>

SEAL BEACH COMMUNITY REDEVELOPMENT AGENCY**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**
JANUARY 31, 2012**Note 8: Long-Term Liabilities (Continued)**

* During fiscal year 2010-11, the City 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. However, the Agency was dissolved as of January 31, 2012 through Supreme Court decision on Assembly Bill 1X 26. The California Department of Finance disallowed the advance from the City as an enforceable obligation for the outstanding balance of \$1,200,000.

** The City is taking over the balance of the Redevelopment Agency's capital property improvement lease of \$39,784 because it was denied as an enforceable obligation.

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 January 31, 2012, were \$4,775,000 and \$350,000, respectively.

The following schedule illustrates the debt service requirements to maturity for long-term debt outstanding as of January 31, 2012.

Year Ending January 31,	2000 Tax Allocation Refunding Bonds, Series A		2000 Tax Allocation Refunding Bonds, Series B	
	Principal	Interest	Principal	Interest
2013	\$ 430,000	\$ 243,885	\$ 40,000	\$ 20,125
2014	450,000	223,675	45,000	17,825
2015	470,000	202,075	45,000	15,238
2016	495,000	178,575	50,000	12,650
2017	520,000	153,825	55,000	9,775
2018-2022	2,050,000	360,918	115,000	10,063
2023-2027	360,000	29,294	-	-
Total	<u>\$ 4,775,000</u>	<u>\$ 1,392,247</u>	<u>\$ 350,000</u>	<u>\$ 85,676</u>

SEAL BEACH COMMUNITY REDEVELOPMENT AGENCY**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**
JANUARY 31, 2012

Note 9: 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	\$ 1,034,695	\$ 592,460	57.3%

Note 10: 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 11: Net Asset Restatement

Beginning net assets has been restated as follows:

Governmental Activities:

To restate capital assets beginning balance	\$ (1,038,820)
	<u>\$ (1,038,820)</u>

Note 12: California Redevelopment Agency Dissolution

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, AB X1 26 and 27 (*California Redevelopment Association v. Matosantos*). AB X1 26 dissolves redevelopment agencies effective October 1, 2011. AB X1 27 gave 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 amounted to a state-wide total of \$1.7 billion. In 2012-13 and subsequent years, the payments totaled \$400 million, annually. Each city or county's share of these payments was determined based on its proportionate share of state-wide tax increment.

On August 17, 2011 the Supreme Court issued a stay of the implementation of AB X1 26 and 27 which allowed a redevelopment agency to continue if it adopted an AB X1 27 ordinance. However, because of the effect of the stay order, the authority for the Redevelopment Agency to engage in most activities was suspended.

SEAL BEACH COMMUNITY REDEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JANUARY 31, 2012

Note 12: California Redevelopment Agency Dissolution (Continued)

The Supreme Court heard oral arguments on November 10, 2011 and on December 29, 2011 announced its decision in *California Redevelopment Association v. Matosantos*. The court upheld AB X1 26 which dissolves redevelopment agencies, but invalidated in its entirety AB X1 27 which allowed redevelopment agencies to continue as long as they made the required payments. AB X1 26 established deadlines for the process of Redevelopment Agency dissolution and the handling of existing obligations. The full text of AB X1 26 may be obtained from the California legislative information website maintained by the Legislative Counsel of the State of California at: <http://www.leginfo.ca.gov/bilinfo.html>.

As of January 31, 2012, the Redevelopment Agency has been dissolved and the City of Seal Beach has elected to become the Successor Agency. The Successor Agency will be responsible for winding down the remaining activities of the dissolved Redevelopment Agency.

Note 13: Subsequent Event

On April 20, 2012, pursuant to Health and Safety Code Section 34167.5, the California State Controller issued an order to cities, counties, and agencies, directly or indirectly receiving assets from a redevelopment agency after January 1, 2011, to reverse the transfer and return assets to successor agency. The California State Controller will specifically review and audit cities, counties, and public agencies to ensure that all applicable asset transfers have been reversed. Any reversals of transfers are not reflected in the Agency's financial statements as of January 31, 2012. Upon the Controller's review, any assets, if applicable, would be transferred to the Successor Agency in accordance with the order.