

SIGNAL HILL REDEVELOPMENT AGENCY

**COMPONENT UNIT
FINANCIAL STATEMENTS**

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

JUNE 30, 2011

SIGNAL HILL REDEVELOPMENT AGENCY

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June 30, 2011

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Signal Hill Redevelopment Agency (a component unit of the City of Signal Hill, California), as of and for the year ended June 30, 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 basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Signal Hill Redevelopment Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Signal Hill Redevelopment Agency as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the basic financial statements, the Agency has implemented the provisions of Governmental Accounting Standards Board Statement Number 54, "Fund Balance Reporting and Governmental Fund Type Definitions", for the year ended June 30, 2011.

As explained further in Note 13, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the constitutionality of this legislation.

In accordance with Government Auditing Standards, we have also issued our report dated December 27, 2011 on our consideration of the Signal Hill Redevelopment Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedules, identified as required supplementary information in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison schedule and related note have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Signal Hill Redevelopment Agency's basic financial statements. The computation of the excess surplus of the Affordable Housing Special Revenue Fund, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Agency. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

White Nelson Diehl Evans, LLP

December 27, 2011
Irvine, California

SIGNAL HILL REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2011

As management of the Redevelopment Agency of the City of Signal Hill (the Agency), we offer readers of the Agency's basic financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

FINANCIAL HIGHLIGHTS

- The net assets deficit, the amount by which total liabilities exceed total assets, was \$60,713,399 at June 30, 2011.
- During fiscal year 2010-11, expenses exceeded revenues by \$16,981,403 and increased the net assets deficit from the prior year.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

Government-wide Financial Statements

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

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

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fiscal Year Ended June 30, 2011

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

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

Fund financial statements

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

Governmental funds

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

Notes to the financial statements

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

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fiscal Year Ended June 30, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Other information

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

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

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

At the close of fiscal year 2011, the Agency has a net deficit of \$60,713,399. Of this amount \$8,410,759 is restricted for low and moderate-income housing. The remaining balance of \$52,302,640 represents a deficit, which will be covered from the collection of the Agency's future tax increment and other revenues. Traditionally, the Agency carries a deficit to collect tax increment. This is primarily due to the nature of the tax increment financing method allowed under California law whereby a redevelopment agency issues bonds or incurs long-term debt to finance its redevelopment projects by pledging future tax increment revenues.

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

Net Assets

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

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fiscal Year Ended June 30, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following is a condensed version of the statements of net assets for the fiscal years ended June 30, 2011 and 2010.

Table 1
Condensed Statements of Net Assets (Deficit)

	Fiscal Year 2011	Fiscal Year 2010	Dollar Change
Assets:			
Current and other assets	\$ 57,523,207	\$ 69,310,403	\$ (11,787,196)
Capital assets, net	-	-	-
Total Assets	<u>57,523,207</u>	<u>69,310,403</u>	<u>(11,787,196)</u>
Liabilities:			
Current liabilities	10,202,997	9,196,754	1,006,243
Long-term liabilities	<u>108,033,609</u>	<u>103,845,645</u>	<u>4,187,964</u>
Total Liabilities	<u>118,236,606</u>	<u>113,042,399</u>	<u>5,194,207</u>
Net assets (deficit):			
Invested in capital assets net of related debt	-	-	-
Restricted	47,320,210	60,113,649	(12,793,439)
Unrestricted	<u>(108,033,609)</u>	<u>(103,845,645)</u>	<u>(4,187,964)</u>
Total Net Deficit	<u>\$ (60,713,399)</u>	<u>\$ (43,731,996)</u>	<u>\$ (16,981,403)</u>

Overall the Agency's financial position decreased from the prior year. Under the governmental activities, the Agency's net deficit increased by \$16,981,403 from the previous fiscal year.

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fiscal Year Ended June 30, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Changes in Net Assets

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

The following is a condensed version of the statement of activities for the fiscal years ended June 30, 2011 and 2010.

Table 2
Condensed Statements of Activities

	Fiscal Year 2011	Fiscal Year 2010	Dollar Change
Revenues:			
General revenues:			
Tax increment	\$ 13,382,958	\$ 13,717,404	\$ (334,446)
Investment earnings	440,636	919,825	(479,189)
Rental income	656,537	502,615	153,922
Other revenues	18,296	11,652	6,644
Total revenues	<u>14,498,427</u>	<u>15,151,496</u>	<u>(653,069)</u>
Expenses:			
General government	3,681,615	7,356,169	(3,674,554)
Community development	21,905,847	4,028,270	17,877,577
Interest expense	5,892,368	5,460,340	432,028
Total expenses	<u>31,479,830</u>	<u>16,844,779</u>	<u>14,635,051</u>
Change in net assets	(16,981,403)	(1,693,283)	(15,288,120)
Beginning Net Deficit	<u>(43,731,996)</u>	<u>(42,038,713)</u>	<u>(1,693,283)</u>
Ending Net Deficit	<u><u>\$ (60,713,399)</u></u>	<u><u>\$ (43,731,996)</u></u>	<u><u>\$ (16,981,403)</u></u>

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

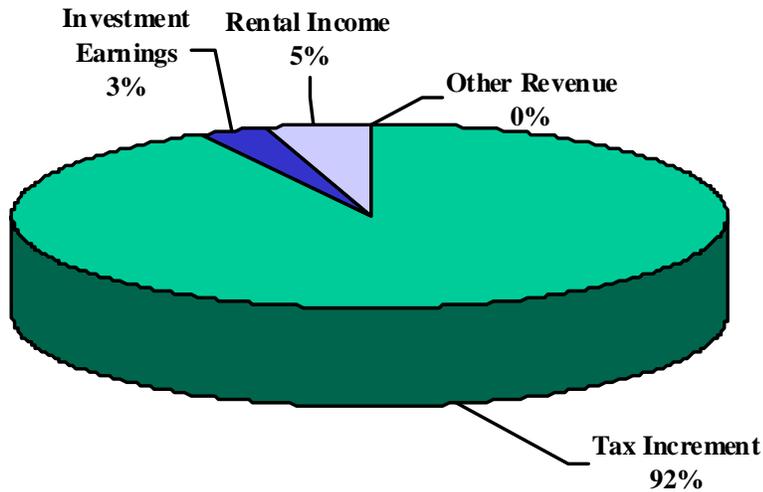
Fiscal Year Ended June 30, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The significant components and changes to revenues follow:

- Tax increment revenue represents 92% of total revenues. Tax increment revenue remained relatively constant with a decline from the prior year of only \$334,000 or 2.44%.
- The other significant change in revenues from the prior year was investment earnings. Investment earnings, which represent 3.0% of total revenues, decreased from the prior year by \$479,000 or 52.10%. The decrease is attributable to lower interest rates being earned on investments as a result of the country's tough economic times.

**Revenues by Source - Governmental Activities
Fiscal Year Ended 2011**



See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

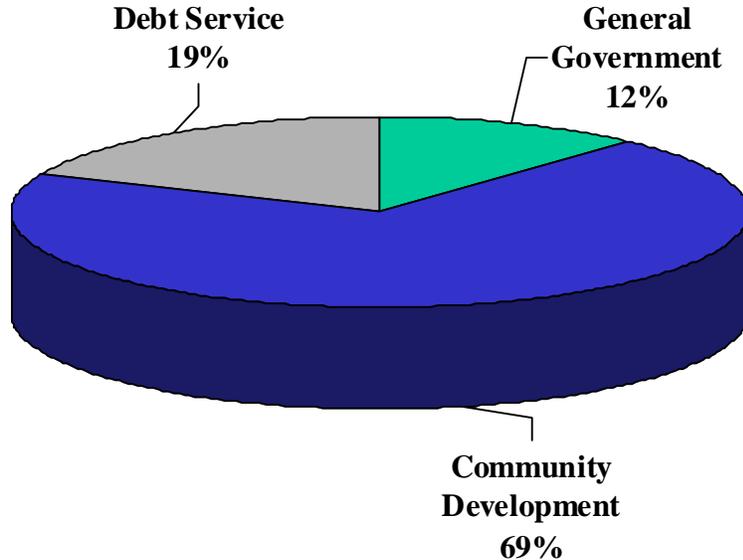
Fiscal Year Ended June 30, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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

- General government represents 11.7% of the total expenses. General government expenses decreased by \$3.7 million from fiscal year 2009/10. This decrease is a result of a reduction in the mandated deposit to the Supplemental Education Revenue Augmentation Fund (SERAF). The Agency’s required deposit to SERAF was \$5.2 million for fiscal year 2009/10 but was only \$1.1 million for fiscal year 2010/11.
- Community development expenses increased by \$17.9 million over the prior year. The main reasons for the increase are 1) \$11.8 million contribution of property to the City of Signal Hill and 2) \$7.2 million increase in project costs

**Expenses - Governmental Activities
Fiscal Year Ended 2011**



See independent auditors’ report.

SIGNAL HILL REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fiscal Year Ended June 30, 2011

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The Agency's investment in capital assets for its governmental-type activities as of June 30, 2011 and 2010 consists of furniture and equipment with a historical cost of \$7,729. The furniture and equipment are fully depreciated at June 30, 2011 and 2010, therefore capital assets, net of depreciation, equals \$0.

For additional information see Note 4 of the Financial Statements.

Long-term debt. At the end of the current fiscal year, the Agency had total bonded debt outstanding of \$91,677,669. All of this debt represents bonds secured solely by specific revenue sources (i.e., tax allocation bonds).

Signal Hill Redevelopment Agency Outstanding Debt

	Fiscal Year 2011	Fiscal Year 2010	Dollar Change
Tax allocation bonds	\$ 91,677,669	\$ 86,669,985	\$ 5,007,684
Note payable	4,402,162	3,865,847	536,315
Loan payable	-	1,000,000	(1,000,000)
Advance from the City	11,950,835	12,301,668	(350,833)
Compensated absences	2,943	8,145	(5,202)
Total	<u>\$ 108,033,609</u>	<u>\$ 103,845,645</u>	<u>\$ 4,187,964</u>

For additional information see Note 6 of the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The State of California's budgetary problems are a critical element of the economic condition of the Agency. In fiscal year 2009-2010, the Agency paid \$5.168 million for its share of the 2009 SERAF legislation which mandated redevelopment agencies in the State to make deposits to their respective county treasury's Supplemental Education Revenue Augmentation Fund ("SERAF"). In fiscal year 2010-11, the Agency paid another 1.064 million. The Agency borrowed this second payment of \$1.064 million from its Housing Fund.

This year, on June 29, 2011, the Governor of the State of California signed Assembly Bill 1X26 and 27 as part of the State budget package. Assembly Bill 1x26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill 1x27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each City would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill 1x 26 indicates that the City "may use any available funds not otherwise obligated for other uses" to make this payment. The City of Signal Hill intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective.

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fiscal Year Ended June 30, 2011

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In the event that Assembly Bill 1x 26 is upheld, the interagency receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency may become uncollectible resulting in a loss recognized by such funds. Please refer to Note 13 on page 48 for a more detailed discussion of these recent changes in legislation affecting California Redevelopment Agencies.

In spite of the agency's bleak outlook, the projects undertaken by the Agency continue as we await its fate. In November, 2010, ground breaking for the new Police Department facility and Emergency Operations Center began. Proceeds from the sale of the Agency's 2009 Tax Allocation Parity bonds were appropriated this year for the construction of the project; completion is expected by the year end June, 2012. The facility is located on property within the Redevelopment Project boundaries.

On March 25, 2011, the Agency issued its \$8.8 million 2011 Tax Allocation Parity Bonds. Proceeds will be used for the funding of Library project which is also included in the Agency's Implementation Plan.

The major focus of the Economic Development Program is to attract new retail development within the Signal Hill Auto Center, the Town Center, and the Industrial Specific Plan areas of the community. The Agency adopted plans to expand the Signal Hill Auto Center (Phase II) and is finalizing the property acquisition program. Similar properties are being purchased in the Town Center and Industrial Specific Plan area. Phase III of the property acquisition program was approved by the Agency Board in November, 2010 and is nearing its completion.

The Housing Fund budgeted \$268,660 for its operational costs and \$50,000 for housing rehabilitation grants. The current Fiscal Year 2012 budget includes \$750,000 for property acquisition. The Housing Fund also supports the debt service related to its share of the bonded indebtedness through transfers to the Debt Service Fund. Payments budgeted in Fiscal Year 2012 total \$1,359,593.

REQUESTS FOR INFORMATION

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

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

STATEMENT OF NET ASSETS

June 30, 2011

	<u>Governmental Activities</u>
ASSETS:	
Cash and investments	\$ 26,486,334
Receivables:	
Accounts	1,173,251
Interest	154,695
Land and improvements held for resale or lease, net	16,978,215
Restricted assets:	
Restricted cash and investments	10,522,180
Advances to the City of Signal Hill	85,312
Deferred charges	2,123,220
Capital assets (net of accumulated depreciation)	<u>-</u>
 TOTAL ASSETS	 <u>57,523,207</u>
LIABILITIES:	
Accounts payable	1,938,606
Accrued liabilities	27,686
Unearned revenue	1,012
Owner participation agreement payable	882,177
Interest payable	1,349,516
Deposits	6,004,000
Noncurrent liabilities:	
Due within one year	3,987,791
Due in more than one year	<u>104,045,818</u>
 TOTAL LIABILITIES	 <u>118,236,606</u>
NET ASSETS (DEFICIT):	
Restricted for low/moderate income housing	8,410,759
Restricted for debt service	9,487,697
Restricted for redevelopment projects	29,421,754
Unrestricted	<u>(108,033,609)</u>
 TOTAL NET DEFICIT	 <u><u>\$ (60,713,399)</u></u>

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

SIGNAL HILL REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental activities:					
General government	\$ 3,681,615	\$ -	\$ -	\$ -	\$ (3,681,615)
Community development	21,905,847	-	-	-	(21,905,847)
Interest expense	5,892,368	-	-	-	(5,892,368)
Total governmental activities	\$ 31,479,830	\$ -	\$ -	\$ -	(31,479,830)
GENERAL REVENUES:					
Taxes:					
					13,382,958
					440,636
					656,537
					18,296
					<u>14,498,427</u>
					(16,981,403)
					<u>(43,731,996)</u>
					<u>\$ (60,713,399)</u>

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

SIGNAL HILL REDEVELOPMENT AGENCY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2011

	Special Revenue			Capital Projects	Total Governmental Funds
	Affordable Housing	Housing Authority	Debt Service		
ASSETS					
Cash and investments	\$ 4,331,415	\$ 15,352	\$ 9,034,325	\$ 13,105,242	\$ 26,486,334
Restricted cash and investments	-	-	-	10,522,180	10,522,180
Accounts receivable	226,476	-	937,748	9,027	1,173,251
Accrued interest receivable	24,245	9	34,072	96,369	154,695
Advances to other funds	1,063,162	-	-	-	1,063,162
Advances to the City of Signal Hill	85,312	-	-	-	85,312
Land and improvements held for resale or lease, net	-	4,007,693	-	12,970,522	16,978,215
TOTAL ASSETS	\$ 5,730,610	\$ 4,023,054	\$ 10,006,145	\$ 36,703,340	\$ 56,463,149
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 23,317	\$ -	\$ 656,906	\$ 1,258,383	\$ 1,938,606
Accrued liabilities payable	9,495	-	-	18,191	27,686
Owner participation agreement payable	-	-	882,177	-	882,177
Unearned revenue	-	-	-	1,012	1,012
Advances from other funds	-	-	1,063,162	-	1,063,162
Deposits	-	-	-	6,004,000	6,004,000
TOTAL LIABILITIES	32,812	-	2,602,245	7,281,586	9,916,643
FUND BALANCES:					
Nonspendable:					
Advances	1,148,474	-	-	-	1,148,474
Land and improvements held for resale or lease, net	-	4,007,693	-	12,970,522	16,978,215
Restricted:					
Low and moderate income housing	4,549,324	15,361	-	-	4,564,685
Debt service	-	-	7,403,900	-	7,403,900
Redevelopment	-	-	-	16,451,232	16,451,232
TOTAL FUND BALANCES	5,697,798	4,023,054	7,403,900	29,421,754	46,546,506
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,730,610	\$ 4,023,054	\$ 10,006,145	\$ 36,703,340	\$ 56,463,149

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

SIGNAL HILL REDEVELOPMENT AGENCY

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

June 30, 2011

Fund balances for governmental funds \$ 46,546,506

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:

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

-

Debt issuance costs are reported as an expenditure in the governmental funds in the year that costs are incurred. On the government-wide statements, such costs are reported as deferred charges and amortized over the life of the debt. Unamortized deferred charges at year end are: 2,123,220

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

Tax allocation bonds payable	\$	(92,545,000)
Less: Deferred amount on refunding, net of accumulated amortization		351,450
Less: Issuance discounts, net of accumulated amortization		515,881
Advances from City of Signal Hill		(11,950,835)
Notes payable		(4,402,162)
Compensated absences		<u>(2,943)</u>

(108,033,609)

Accrued interest payable on long-term liabilities is not being reported in the governmental funds. (1,349,516)

Net deficit of governmental activities \$ (60,713,399)

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

SIGNAL HILL REDEVELOPMENT AGENCY

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

For the year ended June 30, 2011

	Special Revenue		Debt Service	Capital Projects	Total Governmental Funds
	Affordable Housing	Housing Authority			
REVENUES:					
Tax increment	\$ 2,676,592	\$ -	\$ 10,706,366	\$ -	\$ 13,382,958
Investment income	64,781	25	(6,729)	382,559	440,636
Rental income	65,625	17,620	-	575,092	658,337
Other revenue	18,296	-	-	-	18,296
TOTAL REVENUES	2,825,294	17,645	10,699,637	957,651	14,500,227
EXPENDITURES:					
Community development -					
Program administration:					
County tax administration fees	-	-	218,619	-	218,619
Administrative expenditures	310,519	-	-	655,455	965,974
Professional services	63,979	-	14,948	127,819	206,746
Planning, survey and design	-	-	-	297,530	297,530
Pass-through agreement	-	-	928,546	-	928,546
SERAF payment	-	-	1,064,200	-	1,064,200
Capital outlay -					
Community development:					
Project improvement/ construction costs	76,108	3,800	-	7,464,737	7,544,645
Other costs	-	-	-	446,409	446,409
Reimbursement of project costs to City	-	-	-	1,280,360	1,280,360
Contribution of property to City	-	-	-	11,739,678	11,739,678
Debt service:					
Owner participation agreement	-	-	882,177	-	882,177
Principal retirement	-	-	6,256,779	286,906	6,543,685
Interest	-	-	5,681,812	13,293	5,695,105
Bond issuance costs	-	-	-	199,867	199,867
Fiscal agent fees	-	-	19,580	-	19,580
TOTAL EXPENDITURES	450,606	3,800	15,066,661	22,512,054	38,033,121
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,374,688	13,845	(4,367,024)	(21,554,403)	(23,532,894)
OTHER FINANCING SOURCES (USES):					
Bonds issued	-	-	-	8,835,000	8,835,000
Bond discount	-	-	-	(181,895)	(181,895)
Note issued	-	-	-	850,000	850,000
Advances received from the City	-	-	1,149,167	-	1,149,167
Transfers in	50,000	4,009,209	1,541,421	713,140	6,313,770
Transfers out	(5,550,630)	-	(763,140)	-	(6,313,770)
TOTAL OTHER FINANCING SOURCES (USES)	(5,500,630)	4,009,209	1,927,448	10,216,245	10,652,272
NET CHANGE IN FUND BALANCES	(3,125,942)	4,023,054	(2,439,576)	(11,338,158)	(12,880,622)
FUND BALANCES - BEGINNING OF YEAR	8,823,740	-	9,843,476	40,759,912	59,427,128
FUND BALANCES - END OF YEAR	\$ 5,697,798	\$ 4,023,054	\$ 7,403,900	\$ 29,421,754	\$ 46,546,506

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

SIGNAL HILL REDEVELOPMENT AGENCY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2011

Net change in fund balances - total governmental funds \$ (12,880,622)

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

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. These differences in the treatment of long-term debt and related items are as follows:

Principal payments	\$ 6,543,685	
Proceeds from note issuance	(850,000)	
Proceeds from bond issuance	(8,835,000)	
Cost of issuance of new debt	199,867	
Discount on new debt	181,895	
Advances from City of Signal Hill	(1,149,167)	
Amortization of deferred amount on refunding	(57,446)	
Amortization of issuance costs	(149,793)	
Amortization of bond discounts	(27,133)	
	<u> </u>	(4,143,092)

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

Net change in accrued interest	\$ 37,109	
Net change in compensated absences	<u>5,202</u>	
		<u>42,311</u>

Change in net assets of governmental activities \$ (16,981,403)

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

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SIGNAL HILL REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity:

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation:

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

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

Government-wide Financial Statements:

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

See independent auditors’ report.

SIGNAL HILL REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

Government-wide Financial Statements (Continued):

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

Fund Financial Statements:

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

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

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

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

The Housing Authority Special Revenue Fund is used to account for the activity of the Signal Hill Housing Authority.

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

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

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

Measurement Focus:

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

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

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

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

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

See independent auditors’ report.

SIGNAL HILL REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

Basis of Accounting:

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

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

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

Cash and Investments:

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

See independent auditors’ report.

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

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Restricted Cash and Investments:

Cash and investments totaling \$10,522,180 are restricted in accordance with bond indentures.

Land and Improvements Held for Resale or Lease:

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

Capital Assets and Depreciation:

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

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

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

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

Deferred Charges:

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

See independent auditors' report.

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

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Fund Balances:

The Agency has implemented Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", for the year ended June 30, 2011. The fund balances reported on the fund statements now consist of the following categories:

Nonspendable Fund Balance - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance - This classification includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers or through enabling legislation.

Committed Fund Balance - This classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

Assigned Fund Balance - This classification includes amounts to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Unassigned Fund Balance - This classification includes all spendable amounts not contained in other classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Agency's policy is to apply restricted fund balance first.

When an expenditure is incurred for purposes for which committed, assigned or unassigned fund balances are available, the Agency's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

See independent auditors' report.

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

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Allocation of Investment Income Among Funds:

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

Self-Insurance Program:

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

Property Taxes and Tax Increment Financing:

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

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

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

See independent auditors' report.

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

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Property Taxes and Tax Increment Financing (Continued):

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

Use of Estimates:

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

2. CASH AND INVESTMENTS:

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

Cash and investments	\$ 26,486,334
Restricted cash and investments	<u>10,522,180</u>
	<u>\$ 37,008,514</u>

Cash and investments are classified as follows at June 30, 2011:

Pooled with City of Signal Hill, California	\$ 26,486,334
Fiscal agent cash investments:	
Money Market Mutual Funds	8,458,360
U.S. Government Sponsored Agency Securities:	
Federal National Mortgage Association Medium-Term Note	431,828
Local Agency Bonds	<u>1,631,992</u>
	<u>\$ 37,008,514</u>

See independent auditors' report.

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

June 30, 2011

2. CASH AND INVESTMENTS (CONTINUED):

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

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

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

N/A Not Applicable

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

See independent auditors' report.

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

June 30, 2011

2. CASH AND INVESTMENTS (CONTINUED):

Investments Authorized by Debt Agreements:

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

Disclosures Relating to Interest Rate Risk:

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

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

Investment Type	Remaining Maturity (in Months)			Total
	12 Months or Less	13 - 24 Months	25 - 60 Months	
Held by Bond Trustee:				
Money Market Mutual Funds	\$ 8,458,360	\$ -	\$ -	\$ 8,458,360
United States Government Sponsored Agency Securities:				
FNMA	-	-	431,828	431,828
Local Agency Bonds	-	644,823	987,169	1,631,992
	<u>\$ 8,458,360</u>	<u>\$ 644,823</u>	<u>\$ 1,418,997</u>	<u>\$ 10,552,180</u>

See independent auditors' report.

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

June 30, 2011

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Credit Risk:

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

<u>Investment Type</u>	Total as of <u>June 30, 2011</u>	Minimum Legal <u>Rating</u>	<u>AAA</u>	<u>AA+</u>	<u>A</u>	<u>A-</u>
Held by Bond Trustee:						
Money Market Mutual Funds	\$ 8,458,360	AAA	\$ 8,458,360	\$ -	\$ -	\$ -
United States Government Sponsored Agency Securities:						
FNMA	431,828	AAA	431,828	-	-	-
Local Agency Bonds	<u>1,631,992</u>	N/A	<u>-</u>	<u>528,630</u>	<u>987,169</u>	<u>116,193</u>
Total	<u>\$ 10,522,180</u>		<u>\$ 8,890,188</u>	<u>\$ 528,630</u>	<u>\$ 987,169</u>	<u>\$ 116,193</u>

Subsequent to June 30, 2011, Standard and Poor's reduced the rating of the Federal National Mortgage Association debt securities from AAA to AA+.

N/A - Not Applicable

Concentration of Credit Risk

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

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

2. CASH AND INVESTMENTS (CONTINUED):

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the Agency's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2011, the Agency's cash deposits were insured by the Federal Depository Insurance Corporation or collateralized as required under California law. The FNMA medium-term note and the local agency bonds held by the bond trustee are uninsured, unregistered and not held in the Agency's name.

Additional Information:

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

3. NOTE RECEIVABLE:

In November, 2009, the Agency entered into an Owner Participation Agreement (OPA) with A & P Property Investments, LLC whereby the Agency is to loan the Owner money for the assistance with the operations of the Owner's auto dealership. In accordance with the agreement, the amounts disbursed shall accrue interest at the rate of 6.25% per year and the loan is deferred for two years prior to beginning repayment. The principal and accrued interest are receivable in annual installments of \$63,746. The note receivable was collected in full during the fiscal year ended June 30, 2011.

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

4. CAPITAL ASSETS:

A summary of capital assets for the year ended June 30, 2011 is as follows:

	<u>Balances at July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances at June 30, 2011</u>
Capital assets, being depreciated:				
Furniture and equipment	\$ 7,729	\$ -	\$ -	\$ 7,729
Less accumulated depreciation for:				
Furniture and equipment	<u>(7,729)</u>	<u>-</u>	<u>-</u>	<u>(7,729)</u>
Net Capital Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

5. ADVANCES:

- A. In February 2003, the City agreed to reimburse the Agency for 50% of certain land acquisition costs associated with a low and moderate income housing project since certain parcels of land would be used to develop a City park. The Agency transferred these parcels to the City for park development in August 2003. The reimbursement amount totaled \$434,372 as of June 30, 2003. The City made an initial reimbursement payment of \$150,000 during the year ended June 30, 2004. The remainder of the reimbursement is payable in ten equal annual amounts of \$28,437 through the year ending June 30, 2014. No interest will accrue on this advance. The balance due from the City of Signal Hill as of June 30, 2011 is \$85,312.
- B. On April 5, 2011, the Agency Board approved a 5-year loan from the Affordable Housing Special Revenue Fund to the Debt Service Fund to provide funding for the required payment to the County of Los Angeles' Supplemental Educational Revenue Augmentation Fund. No interest accrues on this loan and the loan must be repaid on or before June 30, 2016. The total loan balance at June 30, 2011 is \$1,063,162.

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

6. LONG-TERM LIABILITIES:

A summary of changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	Balance at July 1, <u>2010</u>	<u>Additions</u>	<u>Deletions</u>	Balance at June 30, <u>2011</u>	Due Within One <u>Year</u>
Bonds payable:					
2001 TABs	\$ 9,860,000	\$ -	(555,000)	\$ 9,305,000	\$ 575,000
2003 TABs Series A	16,175,000	-	(1,875,000)	14,300,000	1,945,000
2003 TABs Series C	10,595,000	-	(80,000)	10,515,000	80,000
2003 TABs Series D	2,490,000	-	(140,000)	2,350,000	145,000
2006 TABs	12,955,000	-	(215,000)	12,740,000	225,000
2007 Refunding TABs	14,710,000	-	(100,000)	14,610,000	105,000
2009 Tax Allocation					
Parity Bonds	20,655,000	-	(765,000)	19,890,000	660,000
2011 Tax Allocation					
Parity Bonds	-	8,835,000	-	8,835,000	-
Less deferred amounts:					
For issuance discounts	(361,119)	(181,895)	27,133	(515,881)	-
On refunding	<u>(408,896)</u>	<u>-</u>	<u>57,446</u>	<u>(351,450)</u>	<u>-</u>
Total bonds payable	86,669,985	8,653,105	(3,645,421)	91,677,669	3,735,000
Notes payable	3,865,847	850,000	(313,685)	4,402,162	249,848
Loan payable	1,000,000	-	(1,000,000)	-	-
Advances from the					
City of Signal Hill	12,301,668	1,149,167	(1,500,000)	11,950,835	-
Compensated absences	<u>8,145</u>	<u>2,863</u>	<u>(8,065)</u>	<u>2,943</u>	<u>2,943</u>
 Total long-term liabilities	 <u>\$103,845,645</u>	 <u>\$ 10,655,135</u>	 <u>\$ (6,467,171)</u>	 <u>\$108,033,609</u>	 <u>\$ 3,987,791</u>

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

6. LONG-TERM LIABILITIES (CONTINUED):

A. 2001 Tax Allocation Bonds:

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

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

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

The annual requirements to amortize outstanding bond indebtedness as of June 30, 2011, including interest, are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 575,000	\$ 388,085	\$ 963,085
2013	595,000	366,291	961,291
2014	615,000	343,143	958,143
2015	635,000	318,450	953,450
2016	660,000	292,220	952,220
2017 - 2021	3,675,000	1,007,755	4,682,755
2022 - 2024	<u>2,550,000</u>	<u>179,260</u>	<u>2,729,260</u>
Totals	<u>\$ 9,305,000</u>	<u>\$ 2,895,204</u>	<u>\$ 12,200,204</u>

See independent auditors’ report.

SIGNAL HILL REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

6. LONG-TERM LIABILITIES (CONTINUED):

B. 2003 Tax Allocation Bonds - Series A:

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

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

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

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

The annual requirements to amortize outstanding bond indebtedness as of June 30, 2011, including interest, are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,945,000	\$ 563,386	\$ 2,508,386
2013	2,285,000	482,646	2,767,646
2014	2,380,000	390,774	2,770,774
2015	2,500,000	290,768	2,790,768
2016	2,650,000	179,549	2,829,549
2017 - 2021	1,490,000	440,309	1,930,309
2021 - 2024	<u>1,050,000</u>	<u>80,040</u>	<u>1,130,040</u>
Totals	<u>\$ 14,300,000</u>	<u>\$ 2,427,472</u>	<u>\$ 16,727,472</u>

See independent auditors' report.

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

June 30, 2011

6. LONG-TERM LIABILITIES (CONTINUED):

C. 2003 Tax Allocation Bonds - Series C:

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

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

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

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

The annual requirements to amortize outstanding bond indebtedness as of June 30, 2011, including interest, are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 80,000	\$ 445,985	\$ 525,985
2013	85,000	443,218	528,218
2014	90,000	440,110	530,110
2015	90,000	436,825	526,825
2016	95,000	433,355	528,355
2017 - 2021	5,895,000	1,576,394	7,471,394
2022 - 2024	<u>4,180,000</u>	<u>286,944</u>	<u>4,466,944</u>
Totals	<u>\$ 10,515,000</u>	<u>\$ 4,062,831</u>	<u>\$ 14,577,831</u>

See independent auditors' report.

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

June 30, 2011

6. LONG-TERM LIABILITIES (CONTINUED):

D. 2003 Tax Allocation Bonds - Series D:

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

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

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

The annual requirements to amortize outstanding bond indebtedness as of June 30, 2011, including interest, are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 145,000	\$ 133,071	\$ 278,071
2013	110,000	126,785	236,785
2014	115,000	121,239	236,239
2015	115,000	114,966	229,966
2016	115,000	108,089	223,089
2017 - 2021	360,000	471,522	831,522
2022 - 2025	<u>1,390,000</u>	<u>259,233</u>	<u>1,649,233</u>
Totals	<u>\$ 2,350,000</u>	<u>\$ 1,334,905</u>	<u>\$ 3,684,905</u>

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

6. LONG-TERM LIABILITIES (CONTINUED):

E. 2006 Tax Allocation Bonds:

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

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

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

The annual requirements to amortize outstanding bond indebtedness as of June 30, 2011, including interest, are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 225,000	\$ 734,824	\$ 959,824
2013	160,000	724,080	884,080
2014	165,000	715,011	880,011
2015	165,000	705,802	870,802
2016	130,000	697,570	827,570
2017 - 2021	1,300,000	3,292,017	4,592,017
2022 - 2026	7,205,000	2,536,023	9,741,023
2027	<u>3,390,000</u>	<u>98,971</u>	<u>3,488,971</u>
Totals	<u>\$ 12,740,000</u>	<u>\$ 9,504,298</u>	<u>\$ 22,244,298</u>

See independent auditors' report.

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

June 30, 2011

6. LONG-TERM LIABILITIES (CONTINUED):

F. 2007 Refunding Tax Allocation Bonds:

On November 15, 2007, the Agency issued the 2007 Tax Allocation Refunding Parity Bonds, Series A in the amount of \$14,970,000. The Bonds were issued to (i) refinance the Agency's outstanding 1993 Series B Tax Allocation Parity Bonds which total \$14,375,000, (ii) satisfy the reserve requirement for the Bonds and (iii) provide for the costs of issuing the Bonds.

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

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

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

The annual requirements to amortize outstanding bond indebtedness as of June 30, 2011, including interest, are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 105,000	\$ 599,204	\$ 704,204
2013	110,000	594,904	704,904
2014	115,000	590,404	705,404
2015	115,000	585,804	700,804
2016	120,000	581,104	701,104
2017 - 2021	8,210,000	2,099,402	10,309,402
2022 - 2024	<u>5,835,000</u>	<u>381,279</u>	<u>6,216,279</u>
Totals	<u>\$ 14,610,000</u>	<u>\$ 5,432,101</u>	<u>\$ 20,042,101</u>

See independent auditors' report.

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

June 30, 2011

6. LONG-TERM LIABILITIES (CONTINUED):

G. 2009 Tax Allocation Parity Bonds:

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

During the year ended June 30, 2011, the Agency reimbursed the City of Signal Hill \$1,280,360 using bond proceeds for eligible planning and design costs incurred by the City related to the building of the City's new police facility.

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

The annual requirements to amortize outstanding bond indebtedness as of June 30, 2011, including interest, are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 660,000	\$ 960,050	\$ 1,620,050
2013	680,000	939,950	1,619,950
2014	700,000	915,750	1,615,750
2015	725,000	887,250	1,612,250
2016	760,000	857,550	1,617,550
2017 - 2021	4,560,000	3,695,931	8,225,931
2022 - 2026	8,830,000	2,237,435	11,067,435
2027	<u>2,975,000</u>	<u>79,953</u>	<u>3,054,953</u>
Totals	<u>\$ 19,890,000</u>	<u>\$ 10,573,869</u>	<u>\$ 30,463,869</u>

See independent auditors' report.

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

June 30, 2011

6. LONG-TERM LIABILITIES (CONTINUED):

H. 2011 Tax Allocation Parity Bonds:

On March 25, 2011, the Agency issued the 2011 Tax Allocation Parity Bonds in the amount of \$8,835,000. The proceeds will be used to (i) finance redevelopment activities of benefit to the Redevelopment Project, (ii) fund the reserve requirement for the Bonds and (iii) provide for the costs of issuing the Bonds. The 2011 Bonds were issued at a discount of \$181,895. This discount is being amortized on a straight-line basis as interest expense through the year 2027.

Principal amounts on the 2011 Tax Allocation Parity Bonds mature annually each October 1 from 2012 through 2027, and bear interest semiannually beginning October 1, 2011 at rates ranging from 3.25% to 7.0%. The 2011 Tax Allocation Parity Bonds maturing on or after October 1, 2021 are subject to optional redemption, without premium commencing April 1, 2021.

The annual requirements to amortize outstanding bond indebtedness as of June 30, 2011, including interest, are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ -	\$ 541,178	\$ 541,178
2013	410,000	525,644	935,644
2014	420,000	510,581	930,581
2015	435,000	492,666	927,666
2016	455,000	471,775	926,775
2017 - 2021	2,805,000	1,928,475	4,733,475
2022 - 2026	3,540,000	892,575	4,432,575
2027	<u>770,000</u>	<u>26,950</u>	<u>796,950</u>
Totals	<u>\$ 8,835,000</u>	<u>\$ 5,389,844</u>	<u>\$ 14,224,844</u>

See independent auditors' report.

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

June 30, 2011

6. LONG-TERM LIABILITIES (CONTINUED):

I. Notes Payable:

- 1) A \$5,000,000 note payable dated October 29, 1991, resulted from the acquisition of real property held for resale by the Agency. The note bears interest at 10% per annum. Interest and principal payments are due semi-annually on July 30 and January 30 in an amount equal to the sales tax revenue received or to be received by the City from all businesses and activities conducted on the property. Payments will be made for a period of 20 years (ending December 31, 2012) or until interest and principal due on the note is paid in full. In the event that payments are insufficient to fully discharge the note in 20 years, the unpaid balance of principal and interest will be forgiven. At June 30, 2011, the outstanding balance of this note was \$3,839,068.

Based on current available information, estimated sales tax revenue will not be sufficient to pay principal and accrued interest. Based on this, the annual debt requirements at June 30, 2011 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 173,512	\$ 444,642	\$ 618,154
2013	<u>442,771</u>	<u>175,383</u>	<u>618,154</u>
Subtotal	616,283	620,025	1,236,308
Estimated amount to be forgiven	<u>3,222,785</u>	<u>-</u>	<u>3,222,785</u>
Totals	<u>\$ 3,839,068</u>	<u>\$ 620,025</u>	<u>\$ 4,459,093</u>

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

6. LONG-TERM LIABILITIES (CONTINUED):

I. Notes Payable (Continued):

- 2) On December 16, 2010, the Agency issued a promissory note in the amount of \$850,000 in connection with the acquisition of land held for resale. The note bears interest at 4.5% per annum. There was a one-time principal only repayment of \$250,000 due on January 30, 2011, and quarterly interest and principal payments of \$25,100 commenced on March 15, 2011 in order to fully amortize the note by December 15, 2017. At June 30, 2011, the outstanding balance of this note was \$563,094.

The annual debt requirements of this note at June 30, 2011 are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 76,336	\$ 24,063	\$ 100,399
2013	79,830	20,570	100,400
2014	83,483	16,916	100,399
2015	87,304	13,096	100,400
2016	91,299	9,100	100,399
2017 - 2018	<u>144,842</u>	<u>5,756</u>	<u>150,598</u>
Totals	<u>\$ 563,094</u>	<u>\$ 89,501</u>	<u>\$ 652,595</u>

J. Loan Payable:

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

K. Advances from the City of Signal Hill:

The City made an advance to the Agency totaling \$10,000,000 to assist in funding the Agency's operating budget. The advance bears interest at a rate of 10.0% compounded annually. There is no set payment schedule for this advance. For the year ended June 30, 2011, the Agency made payments totaling \$1,500,000 to the City. The balance of principal and accrued interest totaled \$11,950,835 at June 30, 2011.

L. Compensated Absences:

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

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

7. OPERATING LEASE OBLIGATIONS:

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

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

<u>Year Ending</u> <u>June 30,</u>	
2012	\$ 238,200
2013	238,200
2014	238,200
2015	238,200
2016	246,019
2017 - 2021	1,266,882
2022 - 2026	1,342,443
2027 - 2031	1,416,257
2032 - 2036	1,498,674
2037 - 2041	1,574,419
2042 - 2046	1,659,432
2047 - 2051	1,743,349
2052 - 2056	<u>1,599,276</u>
Total	<u>\$ 13,299,551</u>

The operating lease covers three parcels of land, which are subleased to auto dealers. For the year ended June 30, 2011, the Agency received \$248,062 in rental payments to offset the Agency's lease payments to the lessor.

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

7. OPERATING LEASE OBLIGATIONS (CONTINUED):

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

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

Year Ending <u>June 30,</u>	
2012	\$ 213,731
2013	213,731
2014	213,731
2015	216,937
2016	220,142
2017 - 2021	1,110,615
2022 - 2026	1,143,930
2027 - 2031	1,178,249
2032 - 2036	1,213,594
2037 - 2041	1,250,001
2042 - 2046	1,287,504
2047 - 2051	1,326,131
2052 - 2055	<u>1,087,048</u>
Total minimum lease payments	<u>\$ 10,675,344</u>

The operating lease covers five parcels of land, which are subleased to auto dealers. For the year ended June 30, 2011, the Agency received \$258,312 in rental payments to offset the Agency's lease payments to lessor.

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SIGNAL HILL REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

8. INTERFUND TRANSFERS:

Interfund transfers during the year ended June 30, 2011 are as follows:

<u>Transfer In to Fund</u>	<u>Transfers Out of Fund</u>	<u>Amount</u>
Affordable Housing Special Revenue	Debt Service	\$ 50,000
Housing Authority Special Revenue	Affordable Housing Special Revenue	4,009,209
Debt Service	Affordable Housing Special Revenue	1,541,421
Capital Projects	Debt Service	<u>713,140</u>
		<u>\$ 6,313,770</u>

The transfer into the Affordable Housing Special Revenue Fund was for partial payment of the deferred obligation for low and moderate income housing. The transfer into the Housing Authority Special Revenue Fund was related to the transfer of land and improvements held for resale or lease from the Agency to the Authority pursuant to a transfer agreement dated April 5, 2011. The transfer into the Debt Service Fund was related to payment of debt service and a return of an over transfer of the prior year deferred obligation. The transfers into the Capital Projects Fund were to cover costs of redevelopment projects.

9. LOW AND MODERATE INCOME HOUSING DEFERRED OBLIGATION:

Under redevelopment law, the Agency is required to deposit 20% of property tax increment revenue from 1985-86 and subsequent fiscal years into its low and moderate income housing special revenue fund. For the fiscal year ended June 30, 2011 the Agency has set aside 20% of the property tax increment revenue for low and moderate income housing as required. The Agency has a deferred obligation to fund the Special Revenue Fund for past years in which the Agency did not set aside any property tax increment revenue from Project Area No. 1's original area. The Agency was able to defer this obligation based on certain resolutions passed in 1986, whereby all property tax increment revenues received were being used on certain "pre-existing obligations" and "pre-existing projects". Now that these pre-existing conditions have been satisfied, the Agency is required to make up the deferred obligation. The Agency made a current year transfer of \$50,000 from the Debt Service Fund to the Special Revenue Fund to reduce the deferred obligation to \$3,602,864 as of June 30, 2011.

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

10. FIRST TIME HOMEBUYER PROGRAM:

The Agency's First Time Homebuyer Program provides downpayment assistance to first time low or moderate income homebuyers. Financial assistance is provided in the form of deferred second mortgages, secured by promissory notes and deeds of trust on the property. The second mortgage loan is due if the unit is sold or if the property no longer qualifies as the buyer's principal residence. The loans are equity participation loans if paid within the first 10 years. The principal loan amount plus a declining percentage of equity (depending on how long the home was owned) is due to the Agency at the time of sale. After 10 years, no equity is due the Agency. After 30 years, the homebuyer has the option of repaying the principal amount in full, or amortizing the principal amount due over 10 years with an interest payment at the prime rate plus 1%. Currently, the Agency has 8 loans outstanding that total \$77,201.

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

11. SPRING STREET CORRIDOR JOINT POWERS AUTHORITY:

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

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

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

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

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

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

Pursuant to an Owner Participation and Implementation Agreement (OPIA) dated September 19, 1996, the Authority is required to pay a developer a formulated amount based on the sales tax generated at a site developed within the City of Signal Hill for a period of 15 years. The formula is equal to the amount of sales tax revenue received by the City of Signal Hill in excess of \$1,000,000 but less than \$2,000,000 plus 50% of all amounts in excess of \$2,000,000 on a calendar year basis. The payments are due annually through the calendar year 2010. The source of these payments is to be provided by the Agency. The first source is available tax increment revenue, which is limited based on the amount of the Agency's annual tax increment revenue less amounts required by law to be deposited in the Agency's Special Revenue Fund. The second source is a loan from the City, which would be made from the City's share of sales tax revenue generated from the developed site. No other sources of funds are available for payments. At June 30, 2011, the amount payable to the developer is \$882,177.

12. LAND AND IMPROVEMENTS HELD FOR RESALE OR LEASE:

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

	<u>Balances</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Transfers*</u>	<u>Balances</u> <u>June 30, 2011</u>
Land and improvements	\$ 17,284,817	\$ 11,433,076	\$ (11,739,678)	\$ 16,978,215

* On March 4, 2011, the Agency entered into an agreement with the City of Signal Hill to transfer certain land and improvements held for resale or lease with a book value of \$11,739,678 to the City for purposes of retaining for public use and conveying through disposition and development agreements for private development in accordance with California Community Redevelopment Law. The property transferred is reported as a contribution of property to the City of Signal Hill on the statement of revenues, expenditures and changes in fund balances.

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

13. COMMITMENTS AND CONTINGENCIES:

SERAF Contingency:

Pursuant to AB 26 4x, a 2009-10 budget trailer bill, California redevelopment agencies were required to make Supplemental Education Revenue Augmentation Fund (SERAF) contributions totaling \$1.7 billion for the fiscal year 2009-2010 and \$350 million for the fiscal year 2010-2011. Under AB 26 4x, agencies may borrow a portion of the required contributions from their low and moderate income housing fund. Alternatively, sponsoring governmental agencies (the cities or counties) may elect to pay the SERAF contributions on behalf of their redevelopment agencies. On October 20, 2009, the California Redevelopment Association filed a class action lawsuit on behalf of all California redevelopment agencies, again challenging the SERAF obligations as unconstitutional. The court ruled that the SERAF obligations were not unconstitutional.

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

The Agency's SERAF contributions for the fiscal year 2010-2011 was \$1,064,200. The Agency borrowed \$1,063,162 from the Affordable Housing Special Revenue Fund to make the payment.

Recent Changes in Legislation Affecting California Redevelopment Agencies:

On June 29, 2011, the Governor of the State of California signed Assembly Bills 1x 26 and 1x 27 as part of the State's budget package. Assembly Bill 1x 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill 1x 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program each city wanting to keep its redevelopment agency active would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill 1x 26 indicates that the City "may use any available funds not otherwise obligated for other uses" to make this payment. The City of Signal Hill intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

Unless a city has determined to participate in the Voluntary Alternative Redevelopment Program under AB 1x 27, Assembly Bill 1x 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill 1x 26.

See independent auditors' report.

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

June 30, 2011

13. COMMITMENTS AND CONTINGENCIES (CONTINUED):

Recent Changes in Legislation Affecting California Redevelopment Agencies (Continued):

In the event that Assembly Bill 1x 26 is upheld and the City chooses not to participate in the Voluntary Alternative Redevelopment Program, under AB 1x 27, the interagency receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency may become uncollectible resulting in a loss recognized by such funds. The City might additionally be impacted if reimbursements previously paid by the redevelopment agency to the City for shared administrative services are reduced or eliminated.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills 1x 26 and 1x 27 on the grounds that these bills violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill 1x 27 and most of Assembly Bill 1x 26. The California Supreme Court stated in its order that “the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012”. A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills 1x 26 and 1x 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule (EOPS) by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule (ROPS) by September 30, 2011.

Because the stay provide by Assembly Bill 1x 26 only affects enforcement, each agency must adopt an EOPS and draft ROPS prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlement; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in Assembly Bill 1x 26.

See independent auditors’ report.

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

June 30, 2011

13. COMMITMENTS AND CONTINGENCIES (CONTINUED):

Recent Changes in Legislation Affecting California Redevelopment Agencies (Continued):

On August 10, 2011, City Ordinance No. 2481 was adopted, indicating that the City intends to comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the Agency, in the event Assembly Bills 1x 26 and/or 1x 27 are upheld as constitutional. The initial payment by the City is \$3,404,870 with on half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated \$850,000 will be due annually. The semi-annual payments in each future year will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. Assembly Bill 1x 27 allows a one-year suspension on the agency's obligation to contribute 20% of tax increment to the low and moderate income housing fund upon making certain findings so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of Assembly Bill 1x 26.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of ligation surrounding the actions of the state. In the event that Assembly Bill 1x 26 and/or 1x 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature's stated intent to eliminate California redevelopment agencies and to reduce their funding.

See independent auditors' report.

SIGNAL HILL REDEVELOPMENT AGENCY

BUDGETARY COMPARISON SCHEDULE

AFFORDABLE 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	\$ 2,575,200	\$ 2,575,200	\$ 2,676,592	\$ 101,392
Investment income	14,150	141,500	64,781	(76,719)
Rental income	-	-	63,825	63,825
Other income	-	-	18,296	18,296
TOTAL REVENUES	2,589,350	2,716,700	2,823,494	106,794
EXPENDITURES:				
General government - Program administration:				
Administrative expenditures	243,070	243,070	310,519	(67,449)
Professional services	80,000	80,000	63,979	16,021
Capital outlay - Community development:				
Project improvement/construction costs	1,390,000	1,390,000	74,308	1,315,692
TOTAL EXPENDITURES	1,713,070	1,713,070	448,806	1,264,264
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	876,280	1,003,630	2,374,688	1,371,058
OTHER FINANCING SOURCES (USES):				
Transfers in	230,000	230,000	50,000	(180,000)
Transfers out	(1,373,597)	(2,424,583)	(5,550,630)	(3,126,047)
TOTAL OTHER FINANCING SOURCES (USES)	(1,143,597)	(2,194,583)	(5,500,630)	(3,306,047)
NET CHANGE IN FUND BALANCE	(267,317)	(1,190,953)	(3,125,942)	(1,934,989)
FUND BALANCE AT BEGINNING OF YEAR	8,823,740	8,823,740	8,823,740	-
FUND BALANCE AT END OF YEAR	\$ 8,556,423	\$ 7,632,787	\$ 5,697,798	\$ (1,934,989)

See independent auditors' report and note to required supplementary information

SIGNAL HILL REDEVELOPMENT AGENCY

BUDGETARY COMPARISON SCHEDULE

HOUSING AUTHORITY SPECIAL REVENUE FUND

For the year ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ 75	\$ 75	\$ 25	\$ (50)
Rental income	-	-	17,620	17,620
TOTAL REVENUES	75	75	17,645	17,570
EXPENDITURES:				
Capital outlay - Community development:				
Project improvement/construction costs	-	-	3,800	(3,800)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	75	75	13,845	13,770
OTHER FINANCING SOURCES:				
Transfers in	-	-	4,009,209	4,009,209
NET CHANGE IN FUND BALANCE	75	75	4,023,054	4,022,979
FUND BALANCE AT BEGINNING OF YEAR	-	-	-	-
FUND BALANCE AT END OF YEAR	\$ 75	\$ 75	\$ 4,023,054	\$ 4,022,979

See independent auditors' report and note to required supplementary information

SIGNAL HILL REDEVELOPMENT AGENCY

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

1. BUDGET AND BUDGETARY ACCOUNTING:

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

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

SIGNAL HILL REDEVELOPMENT AGENCY

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

July 1, 2010

	<u>All Project Areas</u>
OPENING FUND BALANCE - JULY 1, 2010	\$ 8,823,740
LESS UNAVAILABLE AMOUNTS:	
Advances to the City of Signal Hill	\$ 113,749
Land and improvements held for resale or lease, net	<u>3,000,000</u>
TOTAL UNAVAILABLE AMOUNTS	<u>3,113,749</u>
AVAILABLE FUNDS	<u>5,709,991</u>
LIMITATION (GREATER OF \$1,000,000 OR FOUR YEARS SET-ASIDE):	
Set-aside for last four years:	
2009 - 2010	\$ 2,743,481
2008 - 2009	2,748,119
2007 - 2008	2,579,858
2006 - 2007	<u>2,549,416</u>
TOTAL SET-ASIDE FOR LAST FOUR YEARS	<u>\$ 10,620,874</u>
Base limitation	<u>\$ 1,000,000</u>
GREATER AMOUNT	<u>10,620,874</u>
COMPUTED EXCESS SURPLUS - JULY 1, 2010	<u>\$ -</u>

See independent auditors' report.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER COMPLIANCE

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

Compliance

We have audited the Signal Hill Redevelopment Agency's (the 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 *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 the Agency 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 the requirements referred to in the first paragraph.

As described below, the Agency did not comply with the California Health and Safety Code as required by Section 33080.1. Compliance with such requirements is necessary, in our opinion, for the Agency to comply with the requirements referred to above.

Health and Safety Code Section 33080.1(b) requires Redevelopment Agencies to submit a fiscal statement for the previous fiscal year that contains the information required pursuant to Section 33080.5.

Compliance (Continued)

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

Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

White Nelson Diehl Evans, LLP

December 27, 2011
Irvine, California