

**HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY
HAWTHORNE, CALIFORNIA**

FINANCIAL STATEMENTS

JUNE 30, 2008

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY
HAWTHORNE, CALIFORNIA

FINANCIAL STATEMENTS

JUNE 30, 2008

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

JUNE 30, 2008

TABLE OF CONTENTS

	<u>Page Number</u>
INDEPENDENT AUDITORS' REPORTS	
Financial Audit	1
Compliance Audit.....	3
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	5
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	11
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	12
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Notes to Financial Statements.....	15
COMBINING AND INDIVIDUAL FUND SCHEDULES	
Combining Project Area Balance Sheet - All Governmental Funds	27
Combining Project Area Statement of Revenues, Expenditures and Changes in Funds Balances - All Governmental Funds	29
Computation of Low and Moderate Income Housing Funds Excess/Surplus	31

Retired

**Robert C. Lance
1914-1994
Richard C. Soll
Fred J. Lunghard, Jr.
1928-1999**

INDEPENDENT AUDITORS' REPORT

To the Honorable Chair and Members of the Governing Board
Hawthorne Community Redevelopment Agency

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hawthorne Community Redevelopment Agency, a component unit of the City of Hawthorne, California, as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hawthorne Community Redevelopment Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 misstatements. 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 Redevelopment Agency of the City of Hawthorne as of June 30, 2008, 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.

In accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, we have also issued our report dated December 29, 2008, on our consideration of the Hawthorne Community Redevelopment Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To the Honorable Chair and Members of the Governing Board
Hawthorne Community Redevelopment Agency

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The combining project area statements and computation of low and moderate income housing funds excess/surplus are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lance, Soll & Lunghard, LLP

December 29, 2008

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

To the Honorable Chair and Members of the Governing Board
Hawthorne Community Redevelopment Agency

We have audited the financial statements of the governmental activities and each major fund of the Hawthorne Community Redevelopment Agency as of and for the year ended June 30, 2008, which collectively comprise the Hawthorne Community Redevelopment Agency's basic financial statements and have issued our report thereon dated December 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hawthorne Community Redevelopment Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hawthorne Community Redevelopment Agency's financial statements that is more than inconsequential will not be prevented or detected by the Hawthorne Community Redevelopment Agency's internal control.

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

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



To the Honorable Chair and Members of the Governing Board
Hawthorne Community Redevelopment Agency

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Hawthorne Community Redevelopment Agency are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the Guidelines for Compliance Audits of California Redevelopment Agencies, issued by the State Controller and as interpreted in the Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States as follows:

- In accordance with the California Health and Safety Code Section 33080.1, the Redevelopment Agency is required to produce and present, an annual report (due six months following the end of the Agency's fiscal year-end date), to the State Controller and its legislative body. This report was produced and presented; however, it did not contain the following required components:
 - a. A loan report identifying loans (receivable) which equal or exceed \$50,000 and that were found by the Agency during the previous fiscal year to have either defaulted or not complied with the terms of the agreements approved by the Agency.
 - b. A property report which describes the properties owned by the agency and those acquired in the previous fiscal year.
- Planning and administrative expenditures were made from the Housing Funds, but there is no written determination showing that planning and administrative expenditures were necessary for the production, improvement, or preservation of low-and-moderate income housing.

This report is intended for the information of the Governing Board, management and the State Controller. However, this report is a matter of public record and its distribution is not limited.

Lance, Soll & Lunghard, LLP

December 29, 2008

COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF HAWTHORNE

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Community Redevelopment Agency of the City of Hawthorne (Agency), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2008.

FINANCIAL HIGHLIGHTS

- The Agency's total liabilities (all funds) exceeded its assets at the end of the fiscal year 2007/08 by \$113.5 million (net liabilities). This is a decrease of \$0.8 million from that of the prior fiscal year-end.
- During the year, the Agency generated revenues of \$7.4 million. This was an increase of \$0.7 million over the prior fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a 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 serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the Agency that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Agency include general government, community development and interest on long-term debt.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Redevelopment Agency are governmental funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide statements, governmental fund financial statements focus on near-term and outflows of spendable resource, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Agency maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the funds, all of which are considered to be major funds.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statement.

Government-wide Financial Analysis

Our analysis focuses on the net assets and changes in net assets of the Agency's governmental activities.

	Net Assets	
	Governmental Activities	
	2007 / 08	2006 / 07
	"\$'000	"\$'000
Current & Other Assets	\$ 14,044.8	\$ 12,601.3
Capital Assets	922.5	1,702.5
Total Assets	14,967.3	14,303.8
Long-term Debt	127,295.1	126,782.9
Other Liabilities	1,174.0	1,832.4
Total Liabilities	128,469.1	128,615.3
Net Assets	<u><u>\$ (113,501.8)</u></u>	<u><u>\$ (114,311.5)</u></u>
Restricted Funds	\$ 11,527.3	\$ 11,225.5
Unrestricted Funds	(125,029.1)	(125,537.0)
Equities	<u><u>\$ (113,501.8)</u></u>	<u><u>\$ (114,311.5)</u></u>

The Agency's net assets increased from \$(114.3) million to \$(113.5) million. This decrease comes from the change in net assets as recorded in the Statement of Activities and flows through the Statement of Net Assets. The majority of this increase in net assets was due to the increase in property tax revenues.

Government Activities

Governmental activities increased the Agency's net assets by \$0.8 million. Key elements of the change are as follows:

Changes in Net Assets Governmental Activities		
	2007 / 08 \$'000	2006 / 07 \$'000
Revenues:		
General Revenues:		
Property Taxes	\$ 6,719.9	\$ 5,828.7
Use of Money & Property	413.3	364.2
Other	247.6	578.2
Total Revenues	7,380.8	6,771.1
Expenditures:		
General Government	450.2	389.3
Community Development	2,514.6	28,359.8
Interest on Long-term Debt	3,560.6	4,276.2
Other	45.7	19,321.4
Total Expenditure	6,571.1	52,346.7
Increase (Decrease) in Net Assets	\$ 809.7	\$ (45,575.6)

The Agency's total revenues were \$7.4 million, while total expenses of all programs and services were \$6.6 million.

The following presents the cost of each of the Agency's programs—general government, community development, interest on long-term debt and other—as well as each program's *net* cost (total cost less revenues generated by the activities). The net cost is the financial burden that was placed on the Agency's taxpayers by each of these functions.

Net Cost of Agency's Governmental Services		
	2007 / 08 \$'000	2006 / 07 \$'000
General Government	\$ 450.2	\$ 389.3
Community Development	2,514.6	28,359.8
Interest on Long-term Debt	3,560.6	4,276.2
Other	45.7	19,321.4
Total	\$ 6,571.1	\$ 52,346.7

Financial Analysis of the Agency's Funds

The Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Agency's governmental funds reported combined ending fund balances of \$11.7 million.

Capital Outlay and Long-Term Debt

Capital Outlay

The Agency had no capital assets at June 30, 2008.

Long-term debt

At the end of the current fiscal year, the Agency had total bonded debt outstanding of \$44.9 million.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Agency's Finance Department, at the City of Hawthorne, 4455 West 126th. Street, Hawthorne, CA 90250.

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

STATEMENT OF NET ASSETS JUNE 30, 2008

	<u>Governmental Activities</u>
Assets:	
Cash and investments	\$ 11,218,617
Receivables:	
Tax increment	\$ 614,255
Interest receivable	69,793
Loans	<u>290,608</u>
Total Receivables	974,656
Deferred charges	1,851,551
Restricted assets:	
Cash and investments with trustees	<u>922,475</u>
Total Assets	<u>14,967,299</u>
Liabilities:	
Accounts payable and accrued expenses	1,172,765
Deposits from others	1,200
Long-term liabilities:	
Due within one year	819,242
Due in more than one year	<u>126,475,842</u>
Total Long-Term Liabilities	<u>127,295,084</u>
Total Liabilities	<u>128,469,049</u>
Net Assets:	
Restricted for:	
Community development	7,930,663
Debt service	3,596,669
Unrestricted	<u>(125,029,082)</u>
Total Net Assets	<u>\$ (113,501,750)</u>

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2008

		Program Revenues			Net (Expense) Revenues and Changes in Net Assets
			Operating	Capital	
	Expenses	Charges for Services	Contributions and Grants	Contributions and Grants	Governmental Activities
Functions/Programs					
Governmental Activities:					
General government	\$ 450,155	\$ -	\$ -	\$ -	\$ (450,155)
Community development	2,514,578	-	-	-	(2,514,578)
Interest on long-term debt	3,560,556	-	-	-	(3,560,556)
Total Governmental Activities	\$ 6,525,289	\$ -	\$ -	\$ -	(6,525,289)
General Revenues:					
Taxes (net of pass-through payments)					6,719,943
Use of money and property					413,278
Gain on sale of assets					106,080
Other					141,479
Total General Revenues					7,380,780
Change in Net Assets					855,491
Net Assets at Beginning of Year					(114,311,585)
Restatement of Net Assets					(45,656)
Net Assets at End of Year					\$ (113,501,750)

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	Capital Projects	Capital Projects	Debt Service		
	Project Area No. 2	Project Area No. 2	Project Area No. 2		
	Project	Low and Moderate Housing	Tax Increment	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and investments	\$ 1,282,741	\$ 7,692,686	\$ 2,148,120	\$ 95,070	\$ 11,218,617
Cash and investments with trustee	-	-	565	921,910	922,475
Receivables:					
Tax increment	-	170,359	437,704	6,192	614,255
Interest receivable	2,175	67,618	-	-	69,793
Loans	-	290,608	-	-	290,608
Total Assets	\$ 1,284,916	\$ 8,221,271	\$ 2,586,389	\$ 1,023,172	\$ 13,115,748
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ 1,172,765	\$ -	\$ -	\$ -	\$ 1,172,765
Deposits from others	1,200	-	-	-	1,200
Deferred revenue	-	290,608	-	-	290,608
Total Liabilities	1,173,965	290,608	-	-	1,464,573
Fund Balances:					
Unreserved:					
Designated:					
Debt service	-	-	2,586,389	1,010,280	3,596,669
Continuing projects	110,951	7,930,663	-	12,892	8,054,506
Total Fund Balances	110,951	7,930,663	2,586,389	1,023,172	11,651,175
Total Liabilities and Fund Balances	\$ 1,284,916	\$ 8,221,271	\$ 2,586,389	\$ 1,023,172	\$ 13,115,748

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS

TO THE STATEMENT OF NET ASSETS

JUNE 30, 2008

Fund balances of governmental funds **\$ 11,651,175**

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

Deferred revenue is present in governmental fund financial statements to indicate that receivables are not available currently; however, in the Statement of Net Assets these deferrals are eliminated 290,608

Bond issuance costs is an expenditure in the governmental funds, but it is deferred charges in the statement of net assets:

Unamortized debt issuance costs - amortized over life of new bonds 1,851,551

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds

Bonds payable (44,885,000)

Developer loans (21,421,681)

Loans from City (60,352,047)

Unamortized net original issue discounts and (premiums) (786,224)

Unamortized net (gain) loss on bonds defeased 149,868

Net assets of governmental activities **\$ (113,501,750)**

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Capital Projects	Capital Projects	Debt Service		
	Project Area No. 2	Project Area No. 2	Project Area No. 2		
	Project	Low and Moderate Housing	Tax Increment	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes and assessments	\$ -	\$ 1,808,867	\$ 7,235,470	\$ 793,154	\$ 9,837,491
Use of money and property	73,920	279,250	11,277	30,911	395,358
Other revenue	979	135,000	5,500	-	141,479
Total Revenues	74,899	2,223,117	7,252,247	824,065	10,374,328
Expenditures:					
Current:					
General government	218,831	43,662	156,076	31,586	450,155
Debt service	3,049,149	-	2,386,030	616,232	6,051,411
Other expenditures	2,514,578	-	-	-	2,514,578
Total Expenditures	5,782,558	43,662	2,542,106	647,818	9,016,144
Excess (Deficiency) of Revenues Over (Under) Expenditures	(5,707,659)	2,179,455	4,710,141	176,247	1,358,184
Other Financing Sources (Uses):					
Transfers in	4,100,000	-	-	200,000	4,300,000
Transfers out	-	-	(4,100,000)	(200,000)	(4,300,000)
Long-term debt issued	2,199,462	-	-	7,951	2,207,413
Pass-through agreement payments	(355,815)	-	(2,761,733)	-	(3,117,548)
Gain (loss) on sale of land held for resale	-	106,080	-	-	106,080
Total Other Financing Sources (Uses):	5,943,647	106,080	(6,861,733)	7,951	(804,055)
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 235,988	\$ 2,285,535	\$ (2,151,592)	\$ 184,198	\$ 554,129
Fund Balances:					
Beginning of Year, as previously reported	\$ 193,307	\$ 5,645,128	\$ 4,737,981	\$ 838,974	\$ 11,415,390
Restatements	(318,344)	-	-	-	(318,344)
Beginning of Year, as restated	(125,037)	5,645,128	4,737,981	838,974	11,097,046
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	235,988	2,285,535	(2,151,592)	184,198	554,129
End of Year	\$ 110,951	\$ 7,930,663	\$ 2,586,389	\$ 1,023,172	\$ 11,651,175

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

GOVERNMENTAL FUNDS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Net change in fund balances - total governmental funds **\$ 554,129**

Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of activities because:

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets 1,677,529

Unamortized premium or discounts on bonds issued are revenue or expenditures in the governmental funds, but these are spread to future periods over the life of the new bonds:

Amortization for current fiscal year 27,018

Collections on receivables and loan transactions offset by deferred revenue are reported as revenue and expenditures in governmental funds; however, they do not provide revenue or expenses in the statement of activities 17,920

Proceeds of debt is revenue in the governmental funds, but these are additions to the statement of net assets (2,207,413)

Defeasance of debt is expenditures in the governmental funds, but these are spread to future periods:

Amortization period over defeased bond lives computed through end of fiscal year (9,367)

Expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Prior year accrual of interest due on bonds 795,675

Change in net assets of governmental activities **\$ 855,491**

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Organization and Summary of Significant Accounting Policies

a. Description of the Reporting Entity

The Hawthorne Community Redevelopment Agency is a component unit of a reporting entity that consists of the following primary and component units:

Reporting Entity:

Primary Government:

City of Hawthorne

Component Units:

Hawthorne Community Redevelopment Agency

Hawthorne Parking Authority

Hawthorne Housing Authority

Hawthorne Public Financing Authority

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

The Redevelopment Agency was established on July 24, 1968, pursuant to the State of California Health and Safety Code, Section 33000. Its purpose is to prepare and carry out plans for the improvement, rehabilitation and development of blighted areas within the territorial limits of the City of Hawthorne. The following project areas have been formed:

Hawthorne Plaza Project

The Hawthorne Plaza is a regional shopping center, which was developed by a limited partnership consisting of two general partners and a limited partner. Actual construction of the center began in May 1975, with the completion of major construction in February 1977.

In 1974, the City's Parking Authority issued bonds to provide public parking facilities for the Hawthorne Plaza shopping center.

Hawthorne Redevelopment Project Two

Project Area II was formed in November 1984. The majority of the project area is commercial and industrial frontage along major arterials in the City of Hawthorne. The predominant land uses in the area are commercial and industrial.

In addition, the Agency operates eight residential units on Grevillea Avenue in the City of Hawthorne. These rental units are rented to low to moderate income households.

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

b. Government-Wide and Fund 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 nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

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

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

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Hawthorne Community Redevelopment Agency
Notes to Financial Statements (Continued)

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

The Agency reports the following major governmental funds:

Capital Projects Funds

- Project Area II Fund consists of approximately 960 acres in the southwest section of the City, including the Gateway and Oceangate development projects.
- The Low and Moderate Housing Fund is used to account for the 20% set aside of the revenues generated by property tax increment for low and moderate income housing needs.

Debt Service Funds

- Project Area II Fund accounts for the debt service associated with Project Area II Tax Allocation Bonds.

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

d. Assets, Liabilities and Net Assets or Equity

1. Investments

Investments for the Agency are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Land Held for Resale

The Agency's investment in land held for resale is stated at cost. If a disposition and development agreement has been entered into specifying a lower value for the land, then the difference between cost and this value has been reflected as an allowance for decline in value of land held. Fund balances are reserved in amounts equal to the carrying value of the land held for resale because such assets are not available to finance current operations.

3. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Hawthorne Community Redevelopment Agency
Notes to Financial Statements (Continued)

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Property tax revenue is recognized in the fiscal year for which the taxes have been levied providing they become available. Available means then due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter (not to exceed 60 days) to be used to pay liabilities of the current period. The County of Los Angeles collects property taxes for the Agency. Tax liens attach annually as of 12:01 A.M. on the first day in January preceding the fiscal year for which the taxes are levied. The tax levy covers the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1. All taxes are delinquent, if unpaid, on December 10 and April 10, respectively. Unsecured personal property taxes become due on the first of March each year and are delinquent on August 31.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Long-Term Obligations

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

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

6. Fund Equity

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

II. STEWARDSHIP

Note 2: Stewardship, Compliance and Accountability

a. Budgetary Data

General Budget Policies

The Governing Board approves each year's budget submitted by the Executive Director prior to the beginning of the new fiscal year. The Board conducts public meetings prior to its adoption. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. Supplemental appropriations, when required during the period, are also approved by the Board. Intradepartmental budget changes are approved by the Executive Director. In most cases, expenditures may not exceed appropriations at the departmental level. At fiscal year-end, all operating budget appropriations lapse. During the year several supplementary appropriations were necessary.

Encumbrances

Encumbrances are estimations of costs related to unperformed contracts for goods and services. These commitments are recorded for budgetary control purposes in the governmental funds. Encumbrances outstanding at year-end are reported as a reservation of fund balance. They represent the estimated amount of the expenditure ultimately to result if unperformed contracts in-process at year-end is completed. They do not constitute expenditures or estimated liabilities.

Budget Basis of Accounting

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

III. DETAILED NOTES ON ALL FUNDS

Note 3: Cash and Investments

Cash and investments reported in the accompanying financial statements consisted of the following:

Cash and investments pooled with the City	\$ 11,218,617
Cash and investments with fiscal agent	<u>922,475</u>
	<u><u>\$ 12,141,092</u></u>

The Agency's funds are pooled with the City of Hawthorne's cash and investments in order to generate optimum interest income. The City has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This pronouncement is an amendment to GASB Statement No. 3. GASB No. 40 establishes and modifies disclosure requirements related to deposit and investment risks. The information required by GASB Statement No. 40 related to authorized investments, credit risk, etc., is available in the annual report of the City.

Hawthorne Community Redevelopment Agency
Notes to Financial Statements (Continued)

Note 4: Loans Receivable

On October 1, 2004, the Agency issued a promissory note for \$250,000, evidenced by an Agency Loan Agreement with Southern California Housing Development Corp and a Deed of Trust relating to the Hawthorne Terrace Project. Funds were advanced during February 2006, to finance operating reserves of the Project. The note bears interest that varies according to the bank account depository rate and at no time shall the total amount outstanding under the note be less than the bank account balance. The note matures at the earlier of (a) the fifty-fifth (55th) anniversary of the date of the note (October 2059), (b) the date the property is sold or refinanced without Agency approval, or (c) an event of default by the borrower. The maturity date may be extended at the discretion of the Agency. As of June 30, 2008, the balance is \$290,608.

Note 5: Long-Term Debt

- a. A description of long-term debt outstanding (excluding defeased debt) of the Agency as of June 30, 2008, follows:

Tax Allocation Bonds

1998 Tax Allocation Refunding Bonds

The 1998 Tax Allocation Refunding Bonds bear interest ranging from 4.20% to 5.24% per annum and payable on March 1 and September 1. Principal payments ranging from \$270,000 to \$675,000 are due annually on September 1, beginning in the year 2005 through the year 2024. The balance at June 30, 2008, amounted to \$7,925,000.

2001 Tax Allocation Refunding Bonds

The 2001 Tax Allocation Refunding Bonds bear interest ranging from 5.500% to 6.875% per annum and payable on January 1 and July 1. Principal payments ranging from \$145,000 to \$410,000 are due annually on July 1, beginning in the year 2003 through the year 2020. The balance at June 30, 2008, amounted to \$3,725,000.

2004 Tax Allocation Refunding Bonds

In December 2004, the Community Redevelopment Agency of the City of Hawthorne issued \$4,225,000 Project Area II Tax Allocation Refunding Bonds, Series 2004 for the purpose of refunding, on a current basis, the Agency's outstanding Project Area II Tax Allocation Refunding Bonds, Series 1994. The bonds consist of \$2,725,000 serial bonds with annual maturity dates from September 1, 2007 through September 1, 2013, bearing interest ranging from 3.0% to 3.5%, and \$1,500,000 term bonds bearing interest at 4.5% and maturing September 1, 2024. Interest is payable semiannually beginning March 1, 2005. Principal payments ranging from \$75,000 to \$330,000 are due annually on September 1, beginning in the year 2007 through the year 2024. The balance at June 30, 2008, amounted to \$4,150,000.

Hawthorne Community Redevelopment Agency
Notes to Financial Statements (Continued)

Note 5: Long-Term Debt (Continued)

2006 Tax Allocation Bonds

In July 2006, the Agency issued Project Area No. 2 Tax Allocations Bonds, Series 2006 in the amount of \$29,085,000. The proceeds of the Bonds were used to (a) provide funds to prepay the Public Funding Requirement of the Agency under the Owner Participation Agreement (OPA) dated September 26, 2003, and as amended by the Second Implementation Agreement as of July 11, 2006, with SAMS Venture, LLC, (b) provide for capitalized interest on the Bonds for a limited period of time, (c) obtain a Reserve Account Surety Bond, and (d) pay the costs of issuing the Bonds. The Bonds are payable from and secured by tax increment revenues arising from Project Area No 2 on a parity basis with the 1998 Bonds and the 2004 Bonds. The bonds consist of \$3,950,000 serial bonds with annual maturity dates from September 1, 2011 through September 1, 2016, bearing interest ranging from 4.0% to 4.125%; \$9,485,000 term bonds bearing interest of 5.0% and maturing September 1, 2026; and \$15,650,000 term bonds bearing interest of 5.25% and maturing September 1, 2036. The balance at June 30, 2008, amounted to \$29,085,000.

Note Payable

Mission-Oceangate note - An installment note dated April 12, 1999, paying interest at 7.5%. The note is payable in ten annual installments of \$149,687. The principal amount of this note represents the agreed-upon amount of sales tax generation and Mello-Roos reimbursement due and unpaid through June 30, 1998. The balance at June 30, 2008, amounted to \$139,243.

AutoNation / Costco note – A first implementation agreement to a Disposition and Development Agreement (DDA) was entered with certain developers in August 2000, paying interest at 9.0%. The developers had advanced to the Agency \$5,500,000 and cancelled a Costco note for approximately \$7,000,000. In return, the Agency executed a promissory note to the developers for \$12,500,000. The repayment of this note consisted of Mello-Roos tax refund, sales tax and transient occupancy tax refund to the extent these taxes are generated within the project site. The balance at June 30, 2008, amounted to \$21,282,438 including accrued interest of \$8,782,438.

Loans from City

During the current and previous fiscal years, the City of Hawthorne has made loans to the Agency. These loans bear interest at rates equivalent to the rate of return on investments in LAIF. The City may demand payment of all or a portion of the principal balance at any time as funds become available; however, such demands are not anticipated within the next fiscal year. As of June 30, 2008, loans to and accrued unpaid interest owed on those loans was \$60,352,047.

Hawthorne Community Redevelopment Agency
Notes to Financial Statements (Continued)

Note 5: Long-Term Debt (Continued)

b. The following is a schedule of changes in long-term debt of the Agency for the fiscal year ended June 30, 2008:

	Balance July 1, 2006	Adjustments	Additions	Repayments	Balance June 30, 2007	Due Within One Year
<u>Hawthorne Plaza Project Area No. 1</u>						
City Loans - Principal	\$ 449,741	\$ -	\$ -	\$ -	\$ 449,741	\$ -
City Loans - Unpaid Interest	24,780,844	-	7,951	175,000	24,613,795	-
Bonds - 2001 Tax Allocation Bonds	3,905,000	-	-	180,000	3,725,000	195,000
Total	<u>\$ 29,135,585</u>	<u>\$ -</u>	<u>\$ 7,951</u>	<u>\$ 355,000</u>	<u>\$ 28,788,536</u>	<u>\$ 195,000</u>
<u>Project Area No. 2</u>						
City Loans - Principal	\$ 20,550,115	\$ -	\$ 500,000	\$ 700,000	\$ 20,350,115	\$ -
City Loans - Unpaid Interest	14,363,934	-	574,462	-	14,938,396	-
Notes - Mission Land Co.	268,772	-	-	129,529	139,243	139,242
Notes - AutoNation / Costco	12,500,000	-	-	-	12,500,000	-
Notes - AutoNation / Costco Unpaid Interest	7,785,438	-	1,125,000	128,000	8,782,438	-
Bonds - 2004 Refunding Tax Allocation	4,225,000	-	-	75,000	4,150,000	180,000
Bonds - 1998 Refunding	8,215,000	-	-	290,000	7,925,000	305,000
Bonds - 2006 Tax Allocation Bonds	29,085,000	-	-	-	29,085,000	-
Total	<u>\$ 96,993,259</u>	<u>\$ -</u>	<u>\$ 2,199,462</u>	<u>\$ 1,322,529</u>	<u>\$ 97,870,192</u>	<u>\$ 624,242</u>
<u>Total - All Project Areas</u>						
City Loans - Principal	\$ 20,999,856	\$ -	\$ 500,000	\$ 700,000	\$ 20,799,856	\$ -
City Loans - Unpaid Interest	39,144,778	-	582,413	175,000	39,552,191	-
Notes Payable	12,768,772	-	1,125,000	257,529	21,421,681	139,242
Bonds Payable	45,430,000	-	-	545,000	44,885,000	680,000
Total	<u>\$ 118,343,406</u>	<u>\$ -</u>	<u>\$ 2,207,413</u>	<u>\$ 1,677,529</u>	<u>126,658,728</u>	<u>\$ 819,242</u>
Adjustments:						
Unamortized net original issue (discount) or premium					786,224	
Unamortized net bond defeasance gain or (loss)					(149,868)	
Net Long-term Debt					<u>\$ 127,295,084</u>	

Hawthorne Community Redevelopment Agency
Notes to Financial Statements (Continued)

Note 5: Long-Term Debt (Continued)

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

	2004 Tax Allocation Refunding Bonds		2001 Tax Allocation Refunding Bonds		1998 Tax Allocation Refunding Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2008 - 2009	\$ 180,000	\$ 161,769	\$ 195,000	\$ 241,563	\$ 305,000	\$ 387,710
2009 - 2010	190,000	156,219	205,000	229,063	315,000	373,125
2010 - 2011	195,000	150,444	215,000	215,938	340,000	356,750
2011 - 2012	200,000	144,019	230,000	202,031	355,000	339,375
2012 - 2017	1,115,000	603,502	1,390,000	759,922	2,050,000	1,407,250
2017 - 2022	1,330,000	361,015	1,490,000	213,469	2,630,000	825,000
2022 - 2027	940,000	65,025	-	-	1,930,000	147,750
Totals	<u>\$ 4,150,000</u>	<u>\$ 1,641,993</u>	<u>\$ 3,725,000</u>	<u>\$ 1,861,986</u>	<u>\$ 7,925,000</u>	<u>\$ 3,836,960</u>

	2006 Tax Allocation Bonds		Total	
	Principal	Interest	Principal	Interest
2008 - 2009	\$ -	\$ 1,454,781	\$ 680,000	\$ 2,274,311
2009 - 2010	-	1,454,781	710,000	2,245,823
2010 - 2011	-	1,454,781	750,000	2,213,188
2011 - 2012	-	1,454,781	1,380,000	2,177,913
2012 - 2013	595,000	1,442,881	1,440,000	2,128,306
2013 - 2018	3,355,000	6,829,353	8,280,000	9,600,027
2018 - 2023	4,165,000	5,979,000	9,680,000	7,378,484
2023 - 2028	5,320,000	4,798,875	7,545,000	5,011,650
2028 - 2033	6,830,000	3,248,438	7,190,000	3,248,438
2033 - 2038	8,820,000	1,204,875	7,230,000	1,204,875
Totals	<u>\$ 29,085,000</u>	<u>\$ 29,322,546</u>	<u>\$ 44,885,000</u>	<u>\$ 37,483,015</u>

The future debt service requirements for the note payable and the City loans are not disclosed because they do not have determinable payment dates, amounts or interest rates.

- d. In prior years, the Agency defeased certain tax allocation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Agency's financial statements.

e. Debt Service Requirements

As previously discussed, the Agency has pledged, as security for bonds it has issued, either directly or through the Financing Authority, a portion of the tax increment revenue that it receives. These bonds were to provide financing for various capital projects and to defease previously issued bonds. The City has committed to appropriate each year, from these resources amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt is \$82,368,015 with annual debt service requirements as indicated above. For the current year, the total tax increment revenue, net of pass through payments, recognized by the Agency was \$6,719,943 and the debt service obligation on the bonds was \$2,819,311.

IV. OTHER DISCLOSURES

Note 6: Developer / Owner Agreements

The Agency has entered into Owner Participation Agreements to attract new business to the City of Hawthorne. The Agency's significant commitments with developers are as follows:

Oceangate Development

The developer is reimbursed 25% of the sales tax generated from parcels two to four and 40% from parcels five and six for 15 years, commencing January 1, 1999. All Mello-Roos taxes received in excess of \$506,800 are refunded to the developer until the 1998 Special Tax Refunding bonds are fully repaid and all tax increments received, except from parcel one, less the low and moderate income housing set aside amount which is refunded to the developer for a period of 30 years.

Note 7: Low and Moderate Income Housing

As required by Section 33334.2 of the State of California Health and Safety Code, 20% of tax increment received by the Agency, including interest earned, was set aside for the rehabilitation/replacement of low and moderate income housing displaced within Project Area II. The Agency has deferred its required set aside of 20% of tax increment received for the Plaza Project Area, resulting in a deficit of \$3,103,793 as of June 30, 2008.

Note 8: Insurance

The Agency, through the City, is partially self-insured for general liability and workers' compensation claims. In connection with its risk management program, the City has obtained excess insurance coverage for general liability and workers' compensation claims (\$250,000 self-insured retention level). Independent Cities Risk Management Authority (ICRMA) provides excess coverage to \$10,000,000 for general liability claims, while National Union Fire of Pittsburgh provides a second layer of general liability excess coverage in the amount of \$10,000,000. General Re-insurance Company provides excess coverage to \$3,000,000 for workers' compensation claims (\$500,000 self-insured retention level). In addition, General Re-insurance Company provides excess coverage to \$1,000,000 for employer's liability claims. Excess liability insurance coverage is obtained through membership in the Independent Cities Risk Management Authority (the Authority), a joint powers authority of medium size California municipalities. The Authority pools catastrophic general liability losses. As a result, each member's share of pooled costs will depend on the catastrophic losses of all members. In addition, the cost to a member city will also depend on the member's own loss experience.

In order to provide funds to pay claims, the Authority assesses each member annually on an actuarial determined amount. To provide a reserve fund, the Authority issued \$30,200,000 of Certificates of Participation in fiscal year 1987.

Hawthorne Community Redevelopment Agency
Notes to Financial Statements (Continued)

Note 9: Interfund Transfers

Interfund Transfers are as follows:

	Transfers Out		
	Debt Service		
	Hawthorne Plaza Project Area No. 1	Project Area No. 2	Total
Transfers In:			
Capital projects			
Hawthorne Plaza Project Area No. 1	\$ 200,000	\$ -	\$ 200,000
Project Area No. 2	-	4,100,000	4,100,000
	<u>\$ 200,000</u>	<u>\$ 4,100,000</u>	<u>\$ 4,300,000</u>

Transfers were made to fund capital projects.

Note 10: Fund Balance and Net Asset Restatements

Fund balances were restated as follows:

Project Area No. 2 - Project Fund

To record a payable that relating to FY 05/06 for the Oceangate
Property Tax Increment Rebate that was not properly recorded in prior
years.

\$ (318,344)

Net assets were restated as follows:

Fund balance restatements noted above
To recognize prior year deferred revenue

\$ (318,344)
272,688

Total Net Asset Restatements

\$ (45,656)

Note 11: Subsequent Events

ERAF Tax Increment Revenue Shift

On September 30, 2008, the California Legislature passed AB 1389, requiring a shift in tax increment revenues during fiscal year 2008-2009 to the state Educational Revenue Augmentation Fund (ERAF). It is estimated that the Agency's share of the ERAF shift for fiscal year 2008-2009 will amount to approximately \$652,069.

Financial Concerns Relating to the California Economy

As indicated in the State of California's 2008-2009 Proposed Budget Summary – Economic Outlook:

“The California and national economies faced considerable headwinds - a deepening housing slump, a breakdown in mortgage markets, tighter credit, more volatile financial markets, and rising energy prices.

Hawthorne Community Redevelopment Agency
Notes to Financial Statements (Continued)

Note 11: Subsequent Events (Continued)

Upward resets of subprime mortgage rates made payments unaffordable for many borrowers and helped push mortgage defaults and foreclosures to record levels. Several large financial institutions reported huge losses on subprime mortgages and securities backed by these mortgages. Uncertainty about how far the problems with these mortgages would spread increased financial market volatility and prompted lenders to tighten credit standards. The Federal Reserve injected liquidity into the financial markets and eased monetary policy on a number of occasions in the second half of the year, but as year-end neared, financial markets were still not functioning normally.”

While the values shown in the attached financial statements reflect those present at June 30, 2008, substantial changes have occurred in the economy in which the City and its component units operate. Therefore, the projection of the financial data for the City and its component units into future periods must recognize these factors and consider the effect of these on its operations and costs.

In September, 2008 certain financial institutions in the United States encountered difficulties, causing volatility in the financial markets. It is not possible to determine what effect the volatility of the financial markets could have on the fair value of this asset in future fiscal periods.

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

COMBINING PROJECT AREA BALANCE SHEET ALL GOVERNMENTAL FUNDS JUNE 30, 2008

	Hawthorne Plaza Project Area No. 1		Project Area No. 2
	Debt Service	Capital Projects	Debt Service
	Tax Increment	Project	Tax Increment
ASSETS			
Cash and investments	\$ 82,178	\$ 12,892	\$ 2,148,120
Cash and investments with trustee	921,910	-	565
Receivables:			
Tax increment	6,192	-	437,704
Interest receivable	-	-	-
Loans	-	-	-
Total Assets	\$ 1,010,280	\$ 12,892	\$ 2,586,389
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Deposits from others	-	-	-
Deferred revenue	-	-	-
Total Liabilities	-	-	-
Fund Balances:			
Unreserved:			
Designated:			
Debt service	1,010,280	-	2,586,389
Continuing projects	-	12,892	-
Total Fund Balances	1,010,280	12,892	2,586,389
Total Liabilities and Fund Balances	\$ 1,010,280	\$ 12,892	\$ 2,586,389

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

COMBINING PROJECT AREA BALANCE SHEET ALL GOVERNMENTAL FUNDS JUNE 30, 2008

	Project Area No. 2		T O T A L S	
	Capital Projects	Capital Projects	Debt Service Funds	Capital Projects Funds
	Project	Low and Moderate Housing		
ASSETS				
Cash and investments	\$ 1,282,741	\$ 7,692,686	\$ 2,230,298	\$ 8,988,319
Cash and investments with trustee	-	-	922,475	-
Receivables:				
Tax increment	-	170,359	443,896	170,359
Interest receivable	2,175	67,618	-	69,793
Loans	-	290,608	-	290,608
Total Assets	\$ 1,284,916	\$ 8,221,271	\$ 3,596,669	\$ 9,519,079
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,172,765	\$ -	\$ -	\$ 1,172,765
Deposits from others	1,200	-	-	1,200
Deferred revenue	-	290,608	-	290,608
Total Liabilities	1,173,965	290,608	-	1,464,573
Fund Balances:				
Unreserved:				
Designated:				
Debt service	-	-	3,596,669	-
Continuing projects	110,951	7,930,663	-	8,054,506
Total Fund Balances	110,951	7,930,663	3,596,669	8,054,506
Total Liabilities and Fund Balances	\$ 1,284,916	\$ 8,221,271	\$ 3,596,669	\$ 9,519,079

HAWTHORN COMMUNITY REDEVELOPMENT AGENCY

COMBINING PROJECT AREA STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
ALL GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Hawthorne Plaza Project Area No. 1		Project Area No. 2
	Debt Service	Capital Projects	Debt Service
	Tax Increment	Project	Tax Increment
Revenues:			
Taxes and Assessments:			
Tax increment	\$ 793,154	\$ -	\$ 7,235,470
Use of Money and Property:			
Interest income	30,911	-	11,277
Rental income	-	-	-
Other revenue:			
Miscellaneous revenue	-	-	5,500
Contributions from City of Hawthorne	-	-	-
Total Revenues	824,065	-	7,252,247
Expenditures:			
Current:			
General Government:			
Administrative costs	22,826	8,760	156,076
Professional services	-	-	-
Debt Service:			
Interest expense	253,281	7,951	2,021,030
Long-term debt repayments	180,000	175,000	365,000
Other Expenditures:			
Developer Pass-thru payments	-	-	-
Contribution to City of Hawthorne	-	-	-
Total Expenditures	456,107	191,711	2,542,106
Excess of Revenues over (under) Expenditures	\$ 367,958	\$ (191,711)	\$ 4,710,141
Other Financing Sources (Uses)			
Transfers in	\$ -	\$ 200,000	\$ -
Transfers out	(200,000)	-	(4,100,000)
Long-term debt issued	-	7,951	-
Pass through agreement payments	-	-	(2,761,733)
Gain (Loss) on sale of land held	-	-	-
Total Other Financing Sources (Uses)	(200,000)	207,951	(6,861,733)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	167,958	16,240	(2,151,592)
Fund Balances			
Beginning of Year, as previously reported	842,322	(3,348)	4,737,981
Restatements	-	-	-
End of Year	\$ 1,010,280	\$ 12,892	\$ 2,586,389

HAWTHORN COMMUNITY REDEVELOPMENT AGENCY

COMBINING PROJECT AREA STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
ALL GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Project Area No. 2		T O T A L S	
	Capital Projects	Capital Projects	Debt Service Funds	Capital Projects Funds
	Project	Low and Moderate Housing		
Revenues:				
Taxes and Assessments:				
Tax increment	\$ -	\$ 1,808,867	\$ 8,028,624	\$ 1,808,867
Use of Money and Property:				
Interest income	10,338	279,250	42,188	289,588
Rental income	63,582	-	-	63,582
Other revenue:				
Miscellaneous revenue	979	-	5,500	979
Contributions from City of Hawthorne	-	135,000	-	135,000
Total Revenues	74,899	2,223,117	8,076,312	2,298,016
Expenditures:				
Current:				
General Government:				
Administrative costs	165,277	43,662	178,902	217,699
Professional services	53,554	-	-	53,554
Debt Service:				
Interest expense	2,091,620	-	2,274,311	2,099,571
Long-term debt repayments	957,529	-	545,000	1,132,529
Other Expenditures:				
Developer Pass-thru payments	965,383	-	-	965,383
Contribution to City of Hawthorne	1,549,195	-	-	1,549,195
Total Expenditures	5,782,558	43,662	2,998,213	6,017,931
Excess of Revenues over (under) Expenditures	\$ (5,707,659)	\$ 2,179,455	\$ 5,078,099	\$ (3,719,915)
Other Financing Sources (Uses)				
Transfers in	\$ 4,100,000	\$ -	\$ -	\$ 4,300,000
Transfers out	-	-	(4,300,000)	-
Long-term debt issued	2,199,462	-	-	2,207,413
Pass through agreement payments	(355,815)	-	(2,761,733)	(355,815)
Gain (Loss) on sale of land held	-	106,080	-	106,080
Total Other Financing Sources (Uses)	5,943,647	106,080	(7,061,733)	6,257,678
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	235,988	2,285,535	(1,983,634)	2,537,763
Fund Balances				
Beginning of Year, as previously reported	193,307	5,645,128	5,580,303	5,835,087
Restatements	(318,344)	-	-	(318,344)
End of Year	\$ 110,951	\$ 7,930,663	\$ 3,596,669	\$ 8,054,506

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

COMPUTATION OF LOW AND MODERATE INCOME HOUSING FUNDS EXCESS/SURPLUS

	Low and Moderate Housing Funds - All Project Areas July 1, 2007	Low and Moderate Housing Funds - All Project Areas July 1, 2008
Opening Fund Balance	\$ 5,645,128	\$ 7,930,663
Less Unavailable Amounts:		
Land held for resale	\$ (1,103,920)	\$ -
ERAF loans	(395,000)	-
	(1,498,920)	-
Available Low and Moderate Income Housing Funds	4,146,208	7,930,663
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-Aside for last four years:		
2007 - 2008	-	1,808,867
2006 - 2007	1,613,129	1,613,129
2005 - 2006	1,477,389	1,477,389
2004 - 2005	1,254,514	1,254,514
2003 - 2004	1,166,305	-
Total	\$ 5,511,337	\$ 6,153,899
Base Limitation	\$ 1,000,000	\$ 1,000,000
Greater amount	5,511,337	6,153,899
Computed Excess/Surplus	None	\$ 1,776,764