



**HAWTHORNE COMMUNITY
REDEVELOPMENT AGENCY**

HAWTHORNE, CALIFORNIA

FINANCIAL STATEMENTS

JUNE 30, 2009

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A Professional Corporation
- Donald G. Slater, C.P.A.
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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, 2009, 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, 2009, 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, 2009 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, Solt & Luyhard, LLP

December 29, 2009

- Brandon W. Burrows, C.P.A.
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

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, 2009, which collectively comprise the Hawthorne Community Redevelopment Agency's basic financial statements and have issued our report thereon dated December 29, 2009. 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.

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 & Loughard, LLP

December 29, 2009

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, 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, 2009.

FINANCIAL HIGHLIGHTS

- ♦ The Agency's total liabilities (all funds) exceeded its assets at the end of the fiscal year 2008/09 by \$109.4 million (net liabilities). This is a decrease of \$4.1 million from that of the prior fiscal year end.
- ♦ During the fiscal year ended June 30, 2008, the Agency generated revenues of \$11.1 million. This was an increase of \$3.7 million over the prior fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The Statement of Activities presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of 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 are 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

The 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 financial statements, governmental funds 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 Basic 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 statements.

Combining and Individual Fund Schedules

In addition to the basic financial statements and accompanying notes, this report also presents certain combining fund schedules concerning the Agency's redevelopment project areas.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets and changes in net assets of the Agency's governmental activities for the fiscal year ended June 30, 2009.

The following is the condensed Statement of Net Assets for the fiscal years ended June 30, 2009 and 2008.

Net Assets - Governmental Activities

(dollars in thousands)

	2008/09	2007/08
Current & Other Assets	\$ 14,647.0	\$ 14,044.8
Capital Assets	5,236.8	922.5
Total Assets	\$ 19,883.8	\$ 14,967.3
Long-Term Debt	\$ 127,294.3	\$ 127,295.1
Other Liabilities	1,999.3	1,174.0
Total Liabilities	129,293.6	128,469.1
Net Assets	\$ (109,409.8)	\$ (113,501.8)
Invested in Capital Assets, Net of Related Debt	\$ 5,236.8	\$ -
Restricted Funds	12,603.8	11,527.3
Unrestricted Funds	(127,250.4)	(125,029.1)
Equities	\$ (109,409.8)	\$ (113,501.8)

The Agency's net assets increased from \$(113.5) million to \$(109.4) million. This increase 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 capital assets by the acquisition of several buildings to be used for low-to-moderate income housing.

Government Activities

Governmental activities increased the Agency's net assets by \$4.11 million. Key elements of the change are as follows:

Changes in Net Assets - Governmental Activities (dollars in thousands)

	2008/09	2007/08
Revenues:		
General Revenues:		
Property Taxes	\$ 9,539.6	\$ 6,719.9
Use of Money & Property	457.2	413.3
Other	1,140.5	247.6
Total Revenues	\$ 11,137.3	\$ 7,380.8
Expenditures:		
General Government	\$ 791.5	\$ 450.2
Community Development	3,576.9	2,514.6
Interest on Long-Term Debt	3,631.4	3,560.6
Other	(954.5)	45.7
Total Expenditures	7,045.3	6,571.1
Increase/(Decrease) in Net Assets	\$ 4,092.0	\$ 809.7

The Agency's total revenues were \$11.2 million, while total expenses of all programs and services were \$7 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
(dollars in thousands)

	2008/09	2007/08
General Government	\$ 791.5	\$ 450.2
Community Development	3,576.9	2,514.6
Interest on Long-Term Debt	3,631.4	3,560.6
Other	(954.5)	45.7
Total	<u><u>\$ 7,045.3</u></u>	<u><u>\$ 6,571.1</u></u>

Financial Analysis of the Agency's Funds

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

The focus of the Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the 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 \$11.4 million.

CAPITAL OUTLAY AND LONG-TERM DEBT

Capital Outlay

At the end of the current fiscal year, the Agency had capital assets totaling \$5.2 million. This investment in capital assets includes three buildings acquired during the fiscal year to be used for a subsidized housing program.

Long-Term Debt

At the end of the current fiscal year, the Agency had total bonded debt outstanding of \$44.2 million.

CONTACTING THE AGENCY'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, 2009

	<u>Governmental Activities</u>	
Assets:		
Cash and investments	\$	9,116,191
Receivables:		
Tax increment	\$ 1,750,767	
Accounts	780,000	
Interest receivable	31,288	
Loans	297,002	
Total Receivables		2,859,057
Deferred charges		1,713,567
Restricted assets:		
Cash and investments with trustees		958,150
Capital assets (Net of Depreciation):		
Land and improvements	5,236,846	
Total Capital Assets		5,236,846
Total Assets		19,883,811
Liabilities:		
Accounts payable and accrued expenses		1,977,282
Deposits from others		22,015
Long-term liabilities:		
Due within one year	710,000	
Due in more than one year	126,584,309	
Total Long-Term Liabilities		127,294,309
Total Liabilities		129,293,606
Net Assets:		
Invested in capital assets, net of related debt		5,236,846
Restricted for:		
Community development		6,821,256
Debt service		5,782,543
Unrestricted		(127,250,440)
Total Net Assets		\$ (109,409,795)

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

		Program Revenues			Net (Expense)
			Operating	Capital	Revenues and
		Charges for	Contributions	Contributions	Changes in
	Expenses	Services	and Grants	and Grants	Net Assets
					Governmental
					Activities
Functions/Programs					
Governmental Activities:					
General government	\$ 791,532	\$ -	\$ -	\$ -	\$ (791,532)
Community development	3,576,859	-	-	-	(3,576,859)
Interest on long-term debt	3,631,480	-	-	-	(3,631,480)
Total Governmental Activities	\$ 7,999,871	\$ -	\$ -	\$ -	(7,999,871)
General Revenues:					
Taxes (net of pass-through payments)					9,539,635
Use of money and property					457,183
Other					1,140,495
Total General Revenues					11,137,313
Change in Net Assets					3,137,442
Net Assets at Beginning of Year					(113,501,750)
Restatement of Net Assets					954,513
Net Assets at End of Year					\$ (109,409,795)

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HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	<u>Capital Projects</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Debt Service</u>
	<u>Project Area No. 2</u>	<u>Project Area No. 2</u>	<u>Hawthorne Plaza Project Area No. 1</u>	<u>Project Area No. 2</u>
	<u>Project</u>	<u>Low and Moderate Housing</u>	<u>Tax Increment</u>	<u>Tax Increment</u>
Assets:				
Cash and investments	\$ 26,902	\$ 6,426,430	\$ 362,343	\$ 2,296,384
Cash and investments with trustee	-	-	958,141	9
Receivables:				
Tax increment	-	365,101	-	1,385,666
Accounts	-	-	-	780,000
Interest receivable	1,563	29,725	-	-
Loans	-	297,002	-	-
Total Assets	\$ 28,465	\$ 7,118,258	\$ 1,320,484	\$ 4,462,059
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 1,204,289	\$ -	\$ -	\$ -
Deposits from others	22,015	-	-	-
Deferred revenue	-	297,002	-	-
Total Liabilities	1,226,304	297,002	-	-
Fund Balances:				
Unreserved:				
Designated:				
Debt service	-	-	1,320,484	4,462,059
Continuing projects	-	6,821,256	-	-
Undesignated	(1,197,839)	-	-	-
Total Fund Balances	(1,197,839)	6,821,256	1,320,484	4,462,059
Total Liabilities and Fund Balances	\$ 28,465	\$ 7,118,258	\$ 1,320,484	\$ 4,462,059

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	Other Governmental Funds	Total Governmental Funds
Assets:		
Cash and investments	\$ 4,132	\$ 9,116,191
Cash and investments with trustee	-	958,150
Receivables:		
Tax increment	-	1,750,767
Accounts	-	780,000
Interest receivable	-	31,288
Loans	-	297,002
Total Assets	\$ 4,132	\$ 12,933,398
Liabilities and Fund Balances:		
Liabilities:		
Accounts payable	\$ -	\$ 1,204,289
Deposits from others	-	22,015
Deferred revenue	-	297,002
Total Liabilities	-	1,523,306
Fund Balances:		
Unreserved:		
Designated:		
Debt service	-	5,782,543
Continuing projects	12,892	6,834,148
Undesignated	(8,760)	(1,206,599)
Total Fund Balances	4,132	11,410,092
Total Liabilities and Fund Balances	\$ 4,132	\$ 12,933,398

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HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS

TO THE STATEMENT OF NET ASSETS

JUNE 30, 2009

Fund balances of governmental funds **\$ 11,410,092**

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 5,236,846

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. 297,002

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 1,713,567

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 (44,205,000)

Developer loans (22,341,438)

Loans from City (60,129,166)

Unamortized net original issue discounts and (premiums) (759,206)

Unamortized net (gain) loss on bonds defeased 140,501

Accrued interest payable for the current portion of interest due on Tax Allocation

Bonds has not been reported in the governmental funds. (772,993)

Net assets of governmental activities **\$ (109,409,795)**

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Capital Projects	Capital Projects	Debt Service	Debt Service
	Project Area No. 2	Project Area No. 2	Hawthorne Plaza Project Area No. 1	Project Area No. 2
	Project	Low and Moderate Housing	Tax Increment	Tax Increment
Revenues:				
Taxes and assessments	\$ -	\$ 2,573,087	\$ 733,317	\$ 10,292,347
Use of money and property	224,646	193,642	32,338	164
Other revenue	495	-	-	780,000
Total Revenues	225,141	2,766,729	765,655	11,072,511
Expenditures:				
Current:				
General government	383,272	47,901	18,885	174,333
Capital outlay	11,087	3,828,235	-	-
Debt service	1,548,022	-	436,566	2,489,260
Other expenditures	3,472,764	-	-	-
Total Expenditures	5,415,145	3,876,136	455,451	2,663,593
Excess (Deficiency) of Revenues Over (Under) Expenditures	(5,190,004)	(1,109,407)	310,204	8,408,918
Other Financing Sources (Uses):				
Transfers in	3,000,000	-	-	-
Transfers out	-	-	-	(3,000,000)
Long-term debt issued	1,398,336	-	-	-
Pass-through agreement payments	(525,868)	-	-	(3,533,248)
Total Other Financing Sources (Uses):	3,872,468	-	-	(6,533,248)
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (1,317,536)	\$ (1,109,407)	\$ 310,204	\$ 1,875,670
Fund Balances:				
Beginning of Year, as previously reported	\$ 110,951	\$ 7,930,663	\$ 1,010,280	\$ 2,586,389
Restatements	8,746	-	-	-
Beginning of Year, as restated	119,697	7,930,663	1,010,280	2,586,389
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(1,317,536)	(1,109,407)	310,204	1,875,670
End of Year	\$ (1,197,839)	\$ 6,821,256	\$ 1,320,484	\$ 4,462,059

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Other Governmental Funds	Total Governmental Funds
Revenues:		
Taxes and assessments	\$ -	\$ 13,598,751
Use of money and property	-	450,790
Other revenue	-	780,495
Total Revenues	-	14,830,036
Expenditures:		
Current:		
General government	8,760	633,151
Capital outlay	-	3,839,322
Debt service	3,783	4,477,631
Other expenditures	-	3,472,764
Total Expenditures	12,543	12,422,868
Excess (Deficiency) of Revenues Over (Under) Expenditures	(12,543)	2,407,168
Other Financing Sources (Uses):		
Transfers in	-	3,000,000
Transfers out	-	(3,000,000)
Long-term debt issued	3,783	1,402,119
Pass-through agreement payments	-	(4,059,116)
Total Other Financing Sources (Uses):	3,783	(2,656,997)
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (8,760)	\$ (249,829)
Fund Balances:		
Beginning of Year, as previously reported	\$ 12,892	\$ 11,651,175
Restatements	-	8,746
Beginning of Year, as restated	12,892	11,659,921
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(8,760)	(249,829)
End of Year	\$ 4,132	\$ 11,410,092

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, 2009

Net change in fund balances - total governmental funds	\$ (249,829)
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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.	885,244
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Bond issuance costs is an expenditure in the governmental funds, but it is deferred charges in the statement of net assets:

Amortization for current fiscal year	(68,992)
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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	27,017
--------------------------------------	--------

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.

6,394

Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is capitalized and allocated over their estimated useful lives through depreciation expense:

Capital outlay expenditures removed	3,735,227
Capital assets contribution from the City	360,000
Depreciation	(158,381)

Proceeds of debt is revenue in the governmental funds, but these are additions to the statement of net assets.

(1,402,119)

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:

Current accrual of interest due on bonds	(772,993)
Prior year accrual of interest due on bonds	785,241

Change in net assets of governmental activities	<u><u>\$ 3,137,442</u></u>
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HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

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	\$ 9,116,191
Cash and investments with fiscal agent	<u>958,150</u>
	<u><u>\$ 10,074,341</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 earliest 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, 2009, the balance is \$297,002.

Note 5: Long-Term Debt

- a. A description of long-term debt outstanding (excluding defeased debt) of the Agency as of June 30, 2009, 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, 2009, amounted to \$7,620,000.

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, 2009, amounted to \$3,530,000.

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, 2009, amounted to \$3,970,000.

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, 2009, amounted to \$29,085,000.

Note Payable

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, 2009, amounted to \$22,341,438 including accrued interest of \$9,841,438.

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, 2009, loans to and accrued unpaid interest owed on those loans was \$60,129,166.

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, 2009:

	Balance July 1, 2008	Adjustments	Additions	Repayments	Balance June 30, 2009	Due Within One Year
<u>Hawthorne Plaza Project Area No. 1</u>						
City Loans - Principal	\$ 449,741	\$ (175,000)	\$ -	\$ -	\$ 274,741	\$ -
City Loans - Unpaid Interest	24,613,795	175,000	3,783	-	24,792,578	-
Bonds - 2001 Tax Allocation Bonds	3,725,000	-	-	195,000	3,530,000	205,000
Total	<u>\$ 28,788,536</u>	<u>\$ -</u>	<u>\$ 3,783</u>	<u>\$ 195,000</u>	<u>\$ 28,597,319</u>	<u>\$ 205,000</u>
<u>Project Area No. 2</u>						
City Loans - Principal	\$ 20,350,115	\$ (500,000)	\$ -	\$ -	\$ 19,850,115	\$ -
City Loans - Unpaid Interest	14,938,396	-	273,336	-	15,211,732	-
Notes - Mission Land Co.	139,243	-	-	139,243	-	-
Notes - AutoNation / Costco	12,500,000	-	-	-	12,500,000	-
Notes - AutoNation / Costco Unpaid Interest	8,782,438	-	1,125,000	66,000	9,841,438	-
Bonds - 2004 Refunding Tax Allocation	4,150,000	-	-	180,000	3,970,000	190,000
Bonds - 1998 Refunding	7,925,000	-	-	305,000	7,620,000	315,000
Bonds - 2006 Tax Allocation Bonds	29,085,000	-	-	-	29,085,000	-
Total	<u>\$ 97,870,192</u>	<u>\$ (500,000)</u>	<u>\$ 1,398,336</u>	<u>\$ 690,243</u>	<u>\$ 98,078,285</u>	<u>\$ 505,000</u>
<u>Total - All Project Areas</u>						
City Loans - Principal	\$ 20,799,856	\$ (675,000)	\$ -	\$ -	\$ 20,124,856	\$ -
City Loans - Unpaid Interest	39,552,191	175,000	277,119	-	40,004,310	-
Notes Payable	21,421,681	-	1,125,000	205,243	22,341,438	-
Bonds Payable	44,885,000	-	-	680,000	44,205,000	710,000
Total	<u>\$ 126,658,728</u>	<u>\$ (500,000)</u>	<u>\$ 1,402,119</u>	<u>\$ 885,243</u>	<u>126,675,604</u>	<u>\$ 710,000</u>
Adjustments:						
Unamortized net original issue (discount) or premium					759,206	
Unamortized net bond defeasance gain or (loss)					(140,501)	
Net Long-term Debt					<u>\$ 127,294,309</u>	

*Restatements are to adjust the balance at July 1, 2008.

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, 2009:

	2004 Tax Allocation Refunding Bonds		2001 Tax Allocation Refunding Bonds		1998 Tax Allocation Refunding Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
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 - 2013	210,000	136,739	245,000	187,188	365,000	321,375
2013 - 2014	215,000	129,196	260,000	171,406	390,000	302,500
2014 - 2019	1,195,000	515,717	1,580,000	559,281	2,265,000	1,191,375
2019 - 2024	1,435,000	240,465	795,000	55,516	2,915,000	547,875
2024 - 2029	330,000	7,425	-	-	675,000	16,875
Totals	<u>\$ 3,970,000</u>	<u>\$ 1,480,224</u>	<u>\$ 3,530,000</u>	<u>\$ 1,620,423</u>	<u>\$ 7,620,000</u>	<u>\$ 3,449,250</u>

	2006 Tax Allocation Bonds		Total	
	Principal	Interest	Principal	Interest
2009 - 2010	\$ -	\$ 1,454,781	\$ 710,000	\$ 2,213,188
2010 - 2011	-	1,454,781	750,000	2,177,913
2011 - 2012	595,000	1,442,881	1,380,000	2,128,306
2012 - 2013	620,000	1,418,581	1,440,000	2,063,883
2013 - 2014	645,000	1,393,281	1,510,000	1,996,383
2014 - 2019	3,635,000	6,532,866	8,675,000	8,799,239
2019 - 2024	4,595,000	5,541,250	9,740,000	6,385,106
2024 - 2029	5,870,000	4,233,644	6,875,000	4,257,944
2029 - 2034	7,565,000	2,493,094	7,565,000	2,493,094
2034 - 2039	5,560,000	447,825	5,560,000	447,825
Totals	<u>\$ 29,085,000</u>	<u>\$ 26,412,984</u>	<u>\$ 44,205,000</u>	<u>\$ 32,962,881</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 \$77,167,881 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 \$9,539,635 and the debt service obligation on the bonds was \$2,925,823.

Hawthorne Community Redevelopment Agency
Notes to Financial Statements (Continued)

Note 6: Capital Assets

The following schedule shows changes in capital assets for the year ended June 30, 2009:

	Balance July 1, 2008	Adjustments*	Adjusted Beginning Balance	Additions	Deletions	Balance June 30, 2009
Non-Depreciable assets:						
Land	\$ -	\$ -	\$ -	\$ 360,000	\$ -	\$ 360,000
Total non-depreciable assets	-	-	-	360,000	-	360,000
Depreciable assets:						
Structures and improvements	-	1,300,000	1,300,000	3,735,227	-	5,035,227
Total depreciable assets	-	1,300,000	1,300,000	3,735,227	-	5,035,227
Less accumulated depreciation						
Structures and improvements	-	-	-	158,381	-	158,381
Total accumulated depreciation	-	-	-	158,381	-	158,381
Total depreciable assets, net	-	1,300,000	1,300,000	3,576,846	-	4,876,846
Total net capital assets	\$ -	\$ 1,300,000	\$ 1,300,000	\$ 3,936,846	\$ -	\$ 5,236,846

*Adjustment is to record property purchased in prior years but not recorded.

IV. OTHER DISCLOSURES

Note 7: 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, three and 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 8: 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 \$3,262,424 as of June 30, 2009.

Hawthorne Community Redevelopment Agency
Notes to Financial Statements (Continued)

Note 9: 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.

Note 10: Interfund Transfers

Interfund Transfers are as follows:

	<u>Transfers Out</u>
	Debt Service
	Project
	<u>Area No. 2</u>
<u>Transfers In:</u>	
Capital projects	
Project Area No. 2	<u>\$ 3,000,000</u>

Transfers from the debt service tax increment fund in Project Area No. 2 were made to fund capital projects and debt service.

Note 11: Fund Balances and Net Assets Restatements

Fund balances and net assets have been restated as follows:

Capital Projects - Project Area No. 2	
To record the 118th & Grevillea Senior Citizen Project in the Redevelopment Agency	8,746
Property purchased in prior years but not recorded	1,300,000
Accrued interest on long term debt understated in prior year	(785,241)
To adjust unamortized cost of issuance	(68,992)
To correct the City of Hawthorne advances to the Agency	<u>500,000</u>
Total Net Asset Restatements	<u>\$ 954,513</u>

Hawthorne Community Redevelopment Agency
Notes to Financial Statements (Continued)

Note 12: Subsequent Events

SERAF Tax Increment Revenue Shift for fiscal year 2009-2010 and 2010-2011

On July 23, 2009, the California Legislature passed SB 26, requiring a shift in tax increment revenues during fiscal years 2009-2010 and 2010-2011 to be deposited into the county "Supplemental" Educational Revenue Augmentation Fund (SERAF) and which is to be distributed to meet the State's Prop 98 obligations to schools. It is estimated that the Agency's share of the SERAF shift for fiscal year 2009-2010 and 2010-2011 will amount to approximately \$3,167,192 and \$652,069, respectively. In October 2009, the California Redevelopment Association and its member agencies filed a legal action in an attempt to stop these amounts from having to be paid. As of the date of this report, no legal determination has been made by the courts on that action.

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HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

COMBINING PROJECT AREA BALANCE SHEET
ALL GOVERNMENTAL FUNDS
JUNE 30, 2009

	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	\$ 362,343	\$ 4,132	\$ 2,296,384
Cash and investments with trustee	958,141	-	9
Receivables:			
Tax increment	-	-	1,385,666
Accounts	-	-	780,000
Interest receivable	-	-	-
Loans	-	-	-
Total Assets	\$ 1,320,484	\$ 4,132	\$ 4,462,059
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Deposits from others	-	-	-
Deferred revenue	-	-	-
Total Liabilities	-	-	-
Fund Balances:			
Unreserved:			
Designated:			
Debt service	1,320,484	-	4,462,059
Continuing projects	-	4,132	-
Undesignated	-	-	-
Total Fund Balances	1,320,484	4,132	4,462,059
Total Liabilities and Fund Balances	\$ 1,320,484	\$ 4,132	\$ 4,462,059

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

COMBINING PROJECT AREA BALANCE SHEET
ALL GOVERNMENTAL FUNDS
JUNE 30, 2009

	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	\$ 26,902	\$ 6,426,430	\$ 2,658,727	\$ 6,457,464
Cash and investments with trustee	-	-	958,150	-
Receivables:				
Tax increment	-	365,101	1,385,666	365,101
Accounts	-	-	780,000	-
Interest receivable	1,563	29,725	-	31,288
Loans	-	297,002	-	297,002
Total Assets	\$ 28,465	\$ 7,118,258	\$ 5,782,543	\$ 7,150,855
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,204,289	\$ -	\$ -	\$ 1,204,289
Deposits from others	22,015	-	-	22,015
Deferred revenue	-	297,002	-	297,002
Total Liabilities	1,226,304	297,002	-	1,523,306
Fund Balances:				
Unreserved:				
Designated:				
Debt service	-	-	5,782,543	-
Continuing projects	-	6,821,256	-	6,825,388
Undesignated	(1,197,839)	-	-	(1,197,839)
Total Fund Balances	(1,197,839)	6,821,256	5,782,543	5,627,549
Total Liabilities and Fund Balances	\$ 28,465	\$ 7,118,258	\$ 5,782,543	\$ 7,150,855

HAWTHORNE 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, 2009

	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	\$ 733,317	\$ -	\$ 10,292,347
Use of Money and Property:			
Interest income	32,338	-	164
Rental income	-	-	-
Other revenue:			
Miscellaneous revenue	-	-	780,000
Total Revenues	765,655	-	11,072,511
Expenditures:			
Current:			
General Government:			
Administrative costs	18,885	8,760	174,333
Professional services	-	-	-
Capital Outlay:			
Project improvement costs	-	-	-
Acquisition of fixed assets	-	-	-
Debt Service:			
Interest expense	241,566	3,783	2,004,260
Long-term debt repayments	195,000	-	485,000
Other Expenditures:			
Developer Pass-thru payments	-	-	-
Contribution to City of Hawthorne	-	-	-
Total Expenditures	455,451	12,543	2,663,593
Excess of Revenues over (under) Expenditures	310,204	(12,543)	8,408,918
Other Financing Sources (Uses)			
Transfers in	-	-	-
Transfers out	-	-	(3,000,000)
Long-term debt issued	-	3,783	-
Pass through agreement payments	-	-	(3,533,248)
Total Other Financing Sources (Uses)	-	3,783	(6,533,248)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	310,204	(8,760)	1,875,670
Fund Balances			
Beginning of Year, as previously reported	1,010,280	12,892	2,586,389
Restatements	-	-	-
Beginning of Year, as restated	1,010,280	12,892	2,586,389
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	310,204	(8,760)	1,875,670
End of Year	\$ 1,320,484	\$ 4,132	\$ 4,462,059

HAWTHORNE 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, 2009

	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	\$ -	\$ 2,573,087	\$ 11,025,664	\$ 2,573,087
Use of Money and Property:				
Interest income	7,608	193,642	32,502	201,250
Rental income	217,038	-	-	217,038
Other revenue:				
Miscellaneous revenue	495	-	780,000	495
Total Revenues	225,141	2,766,729	11,838,166	2,991,870
Expenditures:				
Current:				
General Government:				
Administrative costs	277,897	47,901	193,218	334,558
Professional services	105,375	-	-	105,375
Capital Outlay:				
Project improvement costs	11,087	93,008	-	104,095
Acquisition of fixed assets	-	3,735,227	-	3,735,227
Debt Service:				
Interest expense	1,342,778	-	2,245,826	1,346,561
Long-term debt repayments	205,244	-	680,000	205,244
Other Expenditures:				
Developer Pass-thru payments	2,052,764	-	-	2,052,764
Contribution to City of Hawthorne	1,420,000	-	-	1,420,000
Total Expenditures	5,415,145	3,876,136	3,119,044	9,303,824
Excess of Revenues over (under) Expenditures	(5,190,004)	(1,109,407)	8,719,122	(6,311,954)
Other Financing Sources (Uses)				
Transfers in	3,000,000	-	-	3,000,000
Transfers out	-	-	(3,000,000)	-
Long-term debt issued	1,398,336	-	-	1,402,119
Pass through agreement payments	(525,868)	-	(3,533,248)	(525,868)
Total Other Financing Sources (Uses)	3,872,468	-	(6,533,248)	3,876,251
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(1,317,536)	(1,109,407)	2,185,874	(2,435,703)
Fund Balances				
Beginning of Year, as previously reported	110,951	7,930,663	3,596,669	8,054,506
Restatements	8,746	-	-	8,746
Beginning of Year, as restated	119,697	7,930,663	3,596,669	8,063,252
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(1,317,536)	(1,109,407)	2,185,874	(2,435,703)
End of Year	\$ (1,197,839)	\$ 6,821,256	\$ 5,782,543	\$ 5,627,549

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

COMPUTATION OF LOW AND MODERATE INCOME HOUSING FUNDS EXCESS/SURPLUS

	Low and Moderate Housing Funds - All Project Areas July 1, 2008	Low and Moderate Housing Funds - All Project Areas July 1, 2009
Opening Fund Balance	\$ 7,930,663	\$ 6,821,256
Less Unavailable Amounts:		
Land held for resale	\$ -	\$ -
ERAF loans	-	-
	-	-
Available Low and Moderate Income Housing Funds	7,930,663	6,821,256
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-Aside for last four years:		
2008 - 2009	-	2,573,087
2007 - 2008	1,808,867	1,808,867
2006 - 2007	1,613,129	1,613,129
2005 - 2006	1,477,389	1,477,389
2004 - 2005	1,254,514	-
Total	\$ 6,153,899	\$ 7,472,472
Base Limitation	\$ 1,000,000	\$ 1,000,000
Greater amount	6,153,899	7,472,472
Computed Excess/Surplus	\$ 1,776,764	None