

**REDEVELOPMENT AGENCY OF THE
CITY OF LA HABRA
(A Component Unit of the City of La Habra,
California)**

Annual Financial and Compliance Report

June 30, 2010

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Annual Financial and Compliance Report
For the Year Ended June 30, 2010

Table of Contents

	<i>Page(s)</i>
FINANCIAL SECTION	
Independent Auditor’s Report	1
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	3
Statement of Activities.....	4
Fund Financial Statements:	
Balance Sheet.....	6
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	8
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	10
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Notes to Financial Statements	13
Required Supplementary Information (Unaudited):	
Low-Moderate Income Housing Set-Aside Special Revenue Fund – Budgetary Comparison Schedule.....	30
Operating Special Revenue Fund – Budgetary Comparison Schedule.....	31
Note to Required Supplementary Information	32
Supplementary Information:	
Capital Projects Fund – Budgetary Comparison Schedule.....	34
Debt Service Fund – Budgetary Comparison Schedule	35
COMPLIANCE SECTION	
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance (Including the Provisions Contained in the <i>Guidelines for Compliance Audits of Redevelopment Agencies</i>) and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	39

The Board of Directors of the
Redevelopment Agency of the City of La Habra

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of La Habra (Agency), a component unit of the City of La Habra, California as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Agency as of June 30, 2010, 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*, we have also issued our report dated December 21, 2010, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 budgetary comparison information listed in the table of contents as required supplementary information is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally 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. The Agency has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying budgetary comparison schedules listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary comparison schedules have 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.

Macias Fini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

December 21, 2010

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Statement of Net Assets
June 30, 2010

Assets:

Current assets:

Cash and investments	\$ 2,877,949
Restricted cash and investments with fiscal agents	2,610,380
Accounts receivable	1,010
Taxes receivable	27,113
Interest receivable	3,380
Land held for resale	<u>3,111,000</u>
Total current assets	<u>8,630,832</u>

Noncurrent assets:

Capital assets not being depreciated	2,133,838
Capital assets being depreciated (net of accumulated depreciation)	<u>3,426,643</u>
Total noncurrent assets	<u>5,560,481</u>

Total assets	<u>14,191,313</u>
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Liabilities:

Current liabilities:

Accounts payable and accrued liabilities	777,771
Interest payable	223,360
Due to the City of La Habra	208,918
Long-term liabilities, due within one year	<u>310,000</u>
Total current liabilities	1,520,049

Noncurrent liabilities:

Long-term liabilities, due in more than one year	<u>19,905,151</u>
Total liabilities	<u>21,425,200</u>

Net assets (deficit):

Invested in capital assets, net of related debt	(814,139)
Restricted for:	
Low-moderate income housing	2,325,648
Unrestricted (deficit)	<u>(8,745,396)</u>
Total net assets (deficit)	<u>\$ (7,233,887)</u>

See Accompanying Notes to Financial Statements.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Statement of Activities
For the Year Ended June 30, 2010

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net Expenses and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Capital Contributions</u>	
Governmental activities:				
Community development	\$ 2,651,657	\$ 38,113	\$ 882,816	\$ (1,730,728)
Interest on long-term debt	967,097	-	-	(967,097)
Total governmental activities	\$ 3,618,754	\$ 38,113	\$ 882,816	(2,697,825)
General revenues:				
Property tax				3,059,838
Special CFD tax				278,485
Income from property and investments				37,775
Total general revenues				3,376,098
Change in net assets				678,273
Net assets, beginning of year				(7,912,160)
Net assets, end of year				\$ (7,233,887)

See Accompanying Notes to Financial Statements.

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REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Balance Sheet
Governmental Funds
June 30, 2010

	Special Revenue Funds	
	Low-Moderate Income Housing Set-Aside Fund	Operating Fund
Assets:		
Cash and investments	\$ 1,604,836	\$ 1,251,105
Restricted cash and investments with fiscal agents	-	-
Accounts receivable	-	-
Taxes receivable	5,423	-
Interest receivable	-	3,380
Due from other funds	-	20,350
Land held for resale	111,000	3,000,000
Advances to other funds	612,477	-
	<u>612,477</u>	<u>-</u>
Total assets	<u>\$ 2,333,736</u>	<u>\$ 4,274,835</u>
Liabilities and fund balances:		
Liabilities:		
Accounts payable and accrued liabilities	\$ 8,088	\$ 767,728
Due to other funds	-	-
Due to the City of La Habra	-	47,120
Deferred Revenues	510	-
Advances from other funds	-	612,477
	<u>-</u>	<u>612,477</u>
Total liabilities	<u>8,598</u>	<u>1,427,325</u>
Fund balances:		
Reserved for:		
Land held for resale	111,000	3,000,000
Advances	611,967	-
Debt service	-	-
Low-moderate income housing	1,602,171	-
Unreserved	-	(152,490)
	<u>-</u>	<u>(152,490)</u>
Total fund balances	<u>2,325,138</u>	<u>2,847,510</u>
Total liabilities and fund balances	<u>\$ 2,333,736</u>	<u>\$ 4,274,835</u>

See Accompanying Notes to Financial Statements.

Capital Projects Fund	Debt Service Fund	Total Governmental Funds
\$ 22,008	\$ -	\$ 2,877,949
2,332,480	277,900	2,610,380
1,010	-	1,010
-	21,690	27,113
-	-	3,380
-	-	20,350
-	-	3,111,000
-	-	612,477
<u>\$ 2,355,498</u>	<u>\$ 299,590</u>	<u>\$ 9,263,659</u>
\$ 615	\$ 1,340	\$ 777,771
-	20,350	20,350
161,798	-	208,918
-	-	510
-	-	612,477
<u>162,413</u>	<u>21,690</u>	<u>1,620,026</u>
-	-	3,111,000
-	-	611,967
-	277,900	277,900
-	-	1,602,171
2,193,085	-	2,040,595
<u>2,193,085</u>	<u>277,900</u>	<u>7,643,633</u>
<u>\$ 2,355,498</u>	<u>\$ 299,590</u>	<u>\$ 9,263,659</u>

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2010

Total fund balances, governmental funds	\$ 7,643,633
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.	5,560,481
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in funds.	(223,360)
Long-term liabilities, including bonds payable and advances are not due and payable in the current period and, therefore, are not reported in the funds.	(20,215,151)
Certain revenues in governmental funds are deferred because they are not collected within the prescribed time period after year-end. Therefore, they are revenue on the accrual basis used in the government-wide statements.	<u>510</u>
Net assets (deficit) of governmental activities	<u><u>\$ (7,233,887)</u></u>

See Accompanying Notes to Financial Statements.

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REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

	Special Revenue	
	Funds	
	Low-Moderate Income Housing Set-Aside Fund	Operating Fund
Revenues:		
Tax increment	\$ 611,967	\$ -
Special CFD Tax	-	-
Charges for services	-	26,642
Use of money and property	10,443	2,947
	622,410	29,589
Total revenues		
Expenditures:		
Current:		
Community development	288,196	1,158,318
Intergovernmental - SERAF payment	-	892,557
Capital outlay - Payments to City	-	-
Debt service:		
Principal	-	200,000
Interest	-	-
	288,196	2,250,875
Total expenditures		
Excess (deficiency) of revenues over (under) expenditures	334,214	(2,221,286)
Other financing sources (uses):		
Transfers in	-	1,921,563
Transfers out	-	-
	-	1,921,563
Total other financing sources (uses)		
Net change in fund balances	334,214	(299,723)
Fund balances, beginning of year	1,990,924	3,147,233
Fund balances, end of year	\$ 2,325,138	\$ 2,847,510

See Accompanying Notes to Financial Statements.

Capital Projects Fund	Debt Service Fund	Total Governmental Funds
\$ -	\$ 2,447,871	\$ 3,059,838
-	278,485	278,485
11,471	-	38,113
23,873	2	37,265
<u>35,344</u>	<u>2,726,358</u>	<u>3,413,701</u>
13,079	5,333	1,464,926
-	-	892,557
161,798	-	161,798
-	275,000	475,000
-	524,462	524,462
<u>174,877</u>	<u>804,795</u>	<u>3,518,743</u>
<u>(139,533)</u>	<u>1,921,563</u>	<u>(105,042)</u>
-	-	1,921,563
-	(1,921,563)	(1,921,563)
-	(1,921,563)	-
(139,533)	-	(105,042)
<u>2,332,618</u>	<u>277,900</u>	<u>7,748,675</u>
<u>\$ 2,193,085</u>	<u>\$ 277,900</u>	<u>\$ 7,643,633</u>

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2010

Net change in fund balances - total governmental funds \$ (105,042)

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and report as depreciation expense or allocated to the appropriate functional expense when the cost is below the capitalization threshold. In addition capital assets contributed are not reported in the governmental funds as they are not a resource that can be used to pay current expenditures. The effects of capital asset related activities are as follows:

Depreciation	\$ (132,376)	
Capital contribution	<u>882,816</u>	750,440

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on changes in net assets.

475,000

In the Statement of Activities, interest is accrued on long-term liabilities, whereas in the governmental fund statements, interest expenditures are reported when due. This is the amount by which interest paid exceeds interest accrued.

(442,635)

Some revenues reported in the statement of activities are not considered to be available to finance current expenditures and therefore are not reported as revenues in the governmental funds.

510

Change in net assets of governmental activities

\$ 678,273

See Accompanying Notes to Financial Statements.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements
June 30, 2010

(1) Summary of Significant Accounting Policies

(a) Reporting Entity – Redevelopment Agency of the City of La Habra

The Redevelopment Agency of the City of La Habra (Agency) was established in September 1975 pursuant to State of California Health and Safety Code Section 33000 entitled *Community Redevelopment Law*. Its purpose is to prepare and carry out plans for the improvement, rehabilitation, and redevelopment of blighted areas within the City of La Habra (City). The reporting entity also includes the financial information of Community Facilities District No. 1990-1 (District).

The Agency is a “component unit” of the City for financial reporting purposes. Since the City Council of the City also serves as the Board of Directors of the Agency, the City, in effect, has the ability to influence and control operations. Therefore, the City has oversight responsibility for the Agency. The financial statements of the Agency are included in the City’s comprehensive annual financial report. The Agency has the same fiscal year as the City. The City’s financial statements can be obtained from the Finance Department of the City.

The Community Facilities District No. 1990-1 (District) is a “component unit” of the Agency for financial reporting purposes. The District is a component unit of the Agency because it provides services entirely to the Agency. The District was set up to acquire real property and construct a public parking facility. This facility was paid for by the Agency from proceeds received from special tax bonds, which will be repaid from levies on taxable real property within the District.

(b) Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable to a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. Taxes and other items not properly classified as program revenues are reported as general revenues.

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2010

spending activities are controlled.

Major individual governmental funds are reported in 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. On an accrual basis, revenue from property taxes is recognized in the fiscal year from which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Net assets are reported as restricted when constraints placed on their use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through local enabling legislation. When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

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 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 are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is principal and interest on long-term debt which is recognized when due.

Real property taxes are levied for the period beginning on July 1 to June 30 against property owners of record on January 1. The taxes are due in two installments, on December 10 and April 10, and become delinquent after December 10 and April 10, respectively. The Agency participates in a program known as the "Teeter Plan," whereby the county distributes 100% of the Agency's portion of the secured tax levy during each fiscal year. In exchange, the Agency waives the right to collect interest and penalties on any delinquent tax collections received by the county on the secured rolls in future years.

The Agency reports the following major governmental funds (all governmental funds are considered "major"):

The Low-Moderate Income Housing Set-Aside Fund, a special revenue fund, is used to account for the 20% of gross property tax increment revenue received by the Agency to fund future projects involving the replacing or rehabilitation of low- and moderate-income housing within City limits.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2010

The Operating Fund, a special revenue fund, is used to account for the financial resources to be used for the improvement and rehabilitation of the community development project areas within the Agency.

The Capital Projects Fund is used to account for the financial resources to be used for the improvement and rehabilitation of the community development project areas and acquisition or construction of major capital facilities within the Agency.

The Debt Service Fund is used to account for the accumulation of resources for the payment of principal, interest, and related costs associated with all long-term debt of the Agency.

(d) Budgetary Data

The budget is legally adopted for the Special Revenue, Capital Projects and Debt Service funds on the basis which does not differ materially from accounting principles generally accepted in the United States of America. The Board of Directors can revise the budget periodically during the year when deemed necessary.

The appropriated budget is prepared by fund, function, and department. The government's department head, with approval of the Finance Director and Executive Director, may make transfers of appropriations within a department. Transfers of appropriations between departments within a fund must be approved by the Executive Director. Transfers between funds must be approved by the Board of Directors; therefore, the legal level of budgetary control is at the fund level. The Board made supplemental budgetary appropriations during the year.

(e) Cash and Investments

Cash includes amounts in demand deposits. Investments are reported in the accompanying financial statements at fair value (the value at which a financial instrument would be exchanged in a current transaction between willing parties other than a forced or liquidation sale), except for certain investments which have a remaining life of less than one year when purchased which are stated at amortized cost.

Changes in fair value that occur during a fiscal year are recognized as income from property and investments reported for that fiscal year. Income from property and investments includes interest earnings; changes in fair value; any gains or losses realized upon the liquidation, maturity, or sale of investments; and property rentals.

The Agency pools cash and investments of all funds, except for assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. The balance in the pooled cash accounts is available to meet current operating requirements. Investment income earned by the pooled investments is allocated to the various funds on a monthly basis, based on each fund's daily average cash and investments balance.

Restricted cash and investments are stated at fair value and are those set aside for uses that are specified by bond indentures or agreements.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2010

(f) Land Held for Resale

Land held for resale is valued at the lower of cost or estimated net realizable value as determined upon the execution of a disposition and development agreement. The amount of land held for resale outstanding at June 30, 2010, was \$3,111,000.

(g) Capital Assets

Capital assets, which include land, buildings and improvements and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized.

Depreciation is charged to operations using the straight-line method based on the estimated useful life of an asset. The estimated useful lives of depreciable assets are as follows:

<u>Type of Asset</u>	<u>Life in Years</u>
Buildings and improvements	5-40
Infrastructure	30-50

(h) Fund Balances

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

(i) Deficit Net Assets

The Agency's unrestricted net assets are in a deficit position primarily due to long-term debt in excess of capital assets owned by the Agency. Generally, the City issues debt whereby the proceeds are loaned to the Agency for development and improvements within its project area. These improvements are for the benefit and ultimate use of the City and, therefore, the capital assets are included as part of the City's capital assets.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2010

(j) Expenditures Exceeded Appropriations

	Budget	Actual	Variance
Operating Special Revenue Fund	\$ 1,494,626	\$ 2,250,875	\$ (756,249)

(2) Detailed Notes on All Funds

(a) Cash and Investments

Cash resources of the individual funds are combined to form a pool of cash and investments. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of La Habra. The Agency has adopted the same investment policy adopted by the City. Individual investments cannot be identified with any single fund because the Agency may be required to liquidate its investments at any time to cover large cash outlays required in excess of normal operating needs. Funds must request large outlays in advance so that the City Treasurer will have the funding available.

Cash and investments at June 30, 2010, are classified in the accompanying financial statements as follows:

Cash and investments	\$ 2,877,949
Restricted cash and investments with fiscal agents	2,610,380
Total cash and investments	\$ 5,488,329

Cash and investments as of June 30, 2010, consist of the following:

Demand deposits with financial institutions	\$ 316,103
Investments held by fiscal agents	2,610,380
Investments - LAIF	2,561,846
Total cash and investments	\$ 5,488,329

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2010

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

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentages of Portfolio</u>	<u>Maximum Investment In One Investor</u>
City or City Agency Bonds	5 years	10%	None
U.S. Treasury Obligations	5 years	100%	None
State of California Obligations	5 years	20%	None
California Local Agency Bonds	5 years	20%	None
U.S. Agency Obligations	5 years	100%	10%
Bankers' Acceptance	180 days	20%	5%
Commercial Paper	270 days	30%	10%
Negotiable CDs	5 years	20%	5%
Time Certificates of Deposit	5 years	100%	None
Repurchase Agreements	90 days	100%	None
Medium Term Notes	5 years	20%	5%
Money Market Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	100%	\$50 million per account

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2010

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee is governed by provisions of the debt agreements rather than the general provisions of the California Government Code or the Agency's investment policy. The table below identifies the general investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentages of Portfolio</u>	<u>Maximum Investment In One Investor</u>
U.S. Treasury Obligations	None	None	None
Federal Housing Administration Debentures	None	None	None
U.S. Agency Securities	None	None	None
Unsecured CDs, time deposits and Bankers' Acceptance	30 days	None	None
FDIC Insured bank deposits	None	None	None
Commercial Paper	270 days	None	None
Money Market Funds	N/A	None	None
State Obligations	None	None	None
Pre-funded Municipal Obligations	None	None	None
Repurchase Agreements	90 days	None	None
Investment Agreements	None	None	None
Local Agency Investment Fund (LAIF)	None	None	\$50 million per account

Disclosures Related to Interest Rate Risk

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

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2010

Information about the sensitivity of the fair values of the Agency's investment to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity using the weighted-average maturity of each investment:

Investment Types	Remaining Maturity Less Than 1 Year
Money Market Fund	\$ 1,152
LAIF	2,560,694
Held by fiscal agent:	
Money Market Fund	278,866
LAIF	2,331,514
Total	\$ 5,172,226

Disclosures Related to Credit Risk

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

Investment Types	Amount	Minimum Legal Rating	AAA	Not Rated
Money Market Fund	\$ 1,152	AAA	\$ 1,152	\$ -
LAIF	2,560,694	N/A	-	2,560,694
Held by Fiscal Agent:				
Money Market	278,866	AAA	278,866	-
LAIF	2,331,514	N/A	-	2,331,514
	\$ 5,172,226		\$ 280,018	\$ 4,892,208

Concentration of Credit Risk

The Agency's investment policy contains certain limitations as disclosed in the accompanying table on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no investments in any one issuer that represent 5% or more of the Agency's investments (other than external investment pools).

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2010

Custodial Credit Risk

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

As of June 30, 2010, \$66,103 of the Agency's deposits with financial institutions was in excess of federal depository insurance limits. As of June 30, 2010, no Agency investments were held by the same broker-dealer (counterparty) that was used by the Agency to buy the securities.

Investment in State Investment Pool

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF), which is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The total amount invested by all public agencies in LAIF as of June 30, 2010 was \$23.3 billion. LAIF is part of the California Pooled Money Investment Account (PMIA), which at June 30, 2010 had a balance of \$69.4 billion, of that amount, 5.42% was invested in medium-term and short-term structured notes and asset-backed securities. The average maturity of PMIA investments was 203 days as of June 30, 2010.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2010

(b) Due To/From Other Funds

Interfund receivables and payable at June 30, 2010 were as follows:

	Due From Other Funds	Due to Other Funds
Operating Special Revenue Fund	\$ 20,350	\$ -
Debt Service Fund	-	20,350
	<u>\$ 20,350</u>	<u>\$ 20,350</u>

The interfund receivables and payables balances represent routine and temporary cash flow assistance.

(c) Advances To/From Other Funds

	Advances To Other Funds	Advances From Other Funds
Low Moderate Income Housing Set-Aside Fund	\$ 612,477	\$ -
Operating Special Revenue Fund	-	612,477
	<u>\$ 612,477</u>	<u>\$ 612,477</u>

As authorized by State Assembly Bill (AB) 26 4x, the Agency suspended its required 20% set-aside deposit of total annual tax increment into the Low-Moderate Income Housing Set-Aside special revenue (LMIH) fund for fiscal year 2010. These funds were used to pay the Agency's required supplemental Education Revenue Augmentation Fund (SERAF) obligation to the County. The Agency has established an advance from the Operating special revenue fund to the LMIH fund to recover the suspended deposit on or before June 30, 2015. Interest is calculated based on the State's Pooled Money Investment Account's (PMIA) Average Monthly Effective Yields. At June 30, 2010, the outstanding balance of the advance was \$612,477, which included accrued interest of \$510.

(d) Interfund Transfers

	Transfers In	Transfers Out
Operating Special Revenue Fund	\$ 1,921,563	\$ -
Debt Service Fund	-	1,921,563
	<u>\$ 1,921,563</u>	<u>\$ 1,921,563</u>

The \$1,921,563 transferred to the Operating Special Revenue Fund was for current and future expenditures.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2010

(e) Capital Assets

Capital asset activity was as follows for the year ended June 30, 2010:

	Balance at July 1, 2009 As Restated*	Increases	Decreases	Balance at June 30, 2010
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 328,522	\$ -	\$ -	\$ 328,522
Construction in progress	922,500	882,816	-	1,805,316
Total capital assets, not being depreciated	<u>1,251,022</u>	<u>882,816</u>	<u>-</u>	<u>2,133,838</u>
Capital assets, being depreciated:				
Infrastructure	<u>3,971,268</u>	<u>-</u>	<u>-</u>	<u>3,971,268</u>
Total capital assets, being depreciated	<u>3,971,268</u>	<u>-</u>	<u>-</u>	<u>3,971,268</u>
Less accumulated depreciation for:				
Infrastructure	<u>412,249</u>	<u>132,376</u>	<u>-</u>	<u>544,625</u>
Total accumulated depreciation	<u>412,249</u>	<u>132,376</u>	<u>-</u>	<u>544,625</u>
Total capital assets being depreciated, net	<u>3,559,019</u>	<u>(132,376)</u>	<u>-</u>	<u>3,426,643</u>
Governmental activities capital assets, net	<u>\$ 4,810,041</u>	<u>\$ 750,440</u>	<u>\$ -</u>	<u>\$ 5,560,481</u>

* Capital assets were restated to reclassify \$922,500 from capital assets being depreciated to construction in progress. The Agency purchased a building in fiscal year 2009 that is being repaired and renovated and was not in use as of June 30, 2009, thus should not be depreciated.

During fiscal year 2010, the City used \$882,816 of the City's Child Care and Development grant funds to renovate and repair an agency owned facility. The related asset was contributed to the Agency and is an addition to construction in progress. Also, during fiscal year 2010, the Agency contributed \$161,798 to the City for infrastructure improvements. This amount is reported as Capital Outlay – Payments to City in the Agency's Capital Projects fund, but was not capitalized by the Agency.

All depreciation expense of governmental activities was charged to community development.

The Agency had no significant construction commitments outstanding at June 30, 2010.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2010

(f) Long-Term Liabilities

Long-term liabilities consist of the following at June 30, 2010:

	<u>Balance at July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2010</u>	<u>Due within One Year</u>
Governmental activities:					
1999 Refunding Special Tax Bonds	\$ 2,180,000	\$ -	\$ 145,000	\$ 2,035,000	\$ 155,000
2000 Tax Allocation Bonds	7,080,000	-	130,000	6,950,000	155,000
Advance from Civic Improvement Authority	591,214	-	-	591,214	-
Advances from the City of La Habra	<u>10,387,878</u>	<u>451,059</u>	<u>200,000</u>	<u>10,638,937</u>	<u>-</u>
Total	<u>\$ 20,239,092</u>	<u>\$ 451,059</u>	<u>\$ 475,000</u>	<u>\$ 20,215,151</u>	<u>\$ 310,000</u>

1999 Refunding Special Tax Bonds

On July 1, 1999, the Community Facilities District of the Agency issued 1999 Special Tax Bonds (Refunding Bonds) in the amount of \$3,185,000 at interest rates ranging from 4.25% to 6% to advance refund \$3,250,000 of outstanding 1990 Special Tax Bonds (Refunded Bonds) with interest rates ranging from 7% to 7.75%. The bonds are secured primarily by a pledge of all special tax revenues levied on taxable real property with the District. Special tax revenues are defined as the special taxes levied by the Agency within the District. In addition, the Agency has committed, through an Owner Participation Agreement, to subsidize the special taxes payable on the Refunding Bonds with incremental property taxes. These revenues have been pledged until the year 2019, the final maturity date of the bonds. The total principal and interest remaining on the bonds is \$2,702,040, the approximate amount of revenue pledged. Special tax revenue recognized during the year ended June 30, 2010 was \$278,485 as against the total debt service payments of \$270,468.

2000 Tax Allocation Bonds

On November 1, 2000, the Agency issued Tax Allocation Bonds in an aggregate amount of \$8,000,000 with fixed interest rates ranging from 4.5% to 5.875% to finance the Agency's redevelopment activities. The bonds mature in various annual amounts through October 1, 2032 and are secured and to be serviced from tax increment revenues of the Agency. All tax increment revenues are the security for bonds. The total principal and interest remaining on the bonds is \$12,172,199 the approximate amount of revenue pledged. Pledged tax increment revenue recognized during the year ended June 30, 2010 was \$2,447,871 as against the total debt service payments of \$528,994.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2010

Civic Improvement Authority

As of June 30, 2010, the Agency had borrowed \$591,214 from the Civic Improvement Authority, which included unpaid interest. There are no repayment terms on these advances, and the current interest rate is 0%.

City of La Habra

As of June 30, 1992, the Agency had borrowed an aggregate amount of \$5.7 million from the City. From that date through September 1998, the balance of the advances, excluding unpaid interest of \$1,319,247, from the City totaled \$6,705,000, representing \$5,640,000 from the Series B Tax-Exempt Certificates and \$1,065,000 from the Series C Tax Certificates. On September 15, 1998, a loan agreement was entered into between the City and Agency whereby the Agency would repay these advances in annual principal installments of between \$160,000 and \$455,000, plus interest of between 4.0% and 6.5%, maturing in 2022. In October 2000, the agreement was amended to account for the illiquid position of the Agency whereby the amount of the annual payments will be contingent upon the liquidity of the Agency (i.e. the Agency's ability to make scheduled payments). For the current year, principal paid was \$200,000. At June 30, 2010, the outstanding balance of the advance was \$8,053,582. The total accrued interest included in the balance is \$1,348,582, which includes accrued interest of \$229,335 for fiscal year 2009-2010.

In August 2007, the City advanced the Agency \$2,000,000, at an interest rate of 9%, towards the purchase of a building and land. During the year the City extended the repayment terms of the advance to June 2014. At June 30, 2010, the outstanding balance of the advance was \$2,585,355. The total accrued interest included in the balance is \$585,355, which includes accrued interest of \$221,724 for fiscal year 2009-2010.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2010

At June 30, 2010, debt service requirements to maturity for tax allocation bonds are as follows:

<u>Fiscal Year Ending June 30</u>	1999 Refunding Special Tax Bonds	2000 Tax Allocation Bonds	Total Principal	Total Interest
2011	\$ 155,000	\$ 155,000	\$ 310,000	\$ 509,075
2012	165,000	220,000	385,000	490,300
2013	175,000	230,000	405,000	468,510
2014	185,000	245,000	430,000	445,360
2015	195,000	255,000	450,000	420,737
2016-2020	1,160,000	1,260,000	2,420,000	1,697,079
2021-2025	-	1,620,000	1,620,000	1,116,019
2026-2030	-	1,700,000	1,700,000	628,038
2031-2033	-	1,265,000	1,265,000	114,122
	<u>\$ 2,035,000</u>	<u>\$ 6,950,000</u>	<u>\$ 8,985,000</u>	<u>\$ 5,889,240</u>

(3) Other Information

(a) Risk Management

The Agency is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Agency, through the City, carries commercial liability insurance coverage. The Agency carries no insurance coverage for natural disasters. Since the Agency does not have any employees (it uses employees from the City), it is not liable for injury to employees, workers' compensation, or employee health and accident insurance.

The Agency is covered under the City's self-insurance program, which accounts for and finances its uninsured risk of loss. Under the City's program, the Agency's self-insured retention (SIR) is \$500,000 for each general liability claim. The City purchases commercial insurance for claims in excess of coverage, provided by the program and for all other risks of loss. The City has had no reductions in insurance coverage, nor did the City have any settlements that were in excess of insurance coverage in any of the three preceding fiscal years ending with June 30, 2010.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2010

(b) Owner Participation Agreements

The Agency has entered into several Owner Participation Agreements with various business owners within the City. Generally, these agreements require the Agency to remit to these businesses a portion of the sales tax revenue generated by their operations. However, one agreement requires the Agency to remit a percentage of the incremental property tax revenue earned by the Agency, due to the increase in the assessed value of the business property. Most of the agreements provide for limits of the amount of tax that can be remitted back to the business owner, ranging in the aggregate up to a maximum of \$5,839,000. The remaining period of years under these agreements ranges from 1 to 13 years. The Agency remitted approximately \$527,357 during the year ended June 30, 2010, which is included in expenditures of the Operating Fund.

(c) Due to City of La Habra

The City of La Habra maintains a separate checking account and claim on cash account for the City and the Agency and amounts due to the City are recorded until actual cash reimbursements are paid. The total amount due to the City is \$208,918 and is expected to be paid with future tax increment revenue.

(d) SERAF Payment

On July 24, 2009, the State Legislature passed Assembly Bill (AB) 26 4x, which requires redevelopment agencies statewide to deposit a total of \$2.05 billion of property tax increment in county "Supplemental" Educational Revenue Augmentation Funds (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of \$2.05 billion will be made over two years, \$1.7 billion in fiscal year 2009-2010 and \$350 million in fiscal year 2010-2011. The SERAF would then be paid to school districts and the county offices of education which have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools. The Agency's share of this revenue shift is approximately \$892,557 in fiscal year 2009-2010 and \$183,584 in fiscal year 2010-2011. Accordingly, the first payment was made on May 10, 2010 to the County and the next payment will be made on May 10, 2011.

The Agency is part of a certified class in the lawsuit brought by the California Redevelopment Association, along with the plaintiffs/petitioners, against the Director of the California department of Finance and all California County Auditors challenging AB26X4, passed in July 2009 as part of the State budget package. This statute required the Agency to pay \$1,076,141 into the SERAF over two fiscal years. The plaintiffs lost this case in the trial court, and it is now on appeal. If the redevelopment agencies lose the appeal, or if the case is not decided before May 10, 2011, the Agency will required to make another payment of \$183,584 to the SERAF.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2010

(e) Subsequent Event

Purchase of Real Property

On May 17, 2010, the Agency approved the purchase of real property located at 951 E. Imperial Highway, La Habra, between the Agency and Howard's Appliances Inc. for future development purchases. The Agency entered into a secured promissory note with Howard's Appliances in the purchase price of \$1,450,000. The agreement requires the Agency to make the first payment on the Closing of Escrow. The Agency will pay annual principal and interest payments at six percent per annum for nine years thereafter in the amount of \$193,176 each on the same date in each calendar year as the first payment date. The Agency made the first payment on July 23, 2010.

REQUIRED SUPPLEMENTARY INFORMATION

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Low-Moderate Income Housing Set-Aside Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2010

	<u>Budget</u>		<u>Actual</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Tax increment	\$ 579,085	\$ 579,085	\$ 611,967	\$ 32,882
Use of money and property	30,000	30,000	10,443	(19,557)
 Total revenues	 609,085	 609,085	 622,410	 13,325
Expenditures:				
Community development	1,279,937	1,272,244	288,196	984,048
 Net change in fund balance	 (670,852)	 (663,159)	 334,214	 997,373
Fund balance, beginning of year	1,990,924	1,990,924	1,990,924	-
Fund balance, end of year	<u>\$ 1,320,072</u>	<u>\$ 1,327,765</u>	<u>\$ 2,325,138</u>	<u>\$ 997,373</u>

See Accompanying Note to Required Supplementary Information.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Operating Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2010

	<u>Budget</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Revenues:				
Charges for services	\$ 26,100	\$ 26,100	\$ 26,642	\$ 542
Use of money and property	22,000	22,000	2,947	(19,053)
Total revenues	<u>48,100</u>	<u>48,100</u>	<u>29,589</u>	<u>(18,511)</u>
Expenditures:				
Current:				
Community development	1,497,062	1,494,626	1,158,318	336,308
Intergovernmental	-	-	892,557	(892,557)
Debt service:				
Principal	-	-	200,000	(200,000)
Total expenditures	<u>1,497,062</u>	<u>1,494,626</u>	<u>2,250,875</u>	<u>(756,249)</u>
Excess (deficiency) of revenues over (under) expenditures	(1,448,962)	(1,446,526)	(2,221,286)	(774,760)
Other financing sources:				
Transfers in	<u>1,787,485</u>	<u>1,787,485</u>	<u>1,921,563</u>	<u>134,078</u>
Net change in fund balance	338,523	340,959	(299,723)	(640,682)
Fund balance, beginning of year	<u>3,147,233</u>	<u>3,147,233</u>	<u>3,147,233</u>	<u>-</u>
Fund balance, end of year	<u>\$ 3,485,756</u>	<u>\$ 3,488,192</u>	<u>\$ 2,847,510</u>	<u>\$ (640,682)</u>

See Accompanying Note to Required Supplementary Information.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Note to Required Supplementary Information
June 30, 2010

(1) Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund, function and department. The government's department head, with approval of the Finance Director and Executive Director, may make transfers of appropriations within a department. Transfers of appropriations between departments within a fund must be approved by the Executive Director. Transfers between funds must be approved by the Board of Directors; therefore, the legal level of budgetary control is at the fund level.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. There are no encumbrances outstanding at June 30, 2010.

SUPPLEMENTARY INFORMATION

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Capital Projects Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2010

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Charges for services	\$ -	\$ 11,471	\$ 11,471
Use of money and property	65,000	23,873	(41,127)
	<u>65,000</u>	<u>35,344</u>	<u>(29,656)</u>
Total revenues	65,000	35,344	(29,656)
Expenditures:			
Current:			
Community development	1,800,000	13,079	1,786,921
Capital outlay - Payments to City	-	161,798	(161,798)
	<u>1,800,000</u>	<u>174,877</u>	<u>1,625,123</u>
Total expenditures	1,800,000	174,877	1,625,123
Net change in fund balance	(1,735,000)	(139,533)	1,595,467
Fund balance, beginning of year	<u>2,332,618</u>	<u>2,332,618</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 597,618</u></u>	<u><u>\$ 2,193,085</u></u>	<u><u>\$ 1,595,467</u></u>

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Debt Service Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2010

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Tax increment	\$ 2,594,247	\$ 2,447,871	\$ (146,376)
Special CFD tax	-	278,485	278,485
Use of money and property	200	2	(198)
	<u>2,594,447</u>	<u>2,726,358</u>	<u>131,911</u>
Expenditures:			
Current:			
Community development	7,500	5,333	2,167
Debt service:			
Principal	275,000	275,000	-
Interest	524,462	524,462	-
	<u>806,962</u>	<u>804,795</u>	<u>2,167</u>
Total expenditures			
	<u>806,962</u>	<u>804,795</u>	<u>2,167</u>
Excess of revenues over expenditures	1,787,485	1,921,563	134,078
Other financing (uses):			
Transfers out	(1,787,485)	(1,921,563)	(134,078)
	<u>(1,787,485)</u>	<u>(1,921,563)</u>	<u>(134,078)</u>
Net change in fund balance	-	-	-
Fund balance, beginning of year	277,900	277,900	-
	<u>277,900</u>	<u>277,900</u>	<u>-</u>
Fund balance, end of year	\$ 277,900	\$ 277,900	\$ -
	<u>\$ 277,900</u>	<u>\$ 277,900</u>	<u>\$ -</u>

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COMPLIANCE SECTION

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The Board of Directors of the
Redevelopment Agency of the City of La Habra

Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance (Including the Provisions Contained in the *Guidelines for Compliance Audits of Redevelopment Agencies*) and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of La Habra (Agency), a component unit of the City of La Habra, California, as of and for the year ended June 30, 2010, which collectively comprise the Agency’s basic financial statements, and have issued our report thereon dated December 21, 2010. 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 Agency’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency’s internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the basic financial statements of the Agency are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment*

Agencies issued by the State Controller's Office, Division of Accounting and Reporting. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Macias Fini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

December 21, 2010