

**HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY
HAWTHORNE, CALIFORNIA**

FINANCIAL STATEMENTS

JUNE 30, 2006

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY
HAWTHORNE, CALIFORNIA

FINANCIAL STATEMENTS

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HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

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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, 2006, 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, 2006, 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 November 3, 2006, on our consideration of the Hawthorne Community Redevelopment Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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





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

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

Lance, Soll & Lunghard, LLP

November 3, 2006



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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 Hawthorne Community Redevelopment Agency as of and for the year ended June 30, 2006, and have issued our report thereon dated November 3, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 two instances 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:





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

Section 33334.16 of the Health and Safety Code requires a redevelopment agency to initiate activities to develop properties acquired with Low and Moderate Income Housing Funds within five years from the date of acquisition. If development activities have not begun within this period, the legislative body may adopt a resolution extending the period for one time, not to exceed five years. The Agency had acquired land with Low and Moderate Income Housing monies; however, activities have not been initiated to develop the property within five years from acquisition and the Agency has not timely requested the prescribed extension as of June 30, 2006. This situation has been brought to the attention of the Agency.

In addition, Sections 33490 and 33413(b) of the Health and Safety Code require a redevelopment agency to produce Implementation Plans for each Project Area every five years. The Agency is delinquent in its preparation of its Five-year Implementation Plan, due December 31, 2004.

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

Lance, Soll & Lunghard, LLP

November 3, 2006

COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF HAWTHORNE

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Community Redevelopment Agency of the City of Hawthorne (Agency), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2006.

FINANCIAL HIGHLIGHTS

- The Agency's total liabilities (all funds) exceeded its assets at the end of the fiscal year 2005/06 by \$68.7 million (net liabilities). This is an increase of \$6.2 million from that of the prior fiscal year-end.
- During the year, the Agency generated revenues of \$5.4 million. This was an increase of \$1.0 million from that of during 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 comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.

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

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

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

Fund Financial Statements

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

**Hawthorne Community Redevelopment Agency
Management's Discussion and Analysis**

Governmental Funds

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

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

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

Notes To The Financial Statements

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

Government-Wide Financial Analysis

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

	Net Assets	
	Governmental Activities	
	2005/06	2004/05
	\$'000	\$'000
Current & Other Assets	7,110.0	7,506.1
Capital Assets	1,103.9	1,103.9
Total Assets	8,213.9	8,610.0
Long-term Debt	76,365.2	70,589.2
Other Liabilities	584.6	541.4
Total Liabilities	76,949.8	71,130.6
Net Assets		
Restricted Funds	8,553.4	8,150.7
Unrestricted Funds	(77,289.3)	(70,671.3)
Total Net Assets	68,735.9	62,520.6

The Agency's net assets decreased \$6.2 million from \$(62.5) million to \$(68.7) million. This decrease comes from the change in net assets as recorded in the Statement of Activities and flows through the Statement of Net Assets. The majority of this decrease in net assets was due to the increase in the amount of the loans payable to the City of Hawthorne.

**Hawthorne Community Redevelopment Agency
Management's Discussion and Analysis**

Government Activities

Governmental activities decreased the Agency's net assets by \$6.2 million. Key elements of the change are as follows:

	Changes in Net Assets Governmental Activities	
	2005/06 &'000	2004/05 &'000
Revenues:		
General Revenues:		
Property Taxes	5,137.4	4,200.7
Uses of Money & Property	266.8	161.8
Total Revenue	5,404.2	4,362.5
Expenses:		
General Government	392.8	666.4
Community Development	2,657.4	831.2
Interest on Long-term Debt	6,275.8	5,775.4
Contributions to Other Government	542.3	478.9
Other	1,751.1	1,334.4
Total Expenses	11,619.4	9,086.3
Decrease in Net Assets	(6,215.2)	(4,723.8)

The Agency's total revenues were \$5.4 million, while total expenses of all programs and services were \$11.6 million.

The following presents the cost of each of the Agency's programs—general government, community development, interest on long-term debt, contribution to other governments 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	
	2005/06 \$'000	2004/05 \$'000
General Government	392.8	666.4
Community Development	2,657.4	831.2
Interest on Long-term Debt	6,275.8	5,775.4
Contribution to Other Governments	542.3	478.9
Other	1,751.1	1,334.4
Total	11,619.4	9,086.3

Hawthorne Community Redevelopment Agency Management's Discussion and Analysis

Financial Analysis of the Agency's Funds

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

Governmental funds. The focus of Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Agency's governmental funds reported combined ending fund balances of \$7.7 million.

Capital Outlay and Long-Term Debt

Capital Assets

The Agency's capital assets comprise of land held for resale by the Agency's low & moderate income housing fund.

Long-Term Debt

At the end of the current fiscal year, the Agency had total bonded debt outstanding of \$16.8 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.

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HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

STATEMENT OF NET ASSETS
JUNE 30, 2006

	<u>Governmental Activities</u>
Assets:	
Cash and investments	\$ 4,314,936
Receivables:	
Tax increment	\$ 1,395,789
Interest receivable	61,324
Loans	<u>250,000</u>
Total Receivables	1,707,113
Land held for resale (net)	1,103,920
Deferred charges	239,623
Restricted assets:	
Cash and investments with trustees	<u>848,306</u>
Total Assets	<u>8,213,898</u>
Liabilities:	
Accounts payable and accrued expenses	333,497
Deferred revenue	250,000
Deposits from others	1,100
Long-term liabilities:	
Due within one year	575,492
Due in more than one year	<u>75,789,668</u>
Total Long-Term Liabilities	<u>76,365,160</u>
Total Liabilities	<u>76,949,757</u>
Net Assets:	
Restricted for:	
Community development	3,711,976
Debt service	4,841,498
Unrestricted	<u>(77,289,333)</u>
Total Net Assets	<u>\$ (68,735,859)</u>

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	
Functions/Programs					
Governmental Activities:					
General government	\$ 392,840	\$ -	\$ -	\$ -	\$ (392,840)
Community development	2,657,417	-	-	-	(2,657,417)
Interest on long-term debt	6,275,828	-	-	-	(6,275,828)
Contributions to other governments	542,276	-	-	-	(542,276)
Other	1,751,116	-	-	-	(1,751,116)
Total Governmental Activities	\$ 11,619,477	\$ -	\$ -	\$ -	(11,619,477)
General Revenues:					
Taxes (net of pass-through payments)					5,137,412
Use of money and property					266,762
Total General Revenues					5,404,174
Change in Net Assets					(6,215,303)
Net Assets at Beginning of Year					(62,520,556)
Net Assets at End of Year					\$ (68,735,859)

See Notes to Financial Statements

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	Capital Projects	Capital Projects	Capital Projects
	Hawthorne Plaza Project Area No. 1	Project Area No. 2	Project Area No. 2
	Project	Project	Low and Moderate Housing
Assets:			
Cash and investments	\$ 5,412	\$ 100,566	\$ 1,367,014
Cash and investments with trustee	-	-	-
Receivables:			
Tax increment	-	-	244,541
Interest receivable	-	1,722	59,602
Loans	-	-	250,000
Due from Capital Projects funds	-	-	541,899
Due from Debt Service funds	-	-	-
Land held for resale	-	-	1,103,920
Advances to other funds	-	-	395,000
Total Assets	\$ 5,412	\$ 102,288	\$ 3,961,976
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ -	\$ 6,887	\$ -
Deposits from others	-	1,100	-
Due to Debt Service funds	-	-	-
Due to Low and Moderate Housing Funds	-	541,899	-
Deferred revenue	-	-	250,000
Advances from Low and Moderate Housing Funds	-	395,000	-
Total Liabilities	-	944,886	250,000
Fund Balances:			
Reserved:			
Land held for resale	-	-	1,103,920
Advances from other funds	-	-	395,000
Unreserved:			
Designated:			
Debt service	-	-	-
Continuing projects	5,412	-	2,213,056
Undesignated	-	(842,598)	-
Total Fund Balances	5,412	(842,598)	3,711,976
Total Liabilities and Fund Balances	\$ 5,412	\$ 102,288	\$ 3,961,976

See Notes to Financial Statements

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	Debt Service	Debt Service	
	Hawthorne Plaza Project Area No. 1	Project Area No. 2	Total Governmental Funds
	Tax Increment	Tax Increment	
Assets:			
Cash and investments	\$ -	\$ 2,841,944	\$ 4,314,936
Cash and investments with trustee	848,106	200	848,306
Receivables:			
Tax increment	152,726	998,522	1,395,789
Interest receivable	-	-	61,324
Loans	-	-	250,000
Due from Capital Projects funds	-	-	541,899
Due from Debt Service funds	-	387,762	387,762
Land held for resale	-	-	1,103,920
Advances to other funds	-	-	395,000
Total Assets	\$ 1,000,832	\$ 4,228,428	\$ 9,298,936
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ 6,887
Deposits from others	-	-	1,100
Due to Debt Service funds	387,762	-	387,762
Due to Low and Moderate Housing Funds	-	-	541,899
Deferred revenue	-	-	250,000
Advances from Low and Moderate Housing Funds	-	-	395,000
Total Liabilities	387,762	-	1,582,648
Fund Balances:			
Reserved:			
Land held for resale	-	-	1,103,920
Advances from other funds	-	-	395,000
Unreserved:			
Designated:			
Debt service	613,070	4,228,428	4,841,498
Continuing projects	-	-	2,218,468
Undesignated	-	-	(842,598)
Total Fund Balances	613,070	4,228,428	7,716,288
Total Liabilities and Fund Balances	\$ 1,000,832	\$ 4,228,428	\$ 9,298,936

See Notes to Financial Statements

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

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

Fund balances of governmental funds	\$ 7,716,288
Bond issuance costs is an expenditure in the governmental funds, but it is deferred charges in the statement of net assets:	
Debt issuance costs on bonds issued	259,232
Amortization over life of new bonds through end of fiscal year	(19,609)
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	(16,800,000)
Developer loans	(389,264)
Loans from City	(59,392,142)
Unamortized original issue discount or premium	47,644
Unamortized loss on bonds defeased	168,602
Accrued interest payable for the current portion of interest due on Tax Allocation Bonds has not been reported in the governmental funds.	<u>(326,610)</u>
Net assets of governmental activities	<u><u>\$ (68,735,859)</u></u>

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HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Capital Projects	Capital Projects	Capital Projects
	Hawthorne Plaza Project Area No. 1	Project Area No. 2	Project Area No. 2 Low and Moderate Housing
	Project	Project	
Revenues:			
Taxes and assessments	\$ -	\$ -	\$ 1,477,389
Use of money and property	-	61,843	159,198
Other revenue	-	250,590	-
Total Revenues	-	312,433	1,636,587
Expenditures:			
Current:			
General government	6,768	234,102	34,091
Community development	-	12,246	250,000
Capital outlay	-	-	2,395,171
Debt service	3,336,997	3,918,792	-
Other expenditures	-	616,706	-
Total Expenditures	3,343,765	4,781,846	2,679,262
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,343,765)	(4,469,413)	(1,042,675)
Other Financing Sources (Uses):			
Transfers in	1,010,000	500,000	-
Transfers out	-	-	-
Long-term debt issued	2,336,997	5,719,105	-
Pass-through agreement payments	-	(132,869)	-
Payment to Educational Revenue Augmentation Fund	-	(542,276)	-
Miscellaneous	-	(1,520,000)	135,000
Total Other Financing Sources (Uses):	3,346,997	4,023,960	135,000
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	3,232	(445,453)	(907,675)
Fund Balances:			
Beginning of Year	2,180	(397,145)	4,619,651
End of Year	\$ 5,412	\$ (842,598)	\$ 3,711,976

See Notes to Financial Statements

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Debt Service	Debt Service	
	Hawthorne Plaza Project Area No. 1	Project Area No. 2	Total Governmental Funds
	Tax Increment	Tax Increment	
Revenues:			
Taxes and assessments	\$ 579,596	\$ 5,909,558	\$ 7,966,543
Use of money and property	32,110	13,611	266,762
Other revenue	-	-	250,590
Total Revenues	611,706	5,923,169	8,483,895
Expenditures:			
Current:			
General government	16,618	101,261	392,840
Community development	-	-	262,246
Capital outlay	-	-	2,395,171
Debt service	433,931	861,391	8,551,111
Other expenditures	-	-	616,706
Total Expenditures	450,549	962,652	12,218,074
Excess (Deficiency) of Revenues Over (Under) Expenditures	161,157	4,960,517	(3,734,179)
Other Financing Sources (Uses):			
Transfers in	-	-	1,510,000
Transfers out	(1,010,000)	(500,000)	(1,510,000)
Long-term debt issued	-	-	8,056,102
Pass-through agreement payments	-	(2,696,262)	(2,829,131)
Payment to Educational Revenue Augmentation Fund	-	-	(542,276)
Miscellaneous	-	-	(1,385,000)
Total Other Financing Sources (Uses):	(1,010,000)	(3,196,262)	3,299,695
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(848,843)	1,764,255	(434,484)
Fund Balances:			
Beginning of Year	1,461,913	2,464,173	8,150,772
End of Year	\$ 613,070	\$ 4,228,428	\$ 7,716,288

See Notes to Financial Statements

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, 2006

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

Net change in fund balances - total governmental funds	\$ (434,484)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	2,292,086
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	(12,962)
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	(2,578)
Proceeds of debt is revenue in the governmental funds, but these are additions to the statement of net assets.	(8,056,102)
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	(326,610)
Prior year accrual of interest due on bonds	334,714
Change in net assets of governmental activities	<u>\$ (6,215,303)</u>

See Notes to Financial Statements

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

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 changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately 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 I Fund consists of the Hawthorne Plaza Mall and is used to account for redevelopment projects in this area.
- 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 I Fund accounts for the debt service associated with Hawthorne Plaza's Tax Allocation Bonds.
- Project Area II Fund accounts for the debt service associated with Project Area II 2004 and 1998 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	\$ 4,314,936
Cash and investments with fiscal agent	<u>848,306</u>
	<u>\$ 5,163,242</u>

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

**Hawthorne Community Redevelopment Agency
Notes to Financial Statements (Continued)**

Note 4: Loans Receivable

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

Note 5: Long-Term Debt

- a. A description of long-term debt outstanding (excluding defeased debt) of the Agency as of June 30, 2006, follows:

Tax Allocation Bonds

1998 Tax Allocation Refunding Bonds

The 1998 Tax Allocation Refunding Bonds refunding serial and term bonds bear interest varying 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, 2006, amounted to \$8,500,000.

2001 Tax Allocation Refunding Bonds

The 2001 Tax Allocation Refunding Bonds term bonds bear interest varying 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, 2006, amounted to \$4,075,000.

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, 2006, amounted to \$4,225,000.

Note Payable

Mission-Oceangate note - an installment note dated April 12, 1999, paying interest at 7.5%. The note is payable in ten annual installments of \$149,687. The principal amount of this note represents the agreed-upon amount of sales tax generation and Mello-Roos reimbursement due and unpaid through June 30, 1998. The balance at June 30, 2006, amounted to \$389,264.

**Hawthorne Community Redevelopment Agency
Notes to Financial Statements (Continued)**

Note 5: Long-Term Debt (Continued)

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 up to 10% per annum depending upon when the loan was initiated. 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, 2006, loans to and accrued unpaid interest owed on those loans were \$59,392,142.

- b. The following is a schedule of changes in long-term debt of the Agency for the fiscal year ended June 30, 2006:

	Balance July 1, 2005	Additions	Repayments	Balance June 30, 2006	Due Within One Year
<u>Hawthorne Plaza Project Area No. 1</u>					
City Loans - Principal	\$ 1,449,741	\$ -	\$ 1,000,000	\$ 449,741	\$ -
City Loans - Unpaid Interest	22,420,236	2,336,997	-	24,757,233	-
Bonds - 2001 Tax Allocation Bonds	4,235,000	-	160,000	4,075,000	170,000
Total	<u>28,104,977</u>	<u>2,336,997</u>	<u>1,160,000</u>	<u>29,281,974</u>	<u>170,000</u>
<u>Project Area No. 2</u>					
City Loans - Principal	\$ 18,950,115	\$ 2,700,000	\$ 750,000	\$ 20,900,115	\$ -
City Loans - Unpaid Interest	10,265,948	3,019,105	-	13,285,053	-
Notes - Mission Land Co.	501,350	-	112,086	389,264	120,492
Bonds - 2004 Refunding Tax Allocation	4,225,000	-	-	4,225,000	-
Bonds - 1998 Refunding	8,770,000	-	270,000	8,500,000	285,000
Total	<u>42,712,413</u>	<u>5,719,105</u>	<u>1,132,086</u>	<u>47,299,432</u>	<u>405,492</u>
<u>Total - All Project Areas</u>					
City Loans - Principal	\$ 20,399,856	\$ 2,700,000	\$ 1,750,000	\$ 21,349,856	\$ -
City Loans - Unpaid Interest	32,686,184	5,356,102	-	38,042,286	-
Notes Payable	501,350	-	112,086	389,264	120,492
Bonds Payable	17,230,000	-	430,000	16,800,000	455,000
Total	<u>\$ 70,817,390</u>	<u>\$ 8,056,102</u>	<u>\$ 2,292,086</u>	<u>\$ 76,581,406</u>	<u>\$ 575,492</u>
Less:					
Unamortized original issue discount or premium				47,644	
Unamortized bond defeasance loss				168,602	
Net Long-term Debt				<u>\$ 76,365,160</u>	

**Hawthorne Community Redevelopment Agency
Notes to Financial Statements (Continued)**

Note 5: Long-Term Debt (Continued)

- c. The following schedule illustrates the debt service requirements to maturity for bonds outstanding as of June 30, 2006:

	2004 Tax Allocation Refunding Bonds		2001 Tax Allocation Refunding Bonds		1998 Tax Allocation Refunding Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2006 - 2007	\$ -	\$ 166,719	\$ 170,000	\$ 264,219	\$ 285,000	\$ 412,946
2007 - 2008	75,000	165,594	180,000	253,281	290,000	400,655
2008 - 2009	180,000	161,769	195,000	241,563	305,000	387,710
2009 - 2010	190,000	156,219	205,000	229,063	315,000	373,125
2010 - 2011	195,000	150,444	215,000	215,938	340,000	356,750
2011 - 2016	1,080,000	643,878	1,305,000	848,688	1,950,000	1,507,250
2016 - 2021	1,285,000	416,058	1,805,000	326,734	2,500,000	953,250
2021 - 2026	1,220,000	113,625	-	-	2,515,000	258,875
Totals	<u>\$ 4,225,000</u>	<u>\$ 1,974,306</u>	<u>\$ 4,075,000</u>	<u>\$ 2,379,486</u>	<u>\$ 8,500,000</u>	<u>\$ 4,650,561</u>

	Total	
	Principal	Interest
2006 - 2007	\$ 455,000	\$ 843,884
2007 - 2008	545,000	819,530
2008 - 2009	680,000	791,042
2009 - 2010	710,000	758,407
2010 - 2011	750,000	723,132
2011 - 2016	4,335,000	2,999,816
2016 - 2021	5,590,000	1,696,042
2021 - 2026	3,735,000	372,500
Totals	<u>\$ 16,800,000</u>	<u>\$ 9,004,353</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.

IV. OTHER DISCLOSURES

Note 6: Developer / Owner Agreements

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

Oceangate Development

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

Best Buy

In July 1994, the Agency entered into a Developer's Agreement with Best Buy. The Agency will pay the developer 11 annual payments, 25% of sales tax generated by the site.

Gateway Development

In August 2000, the Agency entered into a first implementation agreement to the DDA with certain developers. 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 those taxes are generated within the project site.

SAMS Venture, LLC

In September 2003, the Agency entered into an Owner Participation Agreement, in October 2004, a First Implementation Agreement, and July 2006, a Second Implementation Agreement with SAMS Venture, LLC regarding the rehabilitation of Hawthorne Terrace, a 100-unit apartment complex located in Project Area No. 2. In June 2006, the Agency paid \$2,263,380 to SAMS Venture in full satisfaction of the Agency's obligation to pay the purchase price under the Loan Purchase Agreement. The Agency now proposes to sell tax allocation bonds (see Note 12) to pay SAMS Venture the Public Funding Requirement of approximately \$27,000,000.

No provision has been made for the aforementioned commitments on the combined financial statements, as the amounts committed cannot as yet be determined.

Note 7: Low and Moderate Income Housing

As required by Section 33334.2 of the State of California Health and Safety Code, 20% of tax increment received by the Agency, including interest earned, was set aside for the rehabilitation/replacement of low and moderate income housing displaced within Project Area II. The Agency has deferred its required set aside of 20% of tax increment received for the Plaza Project Area, resulting in a deficit of \$2,814,778 as of June 30, 2006.

**Hawthorne Community Redevelopment Agency
Notes to Financial Statements (Continued)**

Note 8: Insurance

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

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

Note 9: Interfund Transfers

Interfund Transfers are as follows:

Fund	Transfers Out		
	Debt Service		
	Hawthorne Plaza Project Area No. 1	Project Area No. 2	Total
Transfers In:			
Capital projects - Hawthorne Plaza Project Area No. 1	\$ 1,010,000	\$ -	\$ 1,010,000
Capital projects - Project Area No. 2	-	500,000	500,000
Total Transfers Out	\$ 1,010,000	\$ 500,000	\$ 1,510,000

Transfers were made to move monies to fund capital projects and to provide for debt service payments.

**Hawthorne Community Redevelopment Agency
Notes to Financial Statements (Continued)**

Note 10: Due to/from other funds

Interfund receivables and payables are as follows:

	<u>Due to Other Funds (payable)</u>		<u>Totals</u>
	<u>Debt Service</u>	<u>Capital Projects</u>	
	<u>Hawthorne Plaza Project Area No. 1</u>	<u>Project Area No. 2</u>	
<u>Due from Other Funds (receivable)</u>			
Debt Service			
Project Area No. 2	\$ 387,762	\$ -	\$ 387,762
Capital Projects			
Project Area No. 2 - Low and Moderate Housing	-	541,899	541,899
Totals	<u>\$ 387,762</u>	<u>\$ 541,899</u>	<u>\$ 929,661</u>

Interfund receivables and payables were made to finance general administrative expenses and to reclassify negative cash balances.

Note 11: Advances to/from other funds

Advances to/from other funds consist of the following:

	<u>Advances from other funds (payable) Capital Project Project Area No. 2</u>
<u>Advances to other funds (receivable)</u>	
Project Area No. 2 - Low and Moderate Housing	<u>\$ 395,000</u>

Advances were made to finance general administrative expenses.

Note 12: Subsequent Events

Project Area No. 2 Tax Allocation Bonds, Series 2006

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 will be 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.

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

COMBINING PROJECT AREA BALANCE SHEET
 ALL GOVERNMENTAL FUNDS
 JUNE 30, 2006

	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	\$ -	\$ 5,412	\$ 2,841,944
Cash and investments with trustee	848,106	-	200
Receivables:			
Tax increment	152,726	-	998,522
Interest receivable	-	-	-
Loans	-	-	-
Due from Capital Projects Funds	-	-	-
Due from Debt Service Funds	-	-	387,762
Land held for resale	-	-	-
Advances to other funds	-	-	-
Total Assets	\$ 1,000,832	\$ 5,412	\$ 4,228,428
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Deposits from others	-	-	-
Due to Debt Service Funds	387,762	-	-
Due to Low and Moderate Housing Funds	-	-	-
Deferred revenue	-	-	-
Advances from Low and Moderate Housing Funds	-	-	-
Total Liabilities	387,762	-	-
Fund Balances:			
Reserved:			
Land held for resale	-	-	-
Advances from other funds	-	-	-
Unreserved:			
Designated:			
Debt service	613,070	-	4,228,428
Continuing projects	-	5,412	-
Undesignated	-	-	-
Total Fund Balances	613,070	5,412	4,228,428
Total Liabilities and Fund Balances	\$ 1,000,832	\$ 5,412	\$ 4,228,428

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

COMBINING PROJECT AREA BALANCE SHEET
 ALL GOVERNMENTAL FUNDS
 JUNE 30, 2006

	Project Area No. 2		TOTALS	
	Capital Projects	Capital Projects	Debt Service Funds	Capital Projects Funds
	Project	Low and Moderate Housing		
ASSETS				
Cash and investments	\$ 100,566	\$ 1,367,014	\$ 2,841,944	\$ 1,472,992
Cash and investments with trustee	-	-	848,306	-
Receivables:				
Tax increment	-	244,541	1,151,248	244,541
Interest receivable	1,722	59,602	-	61,324
Loans	-	250,000	-	250,000
Due from Capital Projects Funds	-	541,899	-	541,899
Due from Debt Service Funds	-	-	387,762	-
Land held for resale	-	1,103,920	-	1,103,920
Advances to other funds	-	395,000	-	395,000
Total Assets	\$ 102,288	\$ 3,961,976	\$ 5,229,260	\$ 4,069,676
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 6,887	\$ -	\$ -	\$ 6,887
Deposits from others	1,100	-	-	1,100
Due to Debt Service Funds	-	-	387,762	-
Due to Low and Moderate Housing Funds	541,899	-	-	541,899
Deferred revenue	-	250,000	-	250,000
Advances from Low and Moderate Housing Funds	395,000	-	-	395,000
Total Liabilities	944,886	250,000	387,762	1,194,886
Fund Balances:				
Reserved:				
Land held for resale	-	1,103,920	-	1,103,920
Advances from other funds	-	395,000	-	395,000
Unreserved:				
Designated:				
Debt service	-	-	4,841,498	-
Continuing projects	-	2,213,056	-	2,218,468
Undesignated	(842,598)	-	-	(842,598)
Total Fund Balances	(842,598)	3,711,976	4,841,498	2,874,790
Total Liabilities and Fund Balances	\$ 102,288	\$ 3,961,976	\$ 5,229,260	\$ 4,069,676

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

COMBINING PROJECT AREA STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	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	\$ 579,596	\$ -	\$ 5,909,558
Use of Money and Property:			
Interest income	32,110	-	13,611
Rental income	-	-	-
Other revenue:			
Contribution from developer	-	-	-
Total Revenues	611,706	-	5,923,169
Expenditures:			
Current:			
General Government:			
Administrative costs	14,768	6,768	96,246
Professional services	1,850	-	5,015
Community Development:			
Operation of acquired property	-	-	-
Rehabilitation costs	-	-	-
Capital Outlay:			
Project improvement costs	-	-	-
Debt Service:			
Interest expense	273,931	2,336,997	591,391
Long-term debt repayments	160,000	1,000,000	270,000
Other Expenditures:			
Developer pass-through payments	-	-	-
Total Expenditures	450,549	3,343,765	962,652
Excess of Revenues over (under) Expenditures	161,157	(3,343,765)	4,960,517
Other Financing Sources (Uses)			
Transfers in	-	1,010,000	-
Transfers out	(1,010,000)	-	(500,000)
Long-term debt issued	-	2,336,997	-
Pass through agreement payments	-	-	(2,696,262)
Payment to Educational Revenue Augmentation Fund	-	-	-
Contribution from (to) City	-	-	-
Miscellaneous	-	-	-
Total Other Financing Sources (Uses)	(1,010,000)	3,346,997	(3,196,262)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(848,843)	3,232	1,764,255
Fund Balances			
Beginning of Year	1,461,913	2,180	2,464,173
End of Year	\$ 613,070	\$ 5,412	\$ 4,228,428

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

COMBINING PROJECT AREA STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Project Area No. 2		TOTALS	
	Capital Projects	Capital Projects	Debt Service Funds	Capital Projects Funds
	Project	Low and Moderate Housing		
Revenues:				
Taxes and Assessments:				
Tax increment	\$ -	\$ 1,477,389	\$ 6,489,154	\$ 1,477,389
Use of Money and Property:				
Interest income	3,930	159,198	45,721	163,128
Rental income	57,913	-	-	57,913
Other revenue:				
Contribution from developer	250,000	-	-	250,000
Total Revenues	311,843	1,636,587	6,534,875	1,948,430
Expenditures:				
Current:				
General Government:				
Administrative costs	188,647	34,091	111,014	229,506
Professional services	45,455	-	6,865	45,455
Community Development:				
Operation of acquired property	12,246	-	-	12,246
Rehabilitation costs	-	250,000	-	250,000
Capital Outlay:				
Project improvement costs	-	2,395,171	-	2,395,171
Debt Service:				
Interest expense	3,056,706	-	865,322	5,393,703
Long-term debt repayments	862,086	-	430,000	1,862,086
Other Expenditures:				
Developer pass-through payments	616,706	-	-	616,706
Total Expenditures	4,781,846	2,679,262	1,413,201	10,804,873
Excess of Revenues over (under) Expenditures	(4,470,003)	(1,042,675)	5,121,674	(8,856,443)
Other Financing Sources (Uses)				
Transfers in	500,000	-	-	1,510,000
Transfers out	-	-	(1,510,000)	-
Long-term debt issued	5,719,105	-	-	8,056,102
Pass through agreement payments	(132,869)	-	(2,696,262)	(132,869)
Payment to Educational Revenue Augmentation Fund	(542,276)	-	-	(542,276)
Contribution from (to) City	(1,520,000)	135,000	-	(1,385,000)
Miscellaneous	590	-	-	590
Total Other Financing Sources (Uses)	4,024,550	135,000	(4,206,262)	7,506,547
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(445,453)	(907,675)	915,412	(1,349,896)
Fund Balances				
Beginning of Year	(397,145)	4,619,651	3,926,086	4,224,686
End of Year	\$ (842,598)	\$ 3,711,976	\$ 4,841,498	\$ 2,874,790

HAWTHORNE COMMUNITY REDEVELOPMENT AGENCY

**COMPUTATION OF LOW AND MODERATE
INCOME HOUSING FUNDS
EXCESS/SURPLUS**

	<u>Low and Moderate Housing Funds - All Project Areas July 1, 2005</u>	<u>Low and Moderate Housing Funds - All Project Areas July 1, 2006</u>
Opening Fund Balance	\$ 4,619,651	\$ 3,711,976
Less Unavailable Amounts:		
Land held for resale	\$ (1,103,920)	\$ (1,103,920)
Advances to other funds	<u>(395,000)</u>	<u>(395,000)</u>
	<u>(1,498,920)</u>	<u>(1,498,920)</u>
Available Low and Moderate Income Housing Funds	3,120,731	2,213,056
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-Aside for last four years:		
2005 - 2006	\$ -	\$ 1,477,389
2004 - 2005	1,254,514	1,254,514
2003 - 2004	1,166,305	1,166,305
2002 - 2003	861,100	861,100
2001 - 2002	<u>664,332</u>	<u>-</u>
Total	<u>\$ 3,946,251</u>	<u>\$ 4,759,308</u>
Base Limitation	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Greater amount	<u>3,946,251</u>	<u>4,759,308</u>
Computed Excess/Surplus	<u>None</u>	<u>None</u>