Component Unit Financial Statements
Hawthorne Community Redevelopment Agency
Year ended June 30, 2011
With Report of Independent Auditors

VASQUEZ & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

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Report of Independent Auditors

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

We have audited the accompanying basic financial statements of the governmental activities and each major fund of the Hawthorne Community Redevelopment Agency (Agency), a component unit of the City of Hawthorne, California, as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 Hawthorne Community Redevelopment Agency as of June 30, 2011, and the respective changes in financial position of the Agency for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Agency will continue as a going concern. As discussed in Note 14, the Agency's legal status and financial position and operations will be significantly impacted by legislation passed during the year ended June 30, 2011, and related litigation. On December 29, 2011, the California Supreme Court filed its opinion ruling that ABX1 26 is constitutional and valid and that ABX1 27 is unconstitutional and invalid. Consequently, all redevelopment agencies remain subject to the suspension provisions of ABX1 26 which directs that they be dissolved. These conditions raise substantial doubt about the Agency's ability to continue as a going concern. Management's plans regarding those matters are also described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 1, the Hawthorne Community Redevelopment Agency has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, effective for the fiscal year ended June 30, 2011. As a result of this required implementation, fund balance classifications in the governmental fund financial statements have been changed to reflect the new fund balance classifications under GASB 54.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Hawthorne Community Redevelopment Agency taken as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Hawthorne Community Redevelopment Agency. 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.

In accordance with Government Auditing Standards, we have also issued our report dated December 29, 2011 on our consideration of the Agency's internal control over financial reporting and 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 internal control over financial reporting or on compliance. The 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.

Vasquez + Company LLP

Los Angeles, California
December 29, 2011

MANAGEMENT’S DISCUSSION AND ANALYSIS

COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF HAWTHORNE

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Community Redevelopment Agency of the City of Hawthorne, we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2011.

FINANCIAL HIGHLIGHTS

- The Agency's total liabilities (all funds) exceeded its assets at the end of the fiscal year 2010/11 by $107.3 million (net liabilities). However, this amount represents an increase in net assets of $2 million from that of the prior fiscal year end.
- During the year, the Agency generated revenues just over $12 million – an increase of $3 million over the prior fiscal year attributable mainly to an increase in property tax revenue.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

Notes to the Basic Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets and changes in net assets of the Agency's governmental activities for the fiscal year ended June 30, 2011.

The following is the condensed Statement of Net Assets for the fiscal years ended June 30, 2011 and 2010.

Net Assets - Governmental Activities

(dollars in thousands)

	2010/11	2009/10
Current & Other Assets	8,551.3	11,622.1
Capital Assets	7,242.8	7,462.3
Total Assets	$ 15,794.1	$ 19,084.4
Long-Term Debt	122,574.0	127,009.9
Other Liabilities	516.4	1,801.1
Total Liabilities	123,090.4	128,811.1
Net Assets	$ (107,296.3)	$ (109,726.7)
Invested in Capital Assets,		
Net of Related Debt	7,242.8	7,462.3
Restricted Funds	9,132.0	12,794.2
Unrestricted Funds	(123,671.1)	(129,983.2)
Equities	$ (107,296.3)	$ (109,726.7)

The Agency's net assets increased from $(109.7) million to $(107.3) million. This increase comes from the change in net assets as recorded in the Statement of Activities and flows through the Statement of Net Assets. The increase in net assets is primarily related to an increase in property tax revenues.

Governmental Activities

Governmental activities increased the Agency's net assets by $2 million. Key elements of the change are as follows:

Changes in Net Assets - Governmental Activities

(dollars in thousands)

	2010/11	2009/10
Revenues:		
General Revenues:		
Property Taxes	11,641.6	8,566.6
Use of Money & Property	430.1	463.4
Other	-	1.0
Total Revenues	$ 12,071.7	$ 9,031.0
Expenditures:		
General Government	822.2	944.7
Community Development	120.3	1,788.6
Interest on Long-Term Debt	3,114.5	3,444.4
Other	5,972.7	3,170.2
Total Expenditures	10,029.7	9,347.9
Increase/(Decrease) in Net Assets	$ 2,042.0	$ (316.9)

The Agency's total revenues were just above $12 million, while total expenses of all programs and services were just above $10 million.

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

Net Cost of Agency's Governmental Services

(dollars in thousands)

	2010/11	2009/10
General Government	822.2	944.7
Community Development	120.3	1,788.6
Interest on Long-Term Debt	3,114.5	3,444.4
Other	5,972.7	3,170.2
Total	$ 10,029.7	$ 9,347.9

Financial Analysis of the Agency's Funds

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

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

As of the end of the current fiscal year, the Agency's governmental funds reported combined ending fund balances of $7.3 million.

CAPITAL OUTLAY AND LONG-TERM DEBT

Capital Outlay

At the end of the current fiscal year, the Agency had capital assets totaling $7.24 million. This investment in capital assets includes five buildings used for low-to-moderate housing programs and one commercial building.

Long-Term Debt

At the end of the current fiscal year, the Agency had total bonded debt outstanding of $42.7 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 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.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

			Governmental Activities
ASSETS			
Cash and investment			$ 5,032,023
Receivables:			
Tax increment	$ 1,318,041		
Interest	3,095		
Loans	165,950		
Total receivables			1,487,086
Deferred charges			992,180
Restricted cash and investments			1,039,968
Capital assets (net of depreciation):			
Land and improvements			7,242,834
		Total assets	15,794,091
LIABILITIES			
Accounts payable and accrued expenses			60,801
Accrued interest payable			429,701
Deposits from others			25,865
Long-term liabilities:			
Due within one year			1,380,000
Due in more than one year			121,194,023
		Total liabilities	123,090,390
NET ASSETS (DEFICIT)			
Invested in capital assets			7,242,834
Restricted:			
Community development			8,092,054
Debt service			1,039,956
Unrestricted deficit			(123,671,143)
		Total net assets (deficit)	$ (107,296,299)

See notes to financial statements.

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Assets
Functions/Programs					
Governmental activities					
General government	$ 822,189	-	-	-	(822,189)
Community development	120,265	-	-	-	(120,265)
Interest and fiscal charges	3,114,545	-		-	(3,114,545)
Contributions to other governments	2,072,696				(2,072,696)
Other pass-through payments	3,900,031	-	-	-	(3,900,031)
Total governmental activities	$ 10,029,726	-	-	-	(10,029,726)
General revenues					
Taxes					11,641,623
Use of money and property					430,118
Total general revenues					12,071,741
Change in net assets					2,042,015
Net assets (deficit) - beginning, restated					(109,338,314)
Net assets (deficit) - ending					$ (107,296,299)

See notes to financial statements.

FUND FINANCIAL STATEMENTS

Hawthorne Community Redevelopment Agency
Governmental Funds
Balance Sheet
June 30, 2011

	Capital Projects		Debt Service		
	Project Area 2	Project Area 2	Project Area 2		
	Project	Low/ Moderate Housing	Tax Increment	Other Governmental Funds	Total Governmental Funds
ASSETS					
Pooled cash and investments	$ 437,025	$ 4,594,998	$ -	$ -	$ 5,032,023
Cash and investments with fiscal agents	-	-	12	1,039,956	1,039,968
Receivables:					
Accounts	815	-	-	-	815
Tax increment	-	314,505	998,707	4,014	1,317,226
Interest	265	2,811	19	-	3,095
Loans	-	165,950	-	-	165,950
Due from Capital Projects funds	-	746,060	-	-	746,060
Due from Debt Service funds	-	1,916,291	-	-	1,916,291
Total assets	$ 438,105	$ 7,740,615	$ 998,738	$ 1,043,970	$ 10,221,428
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable and accrued liabilities	$ 60,294	$ 507	$ -	$ -	$ 60,801
Deferred revenues	25,865	165,950	-	-	191,815
Due to other funds	-	-	1,485,397	1,176,954	2,662,351
Total liabilities	86,159	166,457	1,485,397	1,176,954	2,914,967
Fund balances (deficits)					
Restricted	351,946	7,574,158	-	1,039,956	8,966,060
Unassigned					
Unappropriated	-	-	(486,659)	(1,172,940)	(1,659,599)
Total fund balances	351,946	7,574,158	(486,659)	(132,984)	7,306,461
Total liabilities and fund balances	$ 438,105	$ 7,740,615	$ 998,738	$ 1,043,970	$ 10,221,428

See notes to financial statements.

Hawthorne Community Redevelopment Agency
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2011

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

Total fund balances		$ 7,306,461
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Governmental capital assets	$ 7,840,227	
Less: accumulated depreciation	(597,393)	7,242,834
Loans receivable not expected to be collected in the current period are offset by unearned revenue in the funds. They have been recognized and are in net assets in the government-wide financial statements.		165,950
Accrued interest on long-term debt is not due and payable in the current period and is not reported in the governmental funds.		(429,701)
Deferred charges represent costs associated with the issuance of long-term debt, which are deferred and amortized over the life of the debt. The costs are reported as expenditures of current financial resources in the governmental funds.		1,575,583
Unamortzied net original issue discounts and (premiums)		(705,170)
Unamortzied net (gain) loss on bonds defeased		121,767
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.		
Bond payable	$ (42,745,000)	
Developer loans	(24,553,438)	
Loans from City	(55,275,585)	
		(122,574,023)
Net assets (deficit) of governmental activities		$ (107,296,299)

See notes to financial statements.

Hawthorne Community Redevelopment Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2011

	Capital Projects		Debt Service		
	Project Area 2	Project Area 2	Project Area 2		
	Project	Low/ Moderate Housing	Tax Increment	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	$ -	$ 2,157,992	$ 8,783,274	$ 700,357	$ 11,641,623
Use of money and property					
Interest income	8,926	18,229	28	35,883	63,066
Rental income	366,069	-	-	-	366,069
Other	-	133,985	-	-	133,985
Total revenues	374,995	2,310,206	8,783,302	736,240	12,204,743
Expenditures					
Current:					
Administrative costs	354,027	1,108	151,302	16,236	522,673
Professional services	69,965	-	10,045	-	80,010
Capital outlay					
Project improvement costs	120,265	-	-	-	120,265
Debt service					
Interest expense	-	-	1,961,975	215,938	2,177,913
Long-term debt repayments	-	-	3,535,000	1,515,000	5,050,000
Other expenditures					
Developer pass-thru payments	753,439	-	-	-	753,439
Total expenditures	1,297,696	1,108	5,658,322	1,747,174	8,704,300
Excess (deficiency) of revenues over (under) expenditures	(922,701)	2,309,098	3,124,980	(1,010,934)	3,500,443
Other financing sources (uses)					
Transfers in	4,200,000	-	2,145,000	-	6,345,000
Transfers out	-	-	(6,345,000)	-	(6,345,000)
Pass-through agreement payments	-	-	(3,146,592)	-	(3,146,592)
Payment to other City funds	(1,420,000)	-	-	-	(1,420,000)
Payment to Educational Revenue Augmentation Fund	(652,696)	-	-	-	(652,696)
Net other financing sources (uses)	2,127,304	-	(7,346,592)	-	(5,219,288)
Change in fund balances	1,204,603	2,309,098	(4,221,612)	(1,010,934)	(1,718,845)
Beginning fund balances	(852,657)	5,265,060	3,734,953	877,950	9,025,306
Ending fund balances	$ 351,946	$ 7,574,158	$ (486,659)	$ (132,984)	$ 7,306,461

See notes to financial statements.

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year ended June 30, 2011

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

Net change in fund balance - governmental funds		$ (1,718,845)
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives through depreciation expenses		(219,506)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		5,050,000
Collections on receivables and loan transactions offset by deferred revenue are reported as revenue and expenditures in governmental funds; however, they do not provide revenue or expenses in the statement of activities.		(133,002)
Unamortized premium or discounts on bonds issued are revenues or expenditures in governmental funds, but these are spread to future periods over the life of the new bonds:		
Amortization of deferred bond issuance costs		(68,992)
Amortization of original issuance costs		27,018
Amortization of gain/loss on bond defeased		(9,367)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Addition to accrued interest on long-term debt	$ (1,215,159)	
Net change in accrued interest due on bonds	329,868	(885,291)
Change in net assets of governmental activities		$ 2,042,015

See notes to financial statements.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Hawthorne Community Redevelopment Agency (the Agency) is a component unit of 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 Hawthorne Community 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 Agency has authority to acquire, develop, administer and sell or lease property, including the right to eminent domain and the right to issue bonds and expend their proceeds, all in conformity with previously adopted formal redevelopment plans.

The following project areas have been formed:

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

In 1974, the Hawthorne 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, twenty seven units on Gale Avenue and three units on Truro Avenue in the City of Hawthorne. The Agency also operates three commercial units on Hawthorne Boulvard. These rental units are rented to low to moderate income households.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting and Measurement Focus

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

- Government-wide financial statements
- Fund financial statements
- Notes to the Basic Financial Statements

Government-Wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole. These statements include the governmental activities of the primary government. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated).

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Program revenues include charges for services and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditures.

Fund Financial Statements

The underlying accounting system of the Agency is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. 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 spending activities are controlled.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements (Continued)

Fund financial statements for the primary government's governmental funds are presented after the government-wide financial statements. These statements display information about the Agency's major funds individually.

Governmental Funds

In the fund financial statements, governmental funds and agency funds are presented using the modified-accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Agency uses a sixty-day availability period.

Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed derived tax revenues are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. Imposed non-exchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary non-exchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund type revenues represented by noncurrent receivables are deferred until they become current receivables. Noncurrent portions of other long-term receivables are offset by fund balance reserve accounts.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as other financing sources rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

Fund Classifications
The following funds are presented as major funds in the accompanying basic financial statements:

<u>Capital Projects Funds</u>: are used to account for all revenues and costs of implementing the redevelopment projects in accordance with the California Community Redevelopment Law, including acquisition of properties, cost of site improvements and other costs that benefit the Project Areas as well as administrative expenses incurred in sustaining Agency activities.

- Project Area II Fund consists of approximately 960 acres in the southwest section of the City of Hawthorne, including the Gateway and Oceangate development projects.

- Low-and-Moderate-Income Housing Capital Project 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.

<u>Debt Service Funds</u>: are used to account for the payment of interest and principal on the Agency's tax allocation bonds. The principal sources of revenue of these funds are incremental property taxes and investment income.

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

Cash and Investments
The City 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.

Investments are reported in the accompanying balance sheet at fair value, except for certain certificates of deposit and investment contracts that are reported at cost. These investments are not transferable and they have terms that are not affected by changes in market interest rates.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Investments (continued)
Changes in fair value that occur during a fiscal year are recognized as uses of money and property reported for that fiscal year. Uses of money and property also reports interest earnings, rental income, and any gains or losses realized upon the liquidation, maturity, or sale of investments. Interest income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

Restricted cash and investments
Certain proceeds of debt issuances, as well as certain resources set aside for their repayment are classified as restricted cash and investment on the balance sheet because their use is limited by applicable bond covenants

Receivables and Payables
The amount recognized as revenue under the modified accrual basis of accounting is limited to the amount that is deemed measurable and collectible.

Activities 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).

Property Taxes
Incremental property tax revenues are established pursuant to California Community Redevelopment Law and result from the excess of taxes levied and collected each year in a designated project area over and above the amount which would have been produced, at current rates, by the assessed value as shown on the last equalized property tax assessment roll prior, to the effective date of the ordinance of the City Council, acting as the Agency governing board, establishing the project area.

Incremental property taxes are considered as revenues of the project area when they become both measurable and available. The Agency considers property taxes available if they are collected within sixty days after year-end.

Under terms of the covenants of the project area's tax allocation bond agreements, all incremental property taxes arising from the project area are to be deposited, when collected, into a designated special account administered by an independent fiscal agent and pledged to the payment of the principal and interest on the bonds, subject to the terms of the Agency's bond agreements and resolutions.

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.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term Obligations (Continued)

In the fund financial statements, governmental funds 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.

Use of Estimates

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

Fund Balance Reporting

During the fiscal year ended June 30, 2011, the City and the Agency has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes the following fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds:

Non-spendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The Agency' has no non-spendable fund balance.

Restricted fund balance includes resources that are subject to externally enforceable legal restrictions. It includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The Agency's restricted fund balances represent resources restricted for debt service, capital projects and the Low/Moderate Income Housing Program.

Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the City and the Agency's highest level of decision-making authority. The Agency has no committed fund balances.

Assigned fund balance consists of funds that are set aside for specific purposes by the Commission's highest level of decision making authority or a body or official that has been given the authority to assign funds. The Agency has no assigned fund balances.

Unassigned fund balance is the residual classification for the Agency's fund balance and includes all spendable amounts not contained in the other classifications. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Reporting (Continued)

The City Council, as the City and Agency's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken. Committed amounts cannot be used for any other purpose unless the City Council removes or changes the specific use through the same type of formal action taken to establish the commitment. The Agency does not have any fund balances that meet this classification as of June 30, 2011.

For purposes of reporting in the annual financial statements, the City Council delegates the authority to assign fund balance to the City Manager and the Administrative Services General Manager.

The Agency considers the restricted fund balances to have been spent when expenditures are incurred for purposes for which both unrestricted and restricted fund balance is available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of the Agency to reduce the committed amounts first, followed by assigned amounts, and then unassigned amounts.

General Budget Policies

The Agency Board (Board) approves each year's budget submitted by the Executive Director prior to the beginning of the new fiscal year. Public hearings are conducted prior to its adoption by the Board. Supplemental appropriations, where required during the period, are also approved by the Board. In most cases, expenditures may not exceed appropriations at the fund level. It is the practice of the Board to give Finance staff some discretion with respect to budget amounts for yearend purposes. All operating budget appropriations lapse at the end of the fiscal year. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

NOTE 2 CASH AND INVESTMENTS

Cash and investments at June 30, 2011 are classified in the accompanying financial statements as follows:

		Total
Statement of net assets:		
Cash and investments	$	5,032,023
Cash with fiscal agents		1,039,968
Total cash and investments	$	6,071,991

The Agency participates in the City-wide cash and investment pool. At June 30, 2011 all of the Agency's pooled cash and investments were invested by the City Treasurer in accordance with the City's investment policy, and as prescribed by the California Government Code. Following are the information on the investment policy, risk categorization, and fair value.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Investment Policy

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

	Authorized by Investment Policy	Maximum Maturity*	Maximum Percentage of Portfolio*	Maximum Investment In One Issuer*
Local Agency Bonds	No	N/A	N/A	N/A
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	30%	30%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	No	N/A	N/A	N/A
Reverse Repurchase Agreements	No	N/A	N/A	N/A
Medium-Term Notes	No	N/A	N/A	N/A
Mutual Funds	No	N/A	N/A	N/A
Money Market Mutual Funds	No	N/A	N/A	10%
Mortgage Pass-Through Securities	No	N/A	N/A	N/A
County Pooled Investment Funds	No	N/A	N/A	N/A
Local Agency Investment Fund	Yes	N/A	None	$40 million per account
JPA Pools (other investment pools)	No	N/A	N/A	N/A

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment In One Issuer
Local Agency Bonds	None	NA	NA
U.S. Treasury Obligations	None	NA	NA
U.S. Agency Securities	None	NA	NA
Banker's Acceptances	1 year	NA	NA
Commercial Paper	270 days	NA	NA
Negotiable Certificates of Deposit	None	NA	NA
Repurchase Agreements	30 days	NA	NA
Money Market Mutual Funds	N/A	NA	NA
Local Agency Investment Fund	NIA	NA	NA
Investment Agreements	N/A	NA	NA

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

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 over time as necessary to provide the cash flow and liquidity needed for operations.

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.

Concentration of Credit Risk

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Agency investments are as follows:

Ixis Funding Corp Investment Agreement	$ 1,039,968

Custodial Credit Risk

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

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk (Continued)
As of June 30, 2011, the Agency's investments in the following investments types were held by the same broker-dealer (counterparty) that was used by the Agency to buy the securities:

Investment Type	Amount
Short-term treasury obligation fund	$ 334,621
Private investment agreement	705,347
	$ 1,039,968

For investments identified herein as held by fiscal agent, the fiscal agent selects the investment under the terms of the applicable trust agreement, acquires the investment and holds the investment on behalf of the reporting government.

Local Agency Investment Fund (LAIF)
The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that 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 of $7.8 million as of June 30, 2011, is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value provided by LAlF for the entire LAlF 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. LAIF's (and the City's) exposure to risk (credit, market or legal) is not currently available.

NOTE 3 LOANS RECEIVABLE

On October 1, 2004, the Agency issued a promissory note for $250,000, evidenced by an Agency Loan Agreement with Southern California Housing Development Corp and a Deed of Trust relating to the Hawthorne Terrace Project. Funds were advanced during February 2006, to finance operating reserves of the Project. The note bears interest that varies according to the bank account depository rate and at no time shall the total amount outstanding under the note be less than the bank account balance. The note matures at the earliest of (a) the fifty-fifth (55^{th}) anniversary of the date of the note (October 2059), (b) the date the property is sold or refinanced with 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, 2011, the balance of the loan receivable is $169,950.

NOTE 4 CAPITAL ASSETS

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

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011
Non-depreciable assets				
Land	$ 360,000	$ -	$ -	$ 360,000
Total non-depreciable assets	360,000	-	-	360,000
Depreciable assets				
Structure and improvements	7,480,227	-	-	7,480,227
Total depreciable assets	7,480,227	-	-	7,480,227
Less accumulated depreciation				
Structure and improvements	377,887	219,506	-	597,393
Total accumulated depreciation	377,887	219,506	-	597,393
Total depreciable assets, net	7,102,340	(219,506)	-	6,882,834
Total capital assets, net	$ 7,462,340	$ (219,506)	$ -	$ 7,242,834

Depreciation expense is charged to the following function:

Low and moderate housing and economic development	$ 219,506

NOTE 5 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivables and payables at June 30, 2011 are the result of the elimination of deficit cash balances in individual funds.

	Due from Other Funds	Due to Other Funds
Capital Projects Fund		
Low-and-Moderate Income Housing	$ 2,662,351	$ -
Project Area I		746,060
Debt Service Fund		
Project Area I	-	430,894
Project Area II	-	1,485,397
Total funds	$ 2,662,351	$ 2,662,351

NOTE 5 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

	Transfers In	Transfers Out
Capital Projects Fund		
Project Area I	$ 4,200,000	$ -
Debt Service Fund		
Project Area II	2,145,000	6,345,000
Total funds	$ 6,345,000	$ 6,345,000

Interfund transfers were made: (1) to transfer 20% of tax increment revenues to the Low and Moderate Income Housing Capital Projects Fund; (2) to transfer monies for debt service payments on outstanding bonds; (3) to correct prior transfers, and (4) to correct loans receivable not pertaining to the low/mod funds.

NOTE 6 LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2011:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011	Due Within One Year	Due After One Year
City loans - principal	$ 20,124,856	$ -	$ -	$ 20,124,856	$ -	$ 20,124,856
City loans - unpaid interest	39,360,570	90,159	4,300,000	35,150,729	-	35,150,729
Notes payable	23,428,438	1,125,000		24,553,438	-	24,553,438
Bonds -	43,495,000	-	750,000	42,745,000	1,380,000	41,365,000
Total long-term debt	$ 126,408,864	$ 1,215,159	$ 5,050,000	$ 122,574,023	$ 1,380,000	$ 121,194,023

NOTE 6 LONG-TERM LIABILITIES (CONTINUED)

A description of long-term debt outstanding (excluding defeased debt) of the Agency as of June 30, 2011 follows:

	Balance at June 30, 2011
Tax Allocation Bonds	
Hawthorne Plaza Project Area No. 1:	
2001 Tax Allocation Refunding Bonds The 2001 Tax Allocation Refunding Bonds bear interest ranging from 5.500% to 6.875% per annum and payable on March 1 and September 1. Principal payments ranging from $145,000 to $410,000 are due annually on September 1, beginning in the year 2003 through the year 2020.	$ 3,110,000
Subtotal Hawthorne Plaza Project Area No. 1	3,110,000
Redevelopment Project Area 2:	
1998 Tax Allocation Refunding Bonds The 1998 Tax Allocation Refunding Bonds bear interest 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.	6,965,000
2004 Tax Allocation Refunding Bonds In December 2004, the Hawthorne Community Redevelopment Agency 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 semi-annually 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 2024.	3,585,000

NOTE 6 LONG-TERM LIABILITIES (CONTINUED)

2006 Tax Allocation Bonds In July 2006, the Agency issued Project Area No. 2 Tax Allocations Bonds, Series 2006 in the amount of $29,085,000. The proceeds of the bonds were used to (a) provide funds to prepay the Public Funding Requirement of the Agency under the Owner Participation Agreement (OPA) dated September 26, 2003, and as amended by the Second Implementation Agreement as of July 11, 2006, with SAMS Ventures, 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 a annual maturity dates from September 1, 2011 through September 1, 2016, bearing interest ranging from 4.0% to 4.125%; $9,845,000 term bonds bearing interest of 5.0% and maturing September 1, 2026; and $15,650,000 term bonds bearing interest of 5.2% and maturing September 1, 2036.		29,085,000
Subtotal Redevelopment Project Area 2		39,635,000
Total Community Redevelopment Agency Tax Allocation Bonds Payable	$	42,745,000

Note Payable

AutoNation/ Costco note – A first implementation agreement to a Disposition and Development Agreement (DDA) was entered with certain developers in August 2000, paying interest at 9.0%. The developers had advanced to the Agency $5,500,000 and cancelled a Costco note for approximately $7,000,000. In return, the Agency executed a promissory note to the developers for $12,500,000. The repayment of this note consisted of Mello-Roos tax refunds, sales tax and transient occupancy tax refunds to the extent these taxes are generated within the project site.	$	24,553,438

Advance from City

During the current and previous fiscal years, the City of Hawthorne has made loans to the Agency. These loans bear interest at rates equivalent to the rate of return on investments in LAIF. The City may demand payment of all or a portion of the principal balance at any time as refunds become available; however, such demands are not anticipated within the next fiscal year.

Total outstanding principal and accrued unpaid interest	$	55,275,585

NOTE 6 LONG-TERM LIABILITIES (CONTINUED)

The following schedule summarizes the debt service to maturity requirements for bonds outstanding as of June 30, 2011:

	1998 Bond		2001 Bond		2004 Bond	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	$ 355,000	$ 339,375	$ 230,000	$ 202,030	$ 200,000	$ 144,019
2013	365,000	321,375	245,000	187,247	210,000	136,739
2014	390,000	302,500	260,000	171,407	215,000	129,196
2015	410,000	282,500	275,000	153,828	225,000	121,271
2016	430,000	261,625	295,000	134,234	230,000	103,643
2017-2021	2,500,000	813,750	1,805,000	322,735	1,285,000	306,115
2022-2026	2,515,000	398,375	-	-	1,220,000	232,578
2027-2031	-	-	-		-	
2032-2036	-	-	-		-	
2037	-	-				
Total	$6,965,000	$ 2,719,500	$ 3,110,000	$ 1,171,481	$ 3,585,000	$ 1,173,561

	2006 Bond		Total	
	Principal	Interest	Principal	Interest
2012	$ 595,000	$ 1,442,882	$ 1,380,000	$ 2,128,306
2013	620,000	1,418,581	1,440,000	2,063,942
2014	645,000	1,393,281	1,510,000	1,996,384
2015	670,000	1,366,981	1,580,000	1,924,580
2016	695,000	1,339,682	1,650,000	1,839,184
2017-2021	3,975,000	6,179,326	9,565,000	7,621,926
2022-2026	5,065,000	5,058,498	8,800,000	5,689,451
2027-2031	6,490,000	3,596,623	6,490,000	3,596,623
2032-2036	8,380,000	1,656,373	8,380,000	1,656,373
2037	1,950,000	51,188	1,950,000	51,188
Total	$ 29,085,000	$ 23,503,415	$ 42,745,000	$ 28,567,957

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.

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.

NOTE 6 LONG-TERM LIABILITIES (CONTINUED)

Debt Service Requirement

As previously discussed, the Agency has pledged, as security for bonds, it has issued, either directly or through the Financing Authority, a portion of the tax increment revenue that it receives. These bonds were to provide financing for various capital projects and to defease previously issued bonds. The Hawthorne Community Redevelopment Agency has committed to appropriate each year, from these resources amounts sufficient to cover the principal and interest requirements on the debt.

Total principal and interest remaining on the debt is $71,312,957 with annual debt service requirements as indicated above. For the current year, the total tax increment revenue, net of pass through payment, recognized by the Agency was $8,783,274, and the debt service obligation on the bonds was $3,508,306.

NOTE 7 NET ASSETS RESTATEMENT:

The Agency made several adjustments to fund balances as of June 30, 2010 subsequent to the issuance of the Agency's audit report but before the closing of the City's annual financial statements for the year ended June 30, 2010, therefore resulting in fund balance restatements. The following table provides a reconciliation of the net assets/fund balances as of June 30, 2010, as restated.

Government-wide Financial Statements:

Net assets as of June 30, 2010, as previously reported	$ (109,726,672)
Adjustments	388,358
Net assets as of June 30, 2010, as restated	$ (109,338,314)

Governmental Fund Financial Statements:

	Capital Project Area No. 2 Fund	Low/Moderate Housing Fund	Total/Net
Fund balances as of June 30, 2010, as previously reported	$ (4,411,251)	$ 8,435,296	$ 4,024,045
Adjustments	3,558,594	(3,170,236)	388,358
Fund balances as of June 30, 2010, as restated	$ (852,657)	$ 5,265,060	$ 4,412,403

NOTE 8 EXPENDITURES EXCEEDING APPROPRIATIONS

Expenditures for the year ended June 30, 2011 exceeded the appropriations for the following fund:

	Budget	Actual	Variance
Debt service payments	$ 2,690,874	$ 5,658,322	$ (2,967,448)

NOTE 9 RETIREMENT PLAN

The Agency, as part of the City, contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer retirement plan that acts as a common investment and administrative agent for cities in California. The Agency assumes its share of pension costs based upon rates established by CalPERS for the City's general employees. No separate pension benefit obligation is calculated for the Agency; accordingly, no obligation is presented herein. Further information regarding the City's participation in CalPERS may be found in the City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011.

NOTE 10 SELF-INSURANCE

The Agency is partially self-insured for general liability and workers' compensation claims. In connection with its risk management program, the Agency 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 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 11 CHARGES FROM THE CITY OF HAWTHORNE

The Agency has entered into an agreement with the City for financial assistance, services, facilities and personnel support. The Agency reimburses the City based on full-time employees' gross salaries and benefits for all employees utilized by the Agency. Departmental overhead charges allocated by the City and other expenditures paid by the City on behalf of the Agency are based on actual cost.

For fiscal year ended June 30, 2011, the City and the Agency determined that $20,682 of City departmental overhead costs were applicable to the activities of the Agency. The Agency's allocable share has been recorded as a cost allocation from the City of Hawthorne and has been included as economic development expenditures within the Capital Projects and Low and Moderate Income Housing Funds.

NOTE 12 DEVELOPER / OWNER AGREEMENT

The Agency has entered into Owner Participation Agreements to attract new business to the City of Hawthorne. The Agency has one significant commitment with a developer.

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

NOTE 13 LOW-AND-MODERATE-INCOME HOUSING

The Health and Safety Code Section 33334.2 requires a Community Redevelopment Agency to use at least 20% of tax increment revenues generated by a redevelopment project area to increase or improve the supply of low and moderate-income housing in the community. As of June 30, 2011, the Agency has accumulated $7,741,101 of unexpended tax increment funds that have been reserved and set aside for future low-and-moderate-income housing as shown in the accompanying statement of net assets.

NOTE 14 CONTINGENCIES

As part of the State budget, the Legislature approved and the Governor signed bills ABX1 26 and ABX1 27 (legislation). The first part of the legislation dissolves all redevelopment agencies and establishes mechanisms for paying existing agency debts and liquidating the agency assets. The second part of this legislation allows redevelopment activity to continue and preserve the assets under a voluntary alternative redevelopment program if the City sponsoring the Community Redevelopment Agency agrees to make certain payments.

The California Redevelopment Association (CRA) and California League of Cities (CLC) filed a petition with the California Supreme Court, challenging the constitutionality of ABX1 26 and 27 and seeking a stay of ABX1 26 and 27 pending resolution of the Petition. The Supreme Court agreed to hear the CRA and the CLC and stayed most of the statutes' provisions, freezing or limiting redevelopment agencies' activities in the interim until a ruling is made. The stay precludes redevelopment agencies from entering into new commitments and allows them to honor existing commitments, leaving the interpretation of specific actions to City and Agency Attorneys. A decision is scheduled to be made by the Supreme Court by January 15, 2012.

In September 2011, the City Council passed a resolution (No. 408) that, in the event the Stay Order is lifted and the Supreme Court upholds ABX1 26 and ABX1 27, the City and the Agency to enter into an agreement to provide for the Agency's transfers of its tax increment to the City, pursuant to Health Section 34194.2, such that the total amount of the transfers in any fiscal year shall be equal to the annual remittance for that fiscal year.

On December 29, 2011, the Supreme Court filed its opinion ruling that ABX1 26 is constitutional and valid and that ABX1 27 is unconstitutional and invalid. Consequently, all redevelopment agencies remain subject to the suspension provisions of ABX1 26 and are to be dissolved in accordance with that bill. As a result of the effect of the Supreme Court's stay on the timelines provided in ABX 1 26, the Supreme Court has reformed its timelines by extending them uniformly by four months except any actions that were to be taken by September 1, in which case the extension is to January 13, 2012. Under the reformed timelines, agencies will be dissolved as of February 1, 2012. The City Council is currently determining the appropriate actions that the City will take in light of the Supreme Court's decision.

NOTE 15 SUBSEQUENT EVENTS

The Agency has evaluated events subsequent to June 30, 2011 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through December 29, 2011, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that, except for the matters discussed in Note 14, no other subsequent events occurred that require recognition or additional disclosure in the financial statements

SUPPLEMENTARY INFORMATION

Hawthorne Community Redevelopment Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
Debt Service Fund
Year ended June 30, 2011

	Debt Service - Project Area 2			
	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	$ 8,904,000	$ 8,904,000	$ 8,783,274	$ (120,726)
Use of money and property	200	200	28	(172)
Total revenues	8,904,200	8,904,200	8,783,302	(120,898)
Expenditures				
General government	193,900	193,900	161,347	32,553
Debt service:				
Principal retirement	535,000	535,000	1,961,975	(1,426,975)
Interest and fiscal charges	1,961,974	1,961,974	3,535,000	(1,573,026)
Total expenditures	2,690,874	2,690,874	5,658,322	(2,967,448)
Excess (deficiency) of revenues over expenditures	6,213,326	6,213,326	3,124,980	(3,088,346)
Other financing sources (uses)				
Transfers in	2,145,000	2,145,000	2,145,000	-
Transfers out	(6,345,000)	(6,345,000)	(6,345,000)	-
Pass-through agreement	(3,561,600)	(3,561,600)	(3,146,592)	415,008
Total other financing sources (uses)	(7,761,600)	(7,761,600)	(7,346,592)	415,008
Net change in fund balance	(1,548,274)	(1,548,274)	(4,221,612)	(2,673,338)
Beginning fund balance	3,734,953	$ 3,734,953	3,734,953	-
Ending fund balance (deficit)	$ 2,186,679	$ 2,186,679	$ (486,659)	$ (2,673,338)

Hawthorne Community Redevelopment Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
Capital Projects Fund
Year ended June 30, 2011

	Capital Projects - Project Area 2			
	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Use of money and property	$ 450,000	$ 450,000	$ 374,995	$ (75,005)
Total revenues	450,000	450,000	374,995	(75,005)
Expenditures				
Current:				
General government	426,124	426,124	423,992	2,132
Capital outlay	-	-	120,265	(120,265)
Developer pass-thru payments	1,050,000	1,050,000	753,439	296,561
Total expenditures	1,476,124	1,476,124	1,297,696	178,428
Excess (deficiency) of revenues over expenditures	(1,026,124)	(1,026,124)	(922,701)	103,423
Other financing sources (uses)				
Transfers in	4,200,000	4,200,000	4,200,000	-
Payments to other City funds	(1,420,000)	(1,420,000)	(1,420,000)	-
Payment to Educational Revenue Augmentation Fund	(700,000)	(700,000)	(652,696)	47,304
Total other financing sources (uses)	2,080,000	2,080,000	2,127,304	47,304
Net change in fund balance	1,053,876	1,053,876	1,204,603	150,727
Beginning fund balance	(852,657)	(852,657)	(852,657)	-
Ending fund balance	$ 201,219	$ 201,219	$ 351,946	$ 150,727

Hawthorne Community Redevelopment Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
Low and Moderate Income Housing Fund
Year ended June 30, 2011

	Low/Moderate Income Housing			
	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	$ 2,226,000	$ 2,226,000	$ 2,157,992	$ (68,008)
Use of money and property	50,000	50,000	18,229	(31,771)
Other	-	-	133,985	133,985
Total revenues	2,276,000	2,276,000	2,310,206	34,206
Expenditures				
Current:				
General government	5,500	50,020	1,108	48,912
Capital outlay:				
Community development	3,000,000	3,000,000	-	3,000,000
Total expenditures	3,005,500	3,050,020	1,108	3,048,912
Net change in fund balance	(729,500)	(774,020)	2,309,098	3,083,118
Beginning fund balance	5,265,060	5,265,060	5,265,060	-
Ending fund balance	$ 4,535,560	$ 4,491,040	$ 7,574,158	$ 3,083,118

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Report of Independent Auditors on Compliance (Including the Provisions Contained in the Guidelines for Compliance Audits of Redevelopment Agencies) and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Honorable Board of Directors of the
Hawthorne Community Redevelopment Agency

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hawthorne Community Redevelopment Agency (the Agency) as of and for the year ended June 30, 2011, which collectively comprise the Hawthorne Community Redevelopment Agency's basic financial statements and have issued our report thereon dated December 29, 2011. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements 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 included those provisions of laws and regulations identified in the *Guidelines for Comptroller 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 tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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.

A *significant deficiency* is a deficiency, or a combination of deficiencies in internal control that is less severe that a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. We identified a deficiency in internal control over financial reporting in Finding 2011-01 that we consider to be a significant deficiency, as defined above.

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

Vasquez + Company LLP

Los Angeles, California
December 29, 2011

Financial Statements

Type of auditors' report issued on the financial statements: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified: No
- Deficiencies identified that are not considered to be material weaknesses? Yes

Noncompliance material to general purpose financial statements noted: Yes

Section II – State Controller Compliance

Finding 2011-01 – Filing of 2010 Audited Financial Statements

Criteria: According to Health and Safety Code section 33080.1, the agency must present an annual report to its legislative body and the State Controller's Office (SCO) within six months of the end of a fiscal year (generally, December 31). The annual report shall contain all of the information required thereunder, including the independent auditors' reports.

Condition: The Agency did not file the 2010 report within six months of the end of fiscal year.

Questioned Costs: N/A

Context: N/A

Effect: The lack of filing the audited financial statements in a timely manner caused the Agency to pay penalties to the State of California.

Cause: The non-compliance was primarily caused by the lack of meeting the required State Controller's deadline.

Recommendation: We recommend that the Agency file the audited financial statements to the State Controller in a timely manner.

Management Response: The City did file the 2010 report on or about January 5, 2011. Management is working to prepare and file futures report in accordance with regulatory requirements.

The following two findings were noted by prior auditors Lance, Sole, and Lunghard, LLP during its audit of the Agency for fiscal year 2010:

Prior Year Finding – Redevelopment Agency Annual Transaction Report

The Redevelopment Agency (Agency) is required to produce and submit within six months following the end of the Agency's fiscal year-end to its legislative body and the State Controller the required annual reports specified by the Health & Safety Code §33080.1. These reports include the Annual Transaction Report. During the field work in November 2010, we noted the Agency had not produced and submitted Loan and Property Reports to its legislative body on a timely basis, but took corrective actions in February 2010.

Status

The Agency took corrective action toward the finding noted by prior auditors Lance, Sole, and Lunghard, LLP, and filed the required annual report. However, the same condition was observed for the fiscal year 2010 annual report. See current year finding 2011-01.

Prior Year Finding – Low and Moderate Income Housing Planning and Administrative Expenses

Our review of Agency operations revealed that, while planning and administrative costs applicable to the Low and Moderate Income Housing Fund have been budgeted, the applicability of these costs has not been formalized through actions of the governing body. Since §33334.3(d) of the Health and Safety Code specifies that annually an agency shall determine that these costs are necessary for low and moderate housing purposes, we suggest that the Agency make a specific finding that planning and administrative cost are necessary for the production, improvement, or preservation of low and moderate income housing. On December 14, 2010, the governing board adopted Resolution No. 404 determining that planning and administrative expenses from the Housing Fund in fiscal year 2009 - 2010 are necessary for the production, improvement and/or preservation of low and moderate income housing in accordance with Health Safety Code §33334.3(d).

Status

The Agency took corrective action toward the finding noted by prior auditors Lance, Sole, and Lunghard, LLP, and made such required determination for the fiscal year 2009 – 2010. No finding noted for fiscal year 2010 – 2011.