

Popular Annual Financial Report



Huntington Beach, California

October 1, 2009 - September 30, 2011

Published May 2012

About Huntington Beach

City Profile



ELECTED OFFICIALS

From left to right:

City Clerk Joan Flynn

Councilmember Joe Carchio

Mayor Don Hansen

Councilmember Matthew Harper

Councilmember Keith Bohr

Councilmember Connie Boardman

City Attorney Jennifer McGrath

Mayor Pro Tem Devin Dwyer

Councilmember Joe Shaw

Below:

City Treasurer Alisa Cutchen



The City of Huntington Beach is located along the Southern California coast in Orange County, 35 miles south of Los Angeles and 90 miles north of San Diego. With a population of just under 200,000 residents, it is known as Surf City due to its abundance of beaches; sunny, warm Mediterranean climate; and casual lifestyle. Huntington Beach covers 28 square miles of land, 26 square miles of water, and is the fourth largest city in Orange County. With 8.5 miles of uninterrupted beach along the Pacific Ocean, the City hosts over eight million visitors annually. Listed among the nation's safest cities for decades, Huntington Beach has often been ranked among the Top Ten Safest Cities by City Crime Rankings.

Founded in the late 1880s, Huntington Beach was incorporated as a Charter City in 1909. A full service city, Huntington Beach has a Council/Manager form of government. The City Council has seven members, each of whom are elected to four-year terms. City Council Members are limited to two consecutive terms. There are two elected department heads, the City Attorney and City Clerk, and an elected City Treasurer. The position of Mayor is filled on a rotating basis. Other departments include the City Manager's Office, Building and Planning, Community Services, Economic Development, Finance, Fire, Human Resources, Information Services, Library Services, Police, and Public Works.



STRATEGIC PLAN ACCOMPLISHMENTS

The City adopted a strategic plan in August 2006. This plan has been updated and refined since, most recently in January 2012.

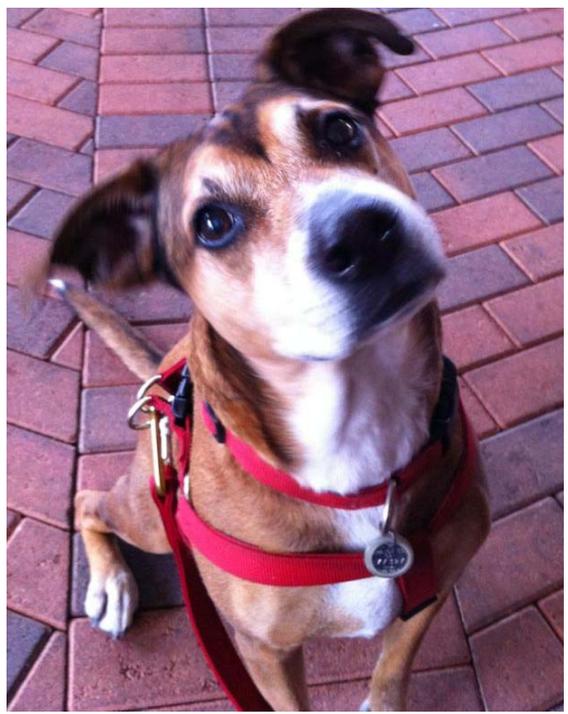
The latest update includes a Strengths-Weaknesses-Opportunities-Threats analysis, also known as a SWOT Analysis.

The updated plan included a list of the City’s accomplishments since the January 2012 update. Notable accomplishments which are related to the goals of the strategic plan include:

- Approval and commencement of construction on Bella Terra Phase II.
- Implementation of a 10 point plan to enhance the City’s “business friendly” approach.
- Shared Services Agreements contract with the City of Newport Beach and the City of Costa Mesa for the provision of helicopter services to nearby cities to generate revenue.
- The annexation of Sunset Beach (see below).



The strategic plan is designed to serve as a framework for the City Council and staff in achieving what is important to the community while making sure necessary resources are available. The plan identifies five three-year goals, with a list of six-month strategic objectives for each goal. Once a month, at a City Council meeting, updated information is presented on the status of the six-month strategic objectives.



Sunset Beach Annexation

The annexation of Sunset Beach was one of the major achievements of the fiscal year ended September 30, 2011. On August 22, 2011, the unincorporated County oceanfront community of Sunset Beach was officially annexed by the City of Huntington Beach. Sunset Beach is a small beachfront community with approximately 1,000 residents and 0.2 square miles of land. Sunset Beach features one of the widest and most pristine beaches in Southern California and is home to the historic Sunset Beach Arts Festival.



Popular Annual Financial Report

This report provides an overview of the City's financial position, including sources of revenues and expenditures, as well as economic information about the community. The Popular Annual Financial Report (PAFR) of the City of Huntington Beach is published to increase public awareness about the City's financial condition. It is our goal that this report is easy to read and understandable.

The PAFR summarizes the financial activities of the City of Huntington Beach's governmental and proprietary funds and draws its information from the 2011 Comprehensive Annual Financial Report (CAFR). The CAFR was prepared in conformance with generally accepted accounting principles (GAAP) and includes financial statements audited by Macias Gini & O'Connell, Certified Public Accountants. The City received an unqualified (or clean) opinion that the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City. The amounts within the CAFR were arrived at by employing accrual and modified accrual basis accounting techniques as prescribed by the

Governmental Accounting Standards Board. Government-wide data on pages 9-11 is presented similar to a consolidated financial statement for a private business. Governmental funds financial information on pages 12-14 is presented under normal governmental accounting rules.

This PAFR is unaudited and is presented on a non-GAAP basis. The differences between the GAAP basis presentation in the CAFR and the non-GAAP presentation in the PAFR are as follows: the use of prescribed accounting methods and financial statement formats; the presentation of segregated funds; and the disclosure of all material financial and non-financial matters in notes to the financial statements. Individuals who desire to review the audited GAAP-based, full disclosure financial statements should refer to the City's CAFR, which is available on the City's website: www.huntingtonbeachca.gov, or by contacting the Finance Department at 2000 Main Street, Huntington Beach, California, 92648, phone (714) 536-5630, or e-mail kirsty.wapner@surfcity-hb.org.

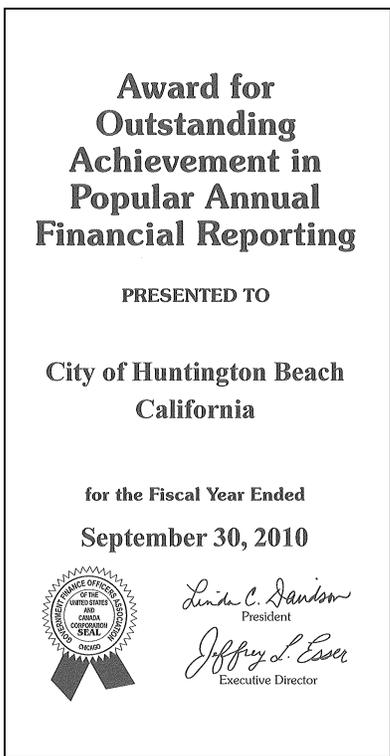


AWARD

LOCAL ECONOMY

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the City of Huntington Beach for its Popular Annual Financial Report for the fiscal year ended September 30, 2010. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability, and reader appeal. An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. The City of Huntington Beach has received a Popular Award for the last five consecutive years (fiscal years ended 2006 -2010). We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.



The City of Huntington Beach is one of the leading commercial and industrial centers in Southern California. The City works diligently to maintain its business friendly atmosphere, working closely with the Huntington Beach Chamber of Commerce and the Huntington Beach Conference and Visitors Bureau. The City seeks to attract new businesses and support existing business through retention and expansion efforts. These efforts and the diversity of business activity are helping the City weather the current economic downturn.

As the fourth largest city in Orange County, more than 110,600 people are currently employed by over 5,800 businesses in the City. Huntington Beach represents nearly eight percent of the entire Orange County working population. Huntington Beach businesses include aerospace and high technology; petroleum and petroleum support; manufacturing; computer hardware and software; financial and business services; automobile services; machine shop services; precision instruments; retailers; and, surf apparel – just to name a few.



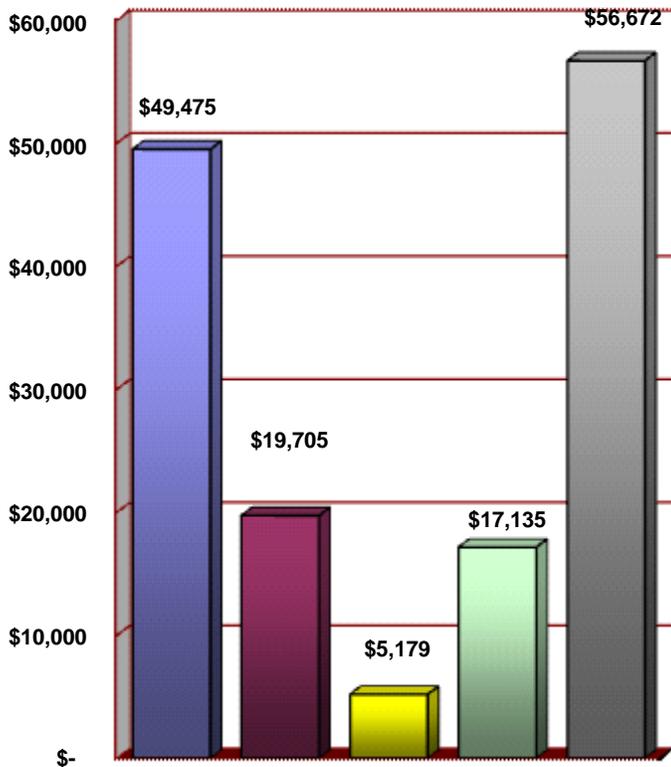
Key Financial Information

CITY DEBT

The City of Huntington Beach is legally restricted to issuing general obligation bonds to 12 percent of its assessed valuation. Since the City has no general obligation bonds outstanding, the limit does not apply. The City continues to maintain strong credit ratings on all of its debt issues. The chart on the right shows the latest ratings as determined by Moody's Investor Service and Standard and Poor's:

Debt Instrument	Moody's	S & P
2004 Judgment Obligation Bonds	Aa2	AA
2010 Lease Revenue Bonds, Series A	Aa3	AA
2011 Lease Revenue Bonds, Series A	Aa3	AA
1999 Tax Allocation Refunding Bonds	Baa2	A
2002 Tax Allocation Refunding Bonds	Baa2	A

Total City Debt As of September 30, 2011 (In Thousands)



- **Revenue Bonds** – Long-term issues used to finance civic improvements. The bonds are repaid from revenues generated from the lease on the buildings that were improved.
- **Tax Allocation Bonds** – Debt used for redevelopment agency project improvements. This debt is repaid by property tax revenues.
- **Judgment Obligation Bonds** – Debt used to pay claims on court judgments.
- **Claims** – Workers' Compensation and Liability Insurance claims made to the City.
- **Other** – Miscellaneous long-term debts that include: loans, compensated absences, leases, pollution remediation liabilities, and unfunded pension obligations.



City of Huntington Beach Capital Assets (Net of Depreciation) As of September 30, 2011

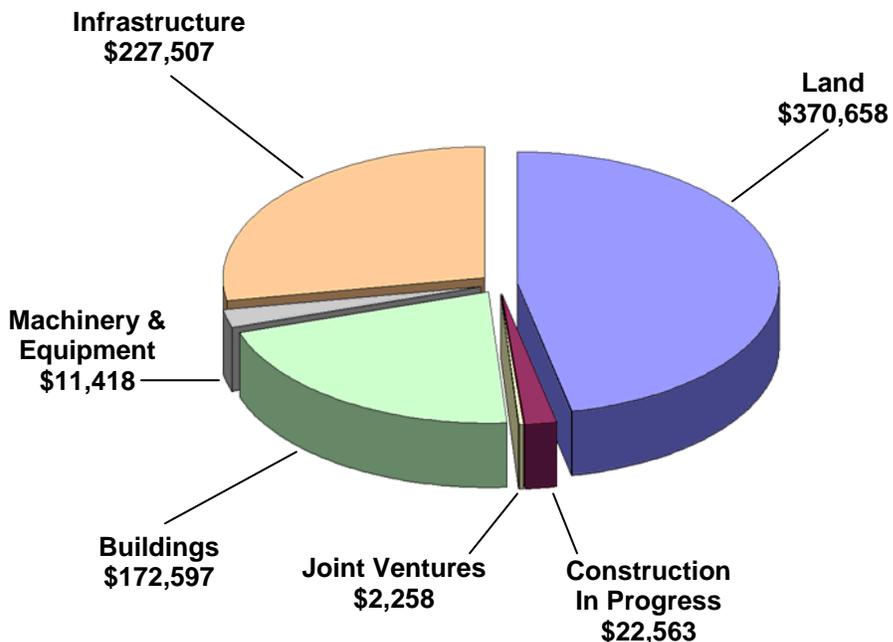
CAPITAL ASSETS

(Property, Plant, and Equipment)

(In Thousands)

As of September 30, 2011, the City's total capital assets balance is \$807,001,000. This total amount is broken down in the following categories:

-  Land
-  Construction in Progress
-  Joint Ventures
-  Buildings
-  Machinery & Equipment
-  Infrastructure



Key Financial Information (continued)

INVESTMENT PORTFOLIO

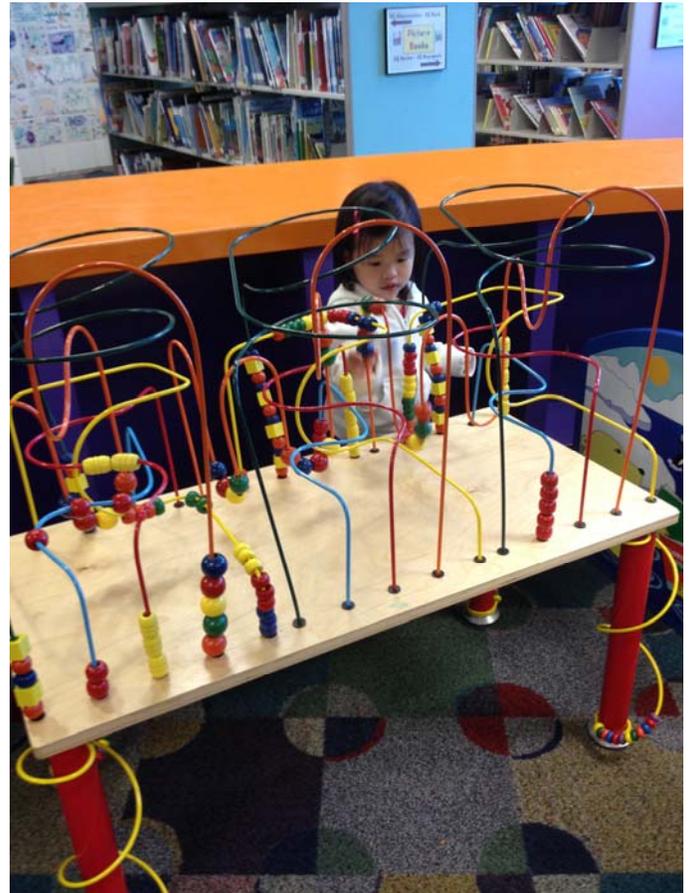
The market value of the City's cash and investments as of September 30, 2011 is as follows (in thousands):

INVESTMENTS:	Investment Maturities (In Years)					
	Fair Value	Less than 1	1 to 3	3 to 5	More than 5	Total
U.S. Agencies	\$ 84,231	\$ -	\$ 42,091	\$ 42,140	\$ -	\$ 84,231
Guaranteed Investment Contracts	1,649	-	-	-	1,649	1,649
Mutual Funds*	26,859	26,859	-	-	-	26,859
Money Market Funds	3,355	3,355	-	-	-	3,355
Medium Term Notes	24,313	15,202	7,663	1,449	-	24,314
Local Agency Investment Fund	54,347	54,347	-	-	-	54,347
Total Investments	\$ 194,754	\$ 99,763	\$ 49,754	\$ 43,589	\$ 1,649	194,755
Total Deposits						8,625
Total Deposits and Investments						\$ 203,380

* Supplemental Retirement Trust Fund Defined Benefit Plan.

The City's cash and investment practices and policies as of September 30, 2011, are based upon state law and prudent investor rules. Totals also include investments for the Supplemental Pension Retirement Trust Fund. The primary goals of these investment practices and policies are:

- To assure compliance with all Federal, State, and local laws governing the investment of public funds under the control of the City Treasurer;
- To protect principal and maintain liquidity to meet expected operating expenses; and
- Achieve a reasonable rate of return within the parameters of prudent risk management while minimizing the potential for capital losses arising from market changes or issuer default.



City Financials

STATEMENT OF NET ASSETS

The following financial summary is based upon a condensed view of the City's assets and liabilities for all funds as of September 30, 2011 and 2010.

City of Huntington Beach Statement of Net Assets As of September 30, 2011 and 2010 (In Thousands)

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2011	2010	Variance	2011	2010	Variance	2011	2010	Variance
Assets									
Current and other assets	\$ 152,402	\$ 142,600	7%	\$ 95,550	\$ 100,141	-5%	\$ 247,952	\$ 242,741	2%
Capital assets	672,119	678,791	-1%	134,882	121,579	11%	807,001	800,370	1%
Total assets	824,521	821,391	0%	230,432	221,720	4%	1,054,953	1,043,111	1%
Liabilities									
Current and other liabilities	14,424	16,927	-15%	7,209	6,978	3%	21,633	23,905	-10%
Long-term obligations	148,166	154,878	-4%	1,093	931	17%	149,259	155,809	-4%
Total liabilities	162,590	171,805	-5%	8,302	7,909	5%	170,892	179,714	-5%
Net Assets									
Invested in capital assets, net of related debt	569,497	567,631	0%	134,882	121,576	11%	704,379	689,207	2%
Restricted	51,195	49,100	4%	27,988	30,512	-8%	79,183	79,612	-1%
Unrestricted	41,239	32,855	26%	59,260	61,723	-4%	100,499	94,578	6%
Total net assets	\$ 661,931	\$ 649,586	2%	\$ 222,130	\$ 213,811	4%	\$ 884,061	\$ 863,397	2%

Total net assets increased by two percent and unrestricted net assets increased by six percent when compared to the previous year. The increase in total net assets is due in large part to additions made to capital assets for residential street improvements, infrastructure improvements to the City's water and sewer systems, an increase in sales tax, transient occupancy tax, and utility franchise revenue along with cost cutting measures.

Current and Other Assets – Assets that one can reasonably expect to convert to cash, sell, or consume within one year.

Capital Assets – The City's long-term investments in land, buildings, equipment, improvements, infrastructure, and construction in progress. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Current and Other Liabilities – These are primarily debts that can be paid off in one year or less. This includes accounts payable, accrued payroll, accrued interest payable, and deferred revenue.

Long-Term Obligations – Represents mainly debt obligations of the City. The proceeds from these various debt issues are used to finance large projects such as building construction and renovations, major equipment purchases, and roadway construction.

Invested in Capital Assets, Net of Related Debt – This represents the City's investment in its capital assets less accumulated depreciation and any outstanding debt attributable to the acquisition, construction, or improvement of these assets. It should be noted that the resources needed to repay this debt must be provided by other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Assets - This represents the difference between the City's total assets and liabilities.

Restricted Net Assets – Resources whose use is subject to externally imposed restrictions. The City has resources set aside for debt service, public works projects, and community services programs as established by the City Council.

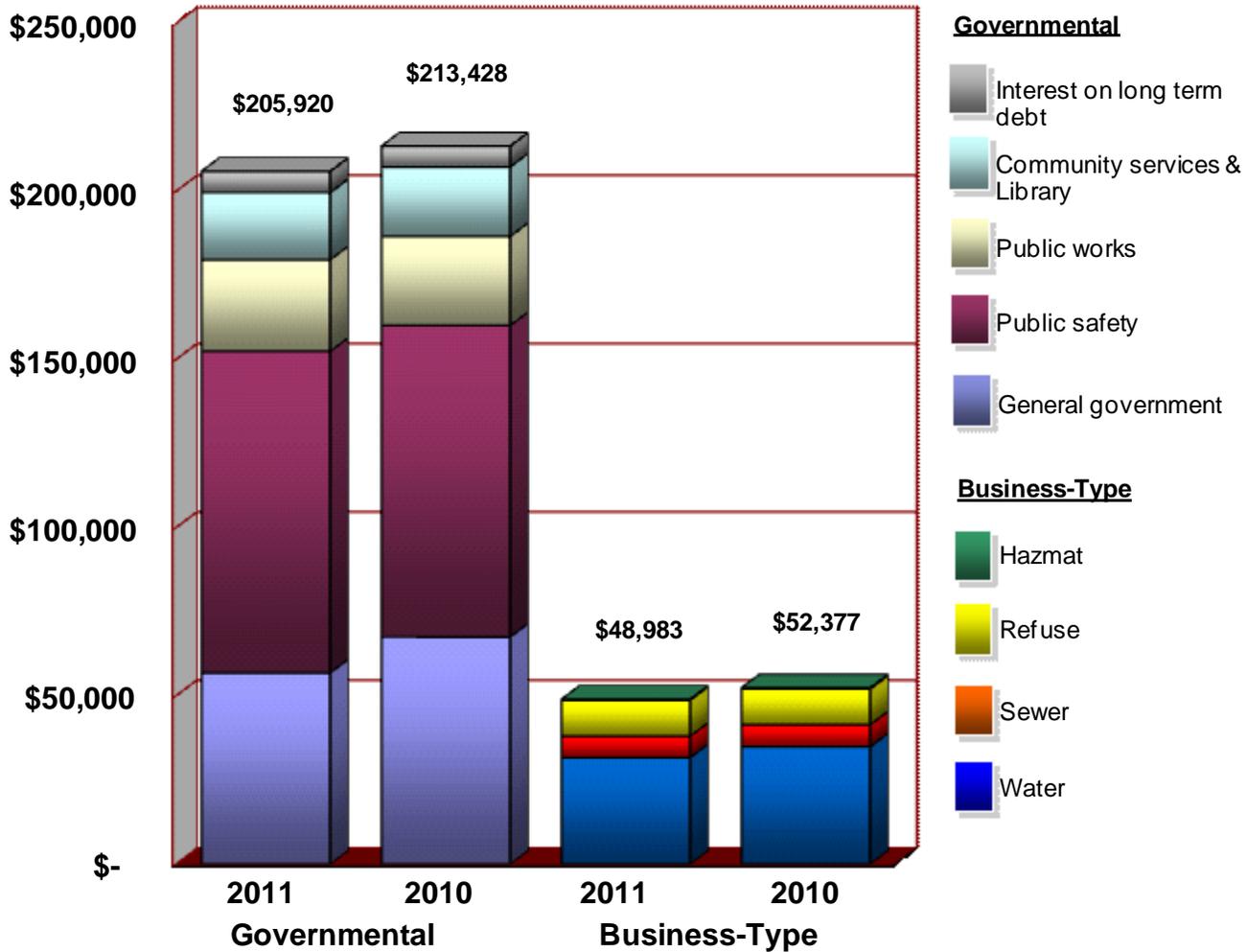
Unrestricted Net Assets – These are resources that are accessible to the City to provide services to the residents of Huntington Beach if there were no additional revenues or resources available.



STATEMENT OF ACTIVITIES

The graphs on this and the following page show revenues and expenses for Governmental and Business-type activities as they relate to the program category in which the funds were collected or expended. Governmental activities include the General Fund, Redevelopment Agency Fund, Debt Service Fund, Capital Projects Fund, and Special Revenue Fund. Business-type activities include the Water Fund, Sewer Fund, Refuse Fund, and Hazmat Fund.

City of Huntington Beach Expenses Governmental and Business-Type Activities For the Years Ending September 30, 2011 and 2010 (In Thousands)

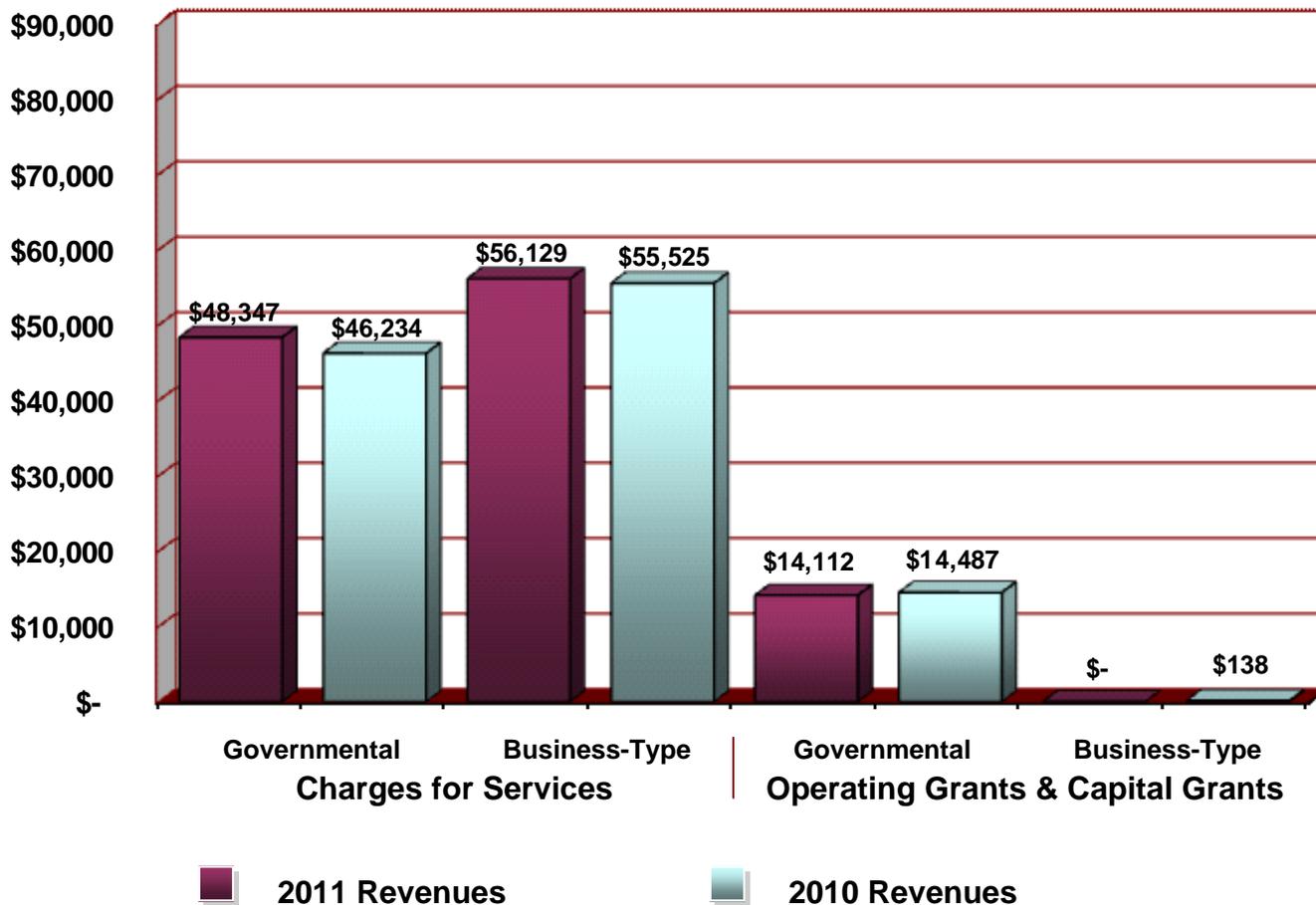


Governmental expenses decreased from \$213,428,000 in the fiscal year ending September 30, 2010, to \$205,920,000 in the fiscal year ending September 30, 2011, due to reductions made during the year to manage the downturn in revenues caused by the recession. Business-Type expenses decreased from \$52,377,000 in the fiscal year ending September 30, 2010, to \$48,983,000 in the fiscal year ending September 30, 2011 due to a reduction in the water fund supplies and operations expenses.



City of Huntington Beach Program Revenues Governmental and Business-Type Activities For the Years Ending September 30, 2011 and 2010 *(In Thousands)*

Definition of Program Revenues: Revenues that derive directly from the program itself, such as user fees and charges, which reduce the cost of the function to be financed from the government's general revenues.



Charges for services increased from \$46,234,000 in the fiscal year ending September 30, 2010, to \$48,347,000 in the fiscal year ending September 30, 2011 for governmental activities primarily due to slight increases in development related revenue. Operating and capital grants for governmental activities decreased from \$14,487,000 in the fiscal year ending September 30, 2010 to \$14,112,000 in the fiscal year ending September 30, 2011 due to a slight decrease in economic development and public works grants.



GOVERNMENTAL FUNDS

The City maintains 20 individual governmental funds. Governmental funds are used to account for tax-supported activities such as: public safety, public works, general government, and community-related services. The major governmental funds are the General Fund, Grant Special Revenue Fund, Redevelopment Agency Debt Service Fund, Redevelopment Agency Capital Projects Fund, and the Low Income Housing Capital Projects Fund.

The General Fund accounts for activity not required to be accounted for in another fund.

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources.

Debt Service Funds are used to account for the receipts for and payment of general long-term debt.

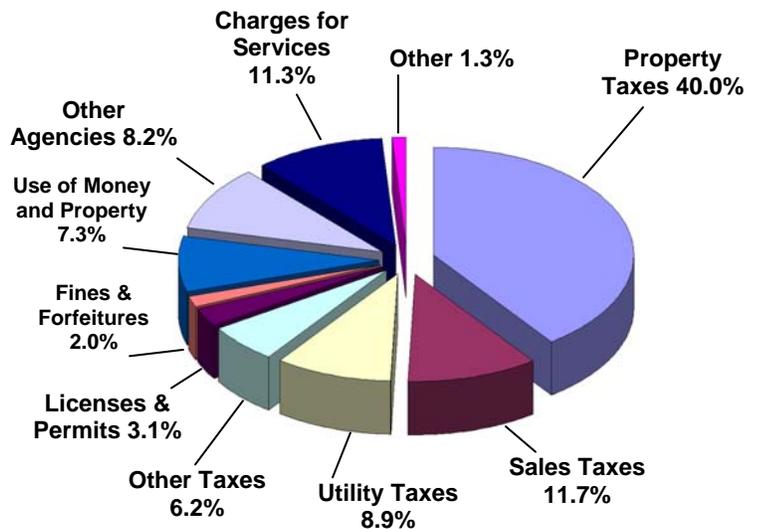
Capital Projects Funds are used to account for and report financial resources for capital outlays.

Revenue/Resources (Where the Money Comes From)

The City received over \$214,783,000 from various funding sources for the fiscal year ending September 30, 2011.

City of Huntington Beach Statement of Revenues Governmental Funds For the Year Ending September 30, 2011 & 2010 (In Thousands)

REVENUE BY SOURCE	2011	2010
Property Taxes	\$ 85,869	\$ 85,072
Sales Taxes	25,034	22,582
Utility Taxes	19,135	19,757
Other Taxes	13,368	11,629
Licenses and Permits	6,728	6,204
Fines and Forfeitures	4,334	3,965
Use of Money and Property	15,660	16,330
Other Agencies	17,659	19,893
Charges for Services	24,179	23,187
Other	2,817	3,214
Total	\$ 214,783	\$ 211,833



The largest source of operating revenues for the City is **property taxes**. Property taxes are levies collected from property within the City based on assessed value and tax rate.

Sales taxes, the second largest source of revenue for the City, are imposed on retail transactions and are collected and administered by the State. Huntington Beach receives 0.75% of the total taxable sales generated within the City.

A **utility tax** of 5 percent is imposed on consumers of electricity, gas, water, and cable television services and 4.9 percent for telephone services within the City. Utility taxes are the third largest revenue generator for the City.

The "other taxes" category is comprised of the following:

- **Franchise fee** – negotiated fee revenue received from local Utilities
- **Transient occupancy tax** – imposed on lodging facilities such as hotels and motels. The City's current tax rate is set at ten percent.

Licenses and permits represent revenues generated from a variety of activities, such as business licenses and building-related permits.

Revenue from **finances and forfeitures** are generated from various sources, such as court and traffic fines, parking violations, and library fines.

Revenue from the **use of money and property** includes interest on City investments, leases, parking fees, and concessions.

Revenue from **other agencies** is primarily reimbursements from Federal, State, and County sources.

Charges for services are revenues collected for services rendered to the public such as recreational classes.

Other revenues are those that do not fall into designated categories, such as refunds, donations, and passport services fees.

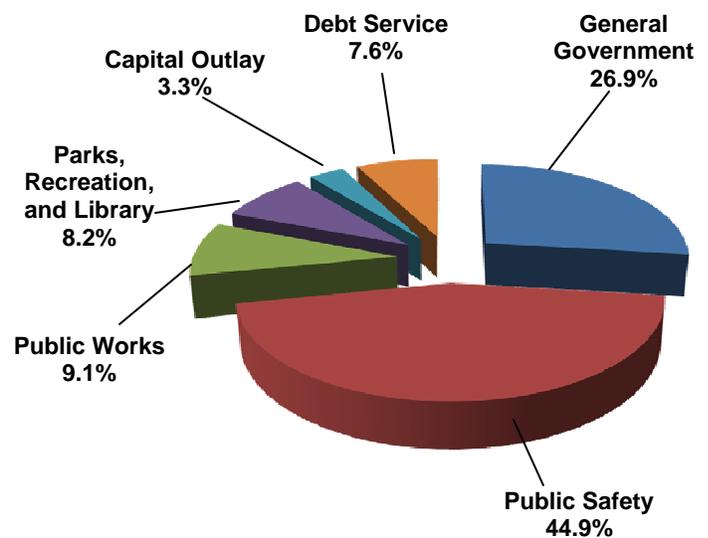


Expenditures/Services (Where the Money Goes)

The City incurs expenditures to meet the diverse needs of the community. As a full service city, Huntington Beach provides fire and police services, as well as recreational and cultural opportunities. For the period October 1, 2010 to September 30, 2011, the total expenditures incurred by the City are \$209,442,000.

City of Huntington Beach Statement of Expenditures Governmental Funds For Years Ending September 30, 2011 and 2010 (In Thousands)

EXPENDITURES	2011	2010
General Government	\$ 56,359	\$ 59,632
Public Safety	94,092	91,382
Public Works	19,006	20,466
Parks, Recreation, and Library	17,270	18,659
Capital Outlay	6,872	17,175
Debt Service	15,843	13,719
Total	\$ 209,442	\$ 221,033



General government expenditures are those incurred for the administrative offices, including the City Council, City Manager, City Treasurer, City Attorney, City Clerk, Finance, Human Resources, Economic Development, Building and Planning, and Information Services.

Public Safety expenditures reflect the costs associated with providing police, fire, and marine safety services to residents and visitors.

Expenditures for **public works** are those related to the design, construction, maintenance, and operation of public facilities and infrastructure within the City.

Parks, recreation, and library expenditures are those incurred by the City to enrich the quality of life in Huntington Beach through recreational and cultural activities, as well as to support the educational and informational needs of residents and visitors.

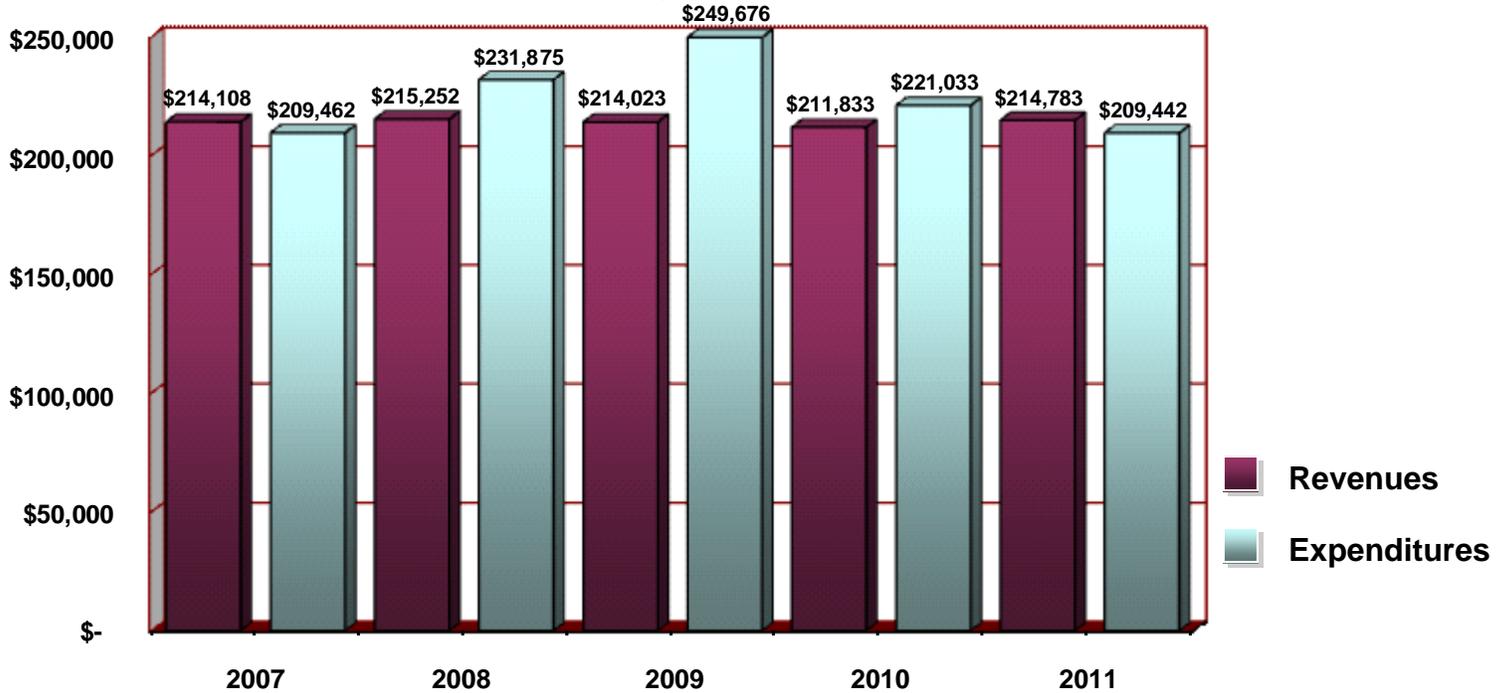
Capital expenditures are expenses related to the purchase of plant, property, and equipment and expenses related to infrastructure improvements.

Debt service expenditures are used to retire the City's debt.



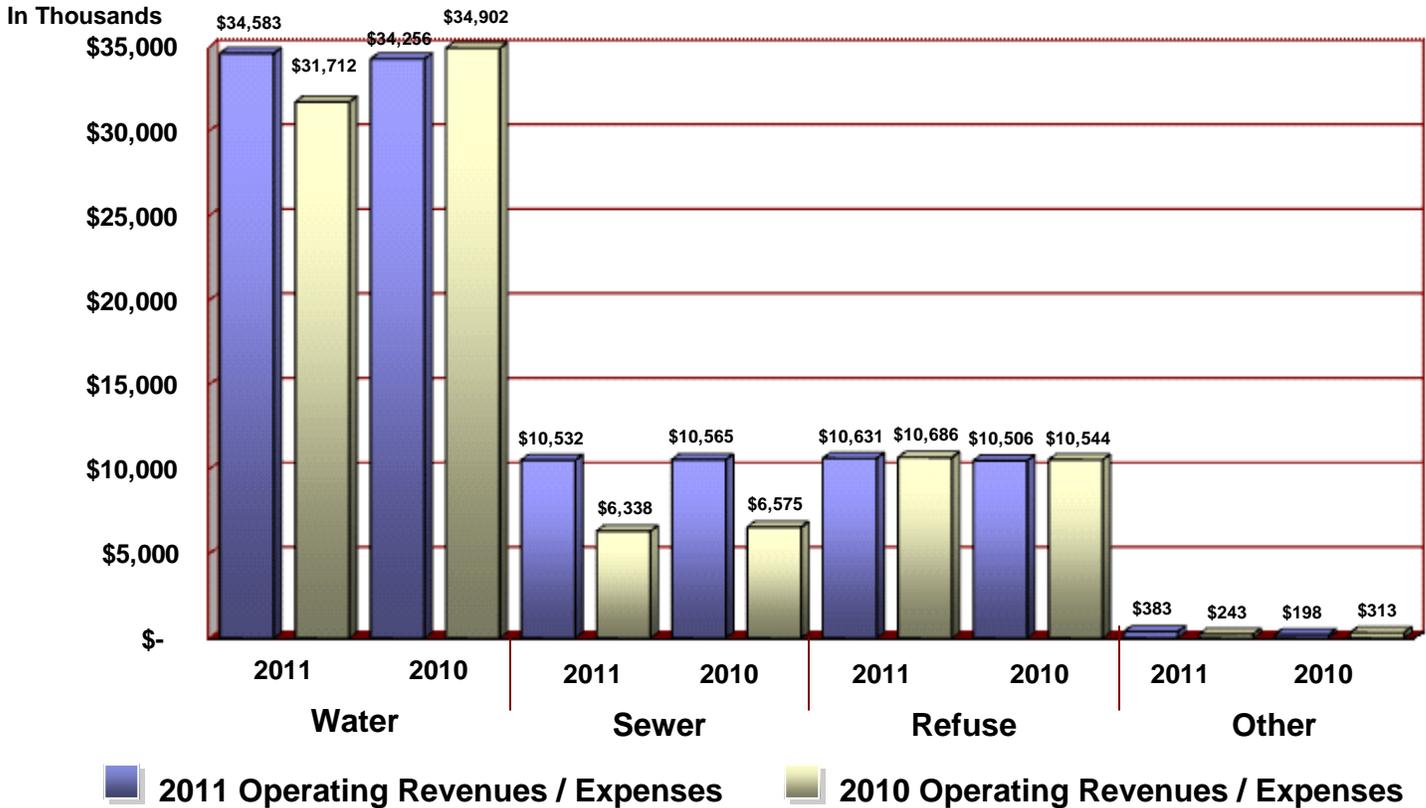
Governmental Funds Revenues and Expenditures - Five Year Trend

(in thousands)



BUSINESS-TYPE FUNDS

Business-type funds are used to report any activity for which a fee is charged to users for goods or services, similar to private business. Over time, these funds generate enough revenue to cover the costs of their operating expenses. The City maintained four business-type funds as of September 30, 2011.



BUSINESS-TYPE FUNDS (Continued)



The **Water Fund** accounts for water sales to customers.
The **Sewer Service Fund** accounts for user fees charged to residents and businesses for sewer services.

The **Refuse Fund** accounts for the activities of the City's refuse program.

The **Hazmat Service Fund** accounts for user fees charged for the City's hazardous materials program.

Where Do the Taxes Go?

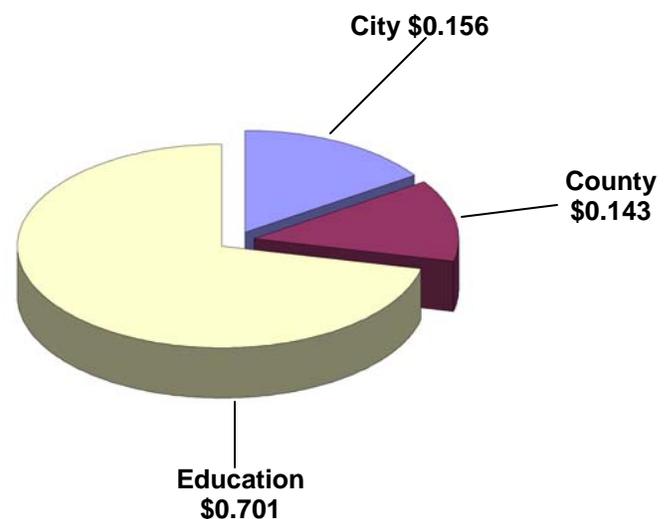
PROPERTY TAXES

The largest source of revenue for the City of Huntington Beach is property taxes. Personal property in California is subject to a basic levy equal to one percent of assessed value. The California Constitution, after passage of Proposition 13 in 1978, fixed valuations of real property at 1975 levels, with a maximum adjustment of two percent per year based on inflation. When a change of ownership or new construction occurs, the property is reassessed to its current value.

The basic levy is allocated to county governments, school districts, cities, and special districts. Additional levies require two-thirds approval by voters and are allocated directly to the specific government.

The chart to the right shows how each dollar paid in property tax in the City of Huntington Beach is distributed to local school districts, County operations, and the City itself.

Huntington Beach



Huntington Beach

Leading Indicators



Huntington Beach by the Numbers

Property Tax Rate	1.08252% (varies by tax rate area)
Unemployment Rate	7.40%
S&P Bond Rating	AA and A
Moody's Bond Rating	Aa3, Aa2, and Baa2
Retail Sales Tax Revenue	\$25,034,000
Total City Debt	\$148,166,000
City Net Assets	\$884,061,000



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