

VERNON REDEVELOPMENT AGENCY
(A Component Unit of the
City of Vernon, California)

Annual Financial Report

For the Fiscal Year Ended June 30, 2006

VERNON REDEVELOPMENT AGENCY
For the Fiscal Year Ended June 30, 2006

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INDEPENDENT AUDITOR'S REPORT

Honorable Agency Governing Board
City of Vernon, California

We have audited the accompanying financial statements of the governmental activities and the major fund of the Vernon Redevelopment Agency (Agency), a component unit of the City of Vernon, California, (City), as of and for the fiscal year ended June 30, 2006, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Agency management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Agency as of June 30, 2006, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2006, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Macias Fini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
December 15, 2006

**REDEVELOPMENT AGENCY OF VERNON, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

As management of the Vernon Redevelopment Agency ("The Agency"), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2006.

Financial Highlights

- The assets of the Agency exceeded its liabilities at the close of the most recent fiscal year by \$15,672,984 (*net assets*).
- The Agency's total net assets increased by \$4,482,990.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the 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 Agency 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 giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

The government-wide financial statements can be found on pages 10-11 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows 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 balance provide a reconciliation to facilitate this comparison between *governmental fund* and *governmental activities*.

The governmental fund financial statements can be found on pages 12-15 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Agency, assets exceeded liabilities by \$15,672,984 at the close of the most recent fiscal year.

Agency's Net Assets

At the end of the current fiscal year, the Agency's net assets amounted to \$15,672,984.

The category of the Agency's net assets with the largest balance of \$9,490,641 represents unrestricted net assets that can be used to meet the Agency's ongoing redevelopment projects.

The second largest category of net assets with a balance of \$3,197,628 consist of \$13,315,285 of non-depreciable assets and \$1,745,921 of depreciable assets (net of depreciation) for a total of \$15,061,206, less the related debt of the Agency which consists of \$49,420,000 Industrial Redevelopment Project Tax Allocation Bonds issued in the current year, plus \$902,046 of bond premium, less \$2,451,418 of bond issuance cost for a total of \$47,870,628 of which \$36,007,050 is currently restricted for redevelopment projects.

The last remaining category of net assets with a balance of \$2,984,715 represents the Agency's restricted assets, which is restricted for payment of long-term debt.

Changes in Net Assets

In the current year, the Agency's net assets increased by \$4,482,990. This is a decrease of \$178,723 from the prior year. The key reasons for this decrease in change in net assets are as follows:

- Revenues from property taxes increased \$1,225,552 from the prior year due to an increase in assessed property values.
- Revenues from investment earnings increased \$906,066 from the prior year due to interest earned on unspent bond proceeds related to the current year bond issuance.
- Program expenses increased \$2,281,215 from the prior year. The key components of the increases were as follows:
 - Expenses for community development increased \$930,580 from the prior year. This increase was mainly due to the Agency's issuance of \$49,420,000 Tax Allocation Bonds in the current year which was issued for the purpose of financing various redevelopment projects in or benefiting the Agency's Industrial Redevelopment Project area.
 - Expenses for interest on long-term debt increased \$1,350,635 from the prior year. This increase was mainly due to the increase in interest expense associated with the new debt from the Agency's \$49,420,000 Tax Allocation Bonds.

VERNON REDEVELOPMENT AGENCY

Comparative Statement of Net Assets

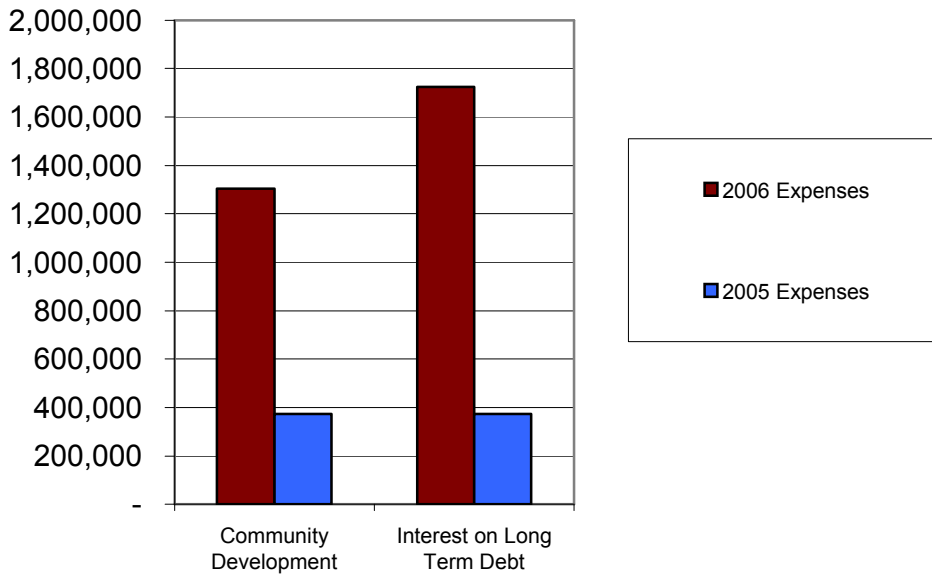
June 30, 2006 and June 30, 2005

	2006	2005
	Governmental	Governmental
	Activities	Activities
ASSETS		
Current assets	\$ 52,694,566	\$ 1,039,608
Capital assets	15,061,206	23,172,030
Total assets	<u>67,775,772</u>	<u>24,211,638</u>
LIABILITIES		
Current liabilities	1,805,087	193,769
Long term liabilities	50,277,701	12,827,875
Total liabilities	<u>52,082,788</u>	<u>13,021,644</u>
NET ASSETS		
Invested in capital assets, net of related debt	3,197,628	10,344,155
Restricted for debt service	2,984,715	-
Unrestricted	9,490,641	845,839
Total Net Assets	<u>\$ 15,672,984</u>	<u>\$ 11,189,994</u>

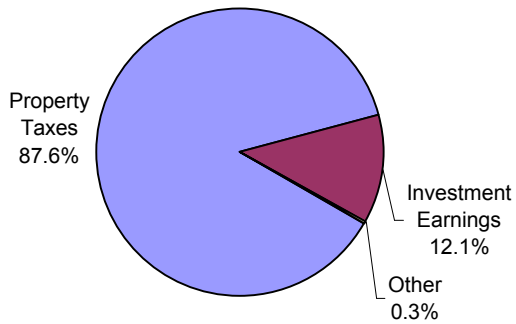
Vernon Redevelopment Agency
 Comparative Statement of Activities
 For the Fiscal Years Ended June 30, 2006 and June 30, 2005

	2006	2005
	Governmental	Governmental
	Activities	Activities
	<u> </u>	<u> </u>
Revenues		
General revenues:		
Taxes	\$ 6,580,541	\$ 5,354,989
Investment earnings	906,066	-
Other revenues	24,832	53,958
Total revenue	<u>7,511,439</u>	<u>5,408,947</u>
 Program Expenses		
Governmental activities:		
Community development	1,303,935	373,355
Interest on long-term debt	1,724,514	373,879
Total expenses	<u>3,028,449</u>	<u>747,234</u>
Increase in net assets	4,482,990	4,661,713
 Net assets - beginning of year	<u>11,189,994</u>	<u>6,528,281</u>
Net assets - end of year	<u>\$ 15,672,984</u>	<u>\$ 11,189,994</u>

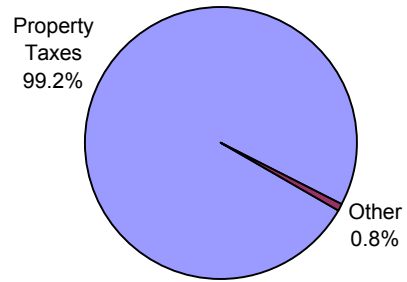
**Expenses and Program Revenues- Governmental Activities
For the Fiscal Years Ended June 30, 2006 and June 30, 2005**



**Revenues by source- Governmental Activities
For the Fiscal Year Ended June 30, 2006**



**Revenues by source- Governmental Activities
For the Fiscal Year Ended June 30, 2005**



Financial Analysis of the Governmental Fund

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental fund. The focus of the Agency's *governmental fund* 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.

At the end of the current fiscal year, the Agency's governmental fund reported an ending fund balance of \$40,761,393, an increase of \$39,915,554 in comparison with the prior year. Approximately 88% of the total fund balance amount, \$36,007,050, constitutes *reserved for redevelopment projects*, which is reserved for ongoing projects of the Agency. Approximately 7% of the total fund balance amount, \$2,984,715, constitutes *reserved for debt service*, which is reserved for the repayment of debt. Approximately 2% or \$806,742 is *reserved for encumbrances*, which is reserved to liquidate contracts and purchase orders of the current period. The remainder of 2% or \$962,886 constitutes *unreserved fund balance*, which is available for spending at the Agency's discretion.

At the end of the current fiscal year, the Agency's governmental fund reported total assets of \$50,243,148, an increase of \$49,203,540 in comparison with the prior year. This increase was mainly due to the proceeds from the Agency's issuance of a \$49,420,000 Industrial Redevelopment Project Tax Allocation Bonds in the current year.

For the current year, the Agency received \$1,225,552 more in tax revenues as compared to the prior year. A significant portion of this increase was due to increased assessed valuation on secured and unsecured properties.

For the current year, the Agency's interest expenditures increased \$718,246 as compared to the prior year. This increase was mainly due to the Agency's issuance of a \$49,420,000 Tax Allocation Bonds in the current year.

For the current year, the Agency's redevelopment project costs increased \$808,077 as compared to the prior year. This increase was mainly due to more redevelopment activities in the current year.

For the current year, the Agency's capital outlay was \$13,869,318 lower as compared to the prior year. This decrease was due to less land acquired in the current year.

For the current year, the Agency's expenditures for principal payment on advances from the City of Vernon increased \$6,617,821 as compared to the prior year. This increase was due the Agency paying off most of the advances from the City of Vernon.

Capital Asset and Debt Administration

Capital assets. The Agency's investment in capital assets for its governmental activities as of June 30, 2006, amounted to \$15,061,206 (net of accumulated depreciation). The increase in investment in capital assets for the year was \$864,485 for land held for resale, \$962,883 for construction in progress (ongoing redevelopment projects), and \$1,768,021 for building and improvements. The decrease in investment in capital assets for the year was \$3,282,440 for sale of land. The net increase in investment in capital assets for the current year was \$290,849.

In the current year, the Agency elected to reclassify \$8,401,673 of land to land held for resale.

Outstanding debt. During the current year, the Agency issued \$49,420,000 of Tax Allocation Bonds Series 2005. The Series 2005 Bonds were issued to (i) to finance various redevelopment projects in or benefiting the Agency's Industrial Redevelopment Project area, (ii) to fund the reserve requirement for the Series 2005 Bonds, and (iii) to pay costs of issuance related to the Series 2005 Bonds. As of June 30, 2006, \$36,007,050 of the debt proceeds is restricted and committed for future redevelopment projects. As of June 30, 2006, the Agency's Tax Allocation Bonds Series 2005 was rated Aaa by Moody's.

Additional information on the Agency's long-term debt can be found in Note 5 on pages 26-27 of this report.

Requests for Information

This financial report is designed to provide a general overview of the Agency's finances for all those with an interest in the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 4305 Santa Fe Avenue, Vernon, California 90058.

VERNON REDEVELOPMENT AGENCY

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 521,925
Restricted cash and investments	39,655,565
Interest receivable	217,859
Taxes receivable	889,126
Deposits for improvements	557,000
Bond issuance cost	2,451,418
Land held for resale	8,401,673
Capital assets:	
Nondepreciable	13,315,285
Depreciable, net	1,745,921
Total assets	<u>67,755,772</u>
LIABILITIES	
Accounts/vouchers payable	1,071,149
City services payable to City of Vernon	268
Due to City of Vernon	8,665
Long-term liabilities:	
Due within one year:	
Advance from City of Vernon	16,860
Bonds interest payable	663,800
Bond premium	44,345
Long-term liabilities:	
Due in more than one year:	
Bonds payable, net	50,277,701
Total liabilities	<u>52,082,788</u>
NET ASSETS	
Invested in capital assets, net of related debt	3,197,628
Restricted for debt service	2,984,715
Unrestricted	9,490,641
Total net assets	<u>\$ 15,672,984</u>

See accompanying notes to the basic financial statements.

VERNON REDEVELOPMENT AGENCY

Statement of Activities

For the Fiscal Year Ended June 30, 2006

		Net (Expenses) Revenues and Changes in Net Assets
	<u>Expenses</u>	<u>Governmental Activities</u>
FUNCTION/PROGRAM ACTIVITIES:		
Primary government:		
Community development	\$ 1,303,935	\$ (1,303,935)
Interest on long-term debt	1,724,514	(1,724,514)
Total governmental activities	<u>\$ 3,028,449</u>	<u>(3,028,449)</u>
GENERAL REVENUES:		
Property tax increment		6,580,541
Investment earnings		906,066
Other		24,832
Total general revenues and transfers		<u>7,511,439</u>
Change in net assets		4,482,990
NET ASSETS, BEGINNING OF YEAR		<u>11,189,994</u>
NET ASSETS, END OF YEAR		<u>\$ 15,672,984</u>

See accompanying notes to the basic financial statements.

VERNON REDEVELOPMENT AGENCY

Balance Sheet
Governmental Fund
June 30, 2006

	Redevelopment Capital Projects Fund
ASSETS:	
Cash and investments	\$ 521,925
Restricted cash and investments	39,655,565
Interest receivable	217,859
Taxes receivable	889,126
Deposits for improvements	557,000
Land held for resale	8,401,673
Total assets	<u>50,243,148</u>
 LIABILITIES AND FUND BALANCE:	
Liabilities:	
Accounts/vouchers payable	1,071,149
City services payable to City of Vernon	268
Due to City of Vernon	8,665
Deferred Revenue	8,401,673
Total liabilities	<u>9,481,755</u>
 Fund balances:	
Reserved for debt service	2,984,715
Reserved for redevelopment projects	36,007,050
Reserved for encumbrances	806,742
Unreserved	962,886
Total fund balances	<u>40,761,393</u>
Total liabilities and fund balance	<u>\$ 50,243,148</u>

See accompanying notes to the basic financial statements.

VERNON REDEVELOPMENT AGENCY

Reconciliation of the Governmental Fund Balance Sheet to the
Government -wide Statement of Net Assets- Governmental Activities
June 30, 2006

Fund balance-governmental fund (page 12)	\$ 40,761,393
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund.	
Cumulative expenditures for capital assets	15,061,206
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in the governmental funds.	
Cumulative expenditure for purchase of land held for resale	8,401,673
Other assets used in governmental activities do not consume current financial resources and therefore, are not reported in the governmental fund.	
Unamortized bond issuance cost	2,451,418
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental fund.	
Advance from City of Vernon	(16,860)
Bond issuance	(49,420,000)
Bonds interest payable	(663,800)
Unamortized bond premium	(902,046)
Net assets of governmental activities (page 10)	<u>\$ 15,672,984</u>

See accompanying notes to the basic financial statements.

VERNON REDEVELOPMENT AGENCY
Governmental Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2006

	Redevelopment Capital Projects Fund
	Fund
REVENUES:	
Property tax increment	\$ 6,580,541
Investment earnings	906,066
Other income	24,832
Total revenues	7,511,439
EXPENDITURES:	
Redevelopment project costs	1,181,432
Capital outlay	3,595,389
Debt service:	
Bond issuance cost	2,536,782
Principal payment on Advance from City of Vernon	12,945,004
Interest payment on Advance from City of Vernon	213,603
Interest payment on bonds	878,522
Total expenditures	21,350,732
Deficiency of revenues under expenditures	(13,839,293)
Other financing sources (uses):	
Advance from City of Vernon	133,989
Sale of land	3,267,400
Issuance of long-term debt	49,420,000
Bond premium	933,458
Total other financing sources	53,754,847
NET CHANGE IN FUND BALANCE	39,915,554
FUND BALANCE, BEGINNING OF YEAR	845,839
FUND BALANCE, END OF YEAR	\$ 40,761,393

See accompanying notes to the basic financial statements.

VERNON REDEVELOPMENT AGENCY
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balance to the of Government-wide
 Statement of Activities - Governmental Activities
 For the Fiscal Year Ended June 30, 2006

Net change in fund balance - governmental fund (page 14) \$ 39,915,554

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

The effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.

Sale of land (3,282,440)

Governmental funds report capital outlay as expenditures. However, in the statement of net assets the cost of those assets is capitalized net of current year's depreciation expense.

Expenditures for capital assets	3,595,389	
Less current year depreciation	<u>(22,100)</u>	
		3,573,289

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Unamortized bond issuance cost		2,451,418
Unamortized bond premium		(902,046)

Long-term debt proceeds provide current financial resources to governmental fund, but issuing debt increases long-term liabilities in the statement of net assets. Repayments of advances is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.

Accrued interest expense on bonds payable		(663,800)
Bonds issuance		(49,420,000)
Proceeds from advance from City of Vernon		(133,989)
Principal payments on advances from City of Vernon		<u>12,945,004</u>

Change in net assets of governmental activities (page 11) \$ 4,482,990

See accompanying notes to the basic financial statements.

**VERNON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Vernon Redevelopment Agency (Agency) was activated September 16, 1986, by action of the Vernon City Council pursuant to the Community Redevelopment Law of California, as codified in Part I of Division 24 of the State of California Health and Safety Code. The Agency has the broad authority to acquire, rehabilitate, develop, administer, and sell or lease property. Additionally, the Agency has the right of eminent domain to facilitate acquisition of property. The Agency's Governing Board is the Vernon City Council.

The principal objectives of the Agency are to improve the commercial environment, provide new public improvements, strengthen the City of Vernon's (City) economic base, generate added employment opportunities, and expand the City's industrial base.

The City performs the general administrative functions for the Agency. Such costs are allocated monthly to the Agency and amounted to \$139,619 for the year ended June 30, 2006. Of this amount, \$18,570 relate to retirement costs.

Since the City Council is the Agency's Governing Board, the Agency is considered to be an integral part of the City's reporting entity and has been included as a blended component unit in the City's basic financial statements for the fiscal year ended June 30, 2006.

Basis of Presentation

Government-wide Financial Statements

The statement of net assets and statement of activities display information about the Agency's activities. These statements include the financial activities of the Agency. These statements present the Agency's *governmental activities*, which normally are supported by taxes.

The statement of activities presents a comparison between program expenses and program revenues for each function of the Agency's governmental activities. Program expenses include such direct expenses that are specifically associated with a program or function and, therefore, are clearly identifiable as to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

**VERNON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

The fund financial statements provide information about the Agency's fund. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. The Agency reports one major governmental fund, the Redevelopment Capital Projects fund. This fund accounts for all revenues and expenditures related to operating the Agency in accordance with the California Community Redevelopment Law, including the acquisition of properties, cost of site improvements, other costs of benefit to the project, and general administrative expenditures incurred in sustaining Agency activities.

Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Agency gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

Governmental fund type financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues and other governmental fund type financial resources are recognized when they become susceptible to accrual – that is, when they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon thereafter to pay liabilities of the current period. Property taxes and other revenue sources are considered available and are accrued when received within sixty days after fiscal year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental fund statements.

Because the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, reconciliations are presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the government wide statements.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to first use restricted resources, then unrestricted resources, as they are needed.

**VERNON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Held for Resale

Property held for resale is acquired as part of the Agency's redevelopment program. The costs of administering Agency projects are charged to capital outlay expenditures as incurred. A primary function of the redevelopment process is to prepare land for specific private development. For financial statement presentation, property held for resale is stated at the lower of cost or the estimated net realizable value of each property parcel based on its current intended use. The Agency does not depreciate property held for resale as it is the intention of the Agency to only hold the property for a short period of time until it can be resold for development.

Capital Assets

Capital assets, which are reported in the government-wide financial statements, are recorded at historical cost or at estimated historical cost if actual historical cost is not available. The capitalization threshold for all capital assets is \$5,000. Capital assets used in operations are depreciated using the straight-line method over their estimated useful lives in the government-wide statements.

The estimated useful life is as follow:

Building and Improvements	40 years
---------------------------	----------

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements, which significantly increase values, change capacities or extend useful lives, are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the changes in financial position.

Net Assets

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- ❑ Invested In Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- ❑ Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- ❑ Unrestricted Net Assets – This category represents net assets of the Agency, not restricted for any project or other purpose.

**VERNON REDEVELOPMENT AGENCY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Equity

In the fund financial statements, the governmental fund reports reservations of fund balance for amounts that are not appropriable or legally restricted for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Property Taxes

The County of Los Angeles (County) levies, collects and apportions property taxes for all taxing jurisdictions within the County. Property taxes are determined by applying approved rates to the properties' assessed values. The County remits property taxes applicable to the Agency less an administrative fee throughout the year.

Article XIII A of the State of California Constitution limits the property tax levy to support general government services of the various taxing jurisdictions to \$1.00 per \$100 of assessed value. Taxes levied to service voter-approved debt prior to June 30, 1978 are excluded from this limitation.

Secured property taxes are levied in two installments, November 1 and February 1. They become delinquent with penalties on April 10 and December 10, respectively. The lien date is January 1 of each year for secured property taxes and the levy date occurs on the 4th Monday of September of the tax year.

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - CASH DEPOSITS AND INVESTMENTS

Cash and Investments

The Agency's cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Cash and investments	\$ 521,925
Restricted cash and investments	39,655,565
Total cash and investments	<u>\$ 40,177,490</u>

The Agency's cash and investments as of June 30, 2006 consist of the following:

Deposits with financial institutions	\$ 521,925
Investments	39,655,565
Total cash and investments	<u>\$ 40,177,490</u>

**VERNON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

The City's Investment Policy

The City's Investment Policy sets forth the investment guidelines for all funds of the City including the Agency. The Investment Policy conforms to the California Government Code Section 53600 et. seq. The authority to manage the City's investment program is derived from the City Council. Pursuant to Section 53607 of the California Government Code, the City Council annually appoints the City Treasurer and approves the City's investment policy. The Treasurer is authorized to delegate this authority as deemed appropriate. No person may engage in investment transactions except as provided under the terms of the Investment Policy and the procedures established by the Treasurer.

The Investment Policy requires that the investments be made with the prudent person standard, that is, when investing, reinvesting, purchasing, acquiring, exchanging selling or managing public funds, the trustee (Treasurer and staff) will act with care, skill, prudence, and diligence under the circumstances then prevailing, including but not limited to, the general economic conditions and the anticipated needs of the City.

The Investment Policy also requires that when following the investing actions cited above, that the primary objective of the trustee be to safeguard the principal, secondarily meet the liquidity needs of depositors, and then achieve a return on the funds under the trustee's control. Further, the intent of the Investment Policy is to minimize risk of loss on the City's held investments from:

- A. Credit risk
- B. Custodial credit risk
- C. Concentration of credit risk
- D. Interest rate risk

**VERNON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments Authorized by the California Government Code and the City's 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 that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investment of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's Investment Policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of *Portfolio	Maximum Investment in One Issuer
Securities of the U.S. Government, or it agencies	None	None	None
Certain Asset-Backed Securities	None	None	None
Certificate of Deposit	None	30%	None
Bankers Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	None	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
State Administered Pool Investment	N/A	None	None

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee 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 bond trustee. 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 of Portfolio	Maximum Investment in One Issuer
Securities of the U.S. Government, or its agencies	None	None	None
Certain Asset-Backed Securities	None	None	None
Certificate of Deposit	None	None	None
Bankers Acceptances	1 year	None	None
Commercial Paper	None	None	None
Money Market Mutual Funds	N/A	None	None
State Administered Pool Investment	N/A	None	None
Investment Contracts	None	None	None

**VERNON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The Agency has no specific limitations with respect to this metric.

	Weighted Average Maturity (in years)	Fair Value as of June 30, 2006	% of Total
In custody of Treasurer:			
Deposits with financial institutions	-	\$ 521,925	100.00%
Total in custody of Treasurer	-	521,925	100.00%
In custody of Trustee:			
Investments held by Trustee:			
Federal Farm Credit Banks	4.27	3,502,125	8.83%
Federal National Mortgage Association	0.38	7,085,889	17.87%
Federal Home Loan Mortgage Corporation	0.47	17,936,012	45.23%
Money Market Mutual Fund	-	11,131,539	28.07%
Total in custody of Trustee	0.66	39,655,565	100.00%
Total cash and investments held by Treasurer and Trustee		\$ 40,177,490	

**VERNON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Disclosures Relating to Credit Risk

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

	Minimum Required Credit Rating	Actual Credit Rating Moody's/S&P	Fair Value as of June 30, 2006	% of Total
In custody of Treasurer:				
Deposits with financial institutions	Not Rated	Not Rated	\$ 521,925	1.30%
Total in custody of Treasurer			521,925	1.30%
In custody of Trustee:				
Investments held by Trustee:				
Federal Farm Credit Banks	Aaa/AAA	Aaa/AAA	3,502,125	8.72%
Federal National Mortgage Association	Aaa/AAA	Aaa/AAA	7,085,889	17.64%
Federal Home Loan Mortgage Corporation	Aaa/AAA	Aaa/AAA	17,936,012	44.64%
Money Market Mutual Fund	Aaa/AAA	Aaa/AAA	11,131,539	27.71%
Total in custody of Trustee			39,655,565	98.70%
Total cash and investments held by Treasurer and Trustee			\$ 40,177,490	100.00%

Concentration of Credit Risk

The City's Investment Policy places no limit on the amount the City may invest in any one issuer excluding a 10% limitation on commercial paper, mutual funds, and money market mutual funds. As of June 30, 2006, the Agency's investments in any one issuer exceeding 5% were as follows:

	Minimum Required Credit Rating	Actual Credit Rating Moody's/S&P	Fair Value as of June 30, 2006	% of Total
Federal Farm Credit Banks	Aaa/AAA	Aaa/AAA	\$ 3,502,125	8.72%
Federal National Mortgage Association	Aaa/AAA	Aaa/AAA	7,085,889	17.64%
Federal Home Loan Mortgage Corporation	Aaa/AAA	Aaa/AAA	17,936,012	44.64%

**VERNON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 2 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

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 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 City's Investment Policy do not contain legal or policy requirement that would limit the exposure to custodial credit risk for deposits or investments.

At year-end, the carrying amount of the City's deposits was \$521,925 and the bank balance was \$521,925. Of the bank balance, \$100,000 was covered by federal depository insurance and \$421,925 was collateralized by the pledging financial institution as required by Section 53652 of the California Government Code. Under the California Government Code, a financial institution is required to secure deposits in excess of \$100,000 made by state or local governmental units by pledging government securities held in the form of an undivided collateral pool. 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 City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Such collateral is held by the pledging financial institution's trust department or agent in the Agency's name.

As of June 30, 2006, the Agency had some risk in this area.

**VERNON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 3 - CAPITAL ASSETS

Capital asset activity of governmental activities for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deletions	Transfers & Adjustments	Balance June 30, 2006
<i>Capital assets, not being depreciated:</i>					
Land	\$ 23,172,030	\$ 864,485	\$ (3,282,440)	\$ (8,401,673)	\$ 12,352,402
Construction in progress	-	962,883	-	-	962,883
Total capital assets, not being depreciated	<u>23,172,030</u>	<u>1,827,368</u>	<u>(3,282,440)</u>	<u>(8,401,673)</u>	<u>13,315,285</u>
<i>Capital assets, being depreciated</i>					
Building and Improvements	-	1,768,021	-	-	1,768,021
Total capital assets, being depreciated	<u>-</u>	<u>1,768,021</u>	<u>-</u>	<u>-</u>	<u>1,768,021</u>
Less accumulated depreciation for:					
Building and Improvements	-	(22,100)	-	-	(22,100)
Total accumulated depreciation	<u>-</u>	<u>(22,100)</u>	<u>-</u>	<u>-</u>	<u>(22,100)</u>
Total capital assets, being depreciated, net					
Building and Improvements	-	1,745,921	-	-	1,745,921
Total	<u>-</u>	<u>1,745,921</u>	<u>-</u>	<u>-</u>	<u>1,745,921</u>
Governmental activities capital assets, net	<u>\$ 23,172,030</u>	<u>\$ 3,573,289</u>	<u>\$ (3,282,440)</u>	<u>\$ (8,401,673)</u>	<u>\$ 15,061,206</u>

In the current year, the Agency elected to reclassify \$8,401,673 of land to land held for resale.

Depreciation

Depreciation expense was charged to the Agency as follows:

Community development	\$22,100
-----------------------	----------

NOTE 4 - ADVANCE FROM CITY

The advance from the City bears interest at 5% per Resolution No. 7408. The advance is used for payment of most of the Agency's expenditures. Amounts are borrowed as necessary to cover operating costs. The advance may be repaid from time to time, in whole or in part, at the discretion of the Agency. Payment is made solely from tax increment revenues. Such repayments shall first be applied to the accrued and unpaid interest on the advance, and any additional amounts of tax increment revenues shall be applied to the outstanding principal balance.

**VERNON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 4 - ADVANCE FROM CITY (CONTINUED)

The following is a schedule of changes in the Advance from other City funds for the fiscal year ended June 30, 2006:

Advance, July 1, 2005	\$	12,827,875
Advance from City		133,989
Accrued interest for FY 05/06		213,603
Interest payment for FY 05/06		(213,603)
Loan repayment to City of Vernon		(12,945,004)
		16,860
Advance, June 30, 2006	\$	16,860

NOTE 5 – LONG-TERM OBLIGATIONS

During the current year, the Agency issued \$49,420,000 of Industrial Redevelopment Project Tax Allocation Bonds Series 2005. The Series 2005 Bonds were issued to (i) to finance various redevelopment projects in or benefiting the Agency’s Industrial Redevelopment Project area, (ii) to fund the reserve requirement for the Series 2005 Bonds, and (iii) to pay costs of issuance related to the Series 2005 Bonds.

A summary of bonds payable is as follows:

Tax Allocation Bonds	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2006
<i>Series 2005</i>	09/01/35	Fixed	To begin 09/01/09 - 09/01/35: \$1,160,000 - \$3,460,000	\$ 49,420,000	\$ 49,420,000
<i>Bond premium</i>				933,458	902,046
<i>Total Tax Allocation Bonds</i>				\$ 50,353,458	\$ 50,322,046

VERNON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

As of June 30, 2006, annual debt service requirements of the Agency to maturity are as follows:

Bond Year ending June 30:	Industrial Redevelopment Project Tax Allocation Bonds Payable	
	Principal	Interest*
2007	\$ -	\$ 2,175,093
2008	-	2,175,093
2009	-	2,175,093
2010	1,160,000	2,157,419
2011	1,285,000	2,120,167
2012-2016	6,720,000	9,928,127
2017-2021	7,720,000	8,452,644
2022-2026	7,300,000	6,679,092
2027-2031	10,020,000	4,837,959
2032-2036	15,215,000	1,931,242
	<u>\$ 49,420,000</u>	<u>\$ 42,631,929</u>

* As of June 30, 2006, debt service was calculated at the actual fixed rates of the coupons ranging from 3.25% to 5.25%. See Note 6 for additional disclosure on basis swap.

Changes in long-term liabilities

The following is a summary of long-term liabilities transactions for the fiscal year ended June 30, 2006:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Bonds payable	\$ -	\$ 49,420,000	\$ -	\$ 49,420,000	\$ -
Bond premium	-	933,458	(31,412)	902,046	44,345
	<u>\$ -</u>	<u>\$ 50,353,458</u>	<u>\$ (31,412)</u>	<u>\$ 50,322,046</u>	<u>\$ 44,345</u>

VERNON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 6 – BASIS SWAP AGREEMENT

Basis Swap

Objective of the interest rate swap: As a means to reduce its bond interest cost, the RDA entered into an interest basis swap in connection with its \$49,420,000 Industrial Redevelopment Project Tax Allocation Bonds, Series 2005 (the "Series 2005 Bonds").

Terms: As originally structured, the Series 2005 Bonds and the related swap agreement mature on September 1, 2035, and the swap's aggregate notional amount of \$49,420,000 million matches the par amount of the Series 2005 Bonds. The swap was entered into on February 16, 2006. Under the swap, the RDA pays the counterparty payments equal to the average of the weekly Bond Market Association (BMA) variable rate index and receives payments equal to 63.0% plus 0.72% of the London Interbank Offered Rate (LIBOR) three-month index.

Fair value: Because the differential between the BMA index and LIBOR index has decreased since execution of the swaps, the swaps have an aggregate negative fair value of \$231,699 as of June 30, 2006. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit risk: As the swap's fair value as of June 30, 2006 was negative, the RDA does not have credit exposure to the counterparty. Should the RDA's fair market value become positive, the RDA would have credit exposure to the counterparty equal to the fair value amount. The swap counterparty, Lehman Brothers, was rated A+ by Standard & Poor's and A1 by Moody's Investors Service as of June 30, 2006. To mitigate the potential for credit risk, if the counterparty's credit quality falls below "A-" or "A3", the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Basis risk: The swap exposes the RDA to basis risk should the relationship between LIBOR and BMA converge to a ratio higher than that stated in the swap. If a change occurs that results in the rates moving to a convergence ratio greater than that stated in the swap, the swap may not provide the expected interest cost savings.

Termination risk: The RDA or its counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the RDA at any time. If at the time of termination, the swap has a negative fair value, the RDA would be liable to the counterparty for a payment equal to the swap's fair value.

**VERNON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 6 – BASIS SWAP AGREEMENT (CONTINUED)

Basis Swap (Continued)

The following summarizes the expected net debt service if BMA remains constant 3.970% and 3 Month LIBOR remains constant at 5.4806% (actual rates as of June 30, 2006).

Year Ending June 30	Principal Amount	Interest	Basis Swap, Net	Total Debt Service
2007	\$ -	\$ 2,275,306	\$ (100,213)	\$ 2,175,093
2008	-	2,275,306	(100,213)	2,175,093
2009	-	2,275,306	(100,213)	2,175,093
2010	1,160,000	2,256,456	(99,037)	3,317,419
2011	1,285,000	2,216,725	(96,558)	3,405,167
2012-2016	6,720,000	10,371,369	(443,242)	16,648,126
2017-2021	7,720,000	8,822,491	(369,847)	16,172,644
2022-2026	7,300,000	6,972,025	(292,933)	13,979,092
2027-2031	10,020,000	5,046,719	(208,760)	14,857,959
2032-2036	15,215,000	2,012,875	(81,633)	17,146,242
	<u>\$ 49,420,000</u>	<u>\$ 44,524,578</u>	<u>\$ (1,892,649)</u>	<u>\$ 92,051,929</u>



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Agency Governing Board
City of Vernon, California

We have audited the financial statements of the governmental activities and the major fund of the Vernon Redevelopment Agency (Agency) a component unit of the City of Vernon, California, as of and for the fiscal year ended June 30, 2006, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller's Office and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not

express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Macias Fini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
December 15, 2006