

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

Annual Financial Report

For the Fiscal Year Ended June 30, 2007

VERNON REDEVELOPMENT AGENCY
For the Fiscal Year Ended June 30, 2007

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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, 2007, 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, 2007, 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 January 15, 2008, 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 on pages 3 through 9 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 Tini & O'Connell LLP
Certified Public Accountants

Los Angeles, California
January 15, 2008

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, 2007.

Financial Highlights

- The assets of the Agency exceeded its liabilities at the close of the most recent fiscal year by \$21,426,540 (*net assets*).
- The Agency's total net assets increased by \$5,753,556.

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 \$21,426,540 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 \$21,426,540.

The category of the Agency's net assets with the largest balance of \$14,842,493 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 \$3,389,700 represents the Agency's restricted assets, which is restricted for payment of long-term debt.

The last remaining category of net assets with a balance of \$3,194,347 consists of \$13,322,284 of non-depreciable assets and \$5,948,930 of depreciable assets (net of depreciation) for a total of \$19,271,214, less the outstanding debt associated with the capital assets of \$16,076,867.

Changes in Net Assets

In the current year, the Agency's net assets increased by \$5,753,556. This is an increase of \$1,270,566 from the prior year. The key reasons for this increase in change in net assets are as follows:

- Revenues from property taxes increased \$1,088,164 from the prior year due to an increase in assessed property values.
- Revenues from investment earnings increased \$941,187 from the prior year due to favorable market conditions.
- Other revenues increased \$6,226,072 from the prior year mainly due to the gain on the sale of land held for resale and termination of interest rate swap agreement (See Note 6).
- Program expenses increased \$6,984,857 from the prior year mainly due to the Agency's various redevelopment projects in or benefiting the Agency's Industrial Redevelopment Project area in conjunction with a joint venture between the Agency and the City.

VERNON REDEVELOPMENT AGENCY

Comparative Statements of Net Assets

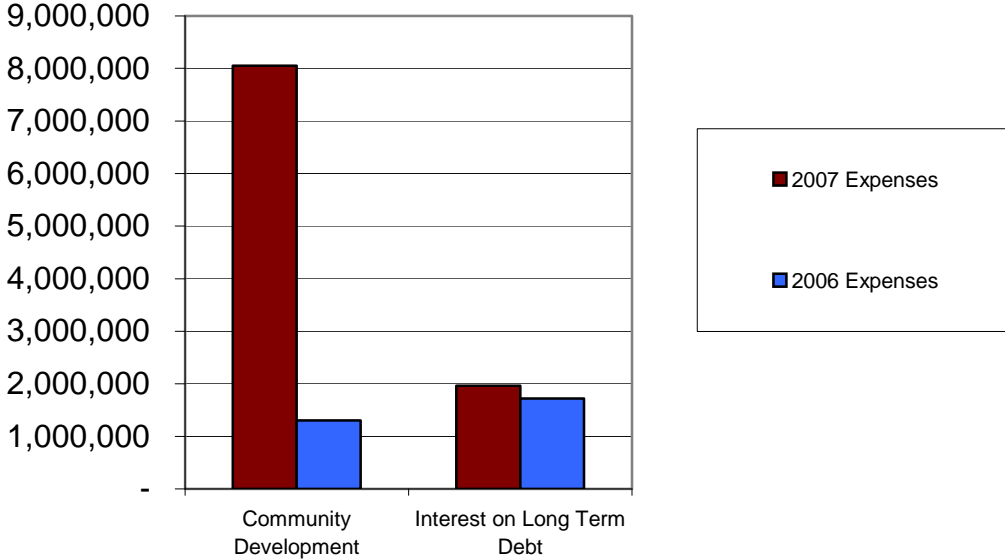
June 30, 2007 and June 30, 2006

	2007	2006
	Governmental	Governmental
	Activities	Activities
ASSETS		
Current and other assets	\$ 54,525,398	\$ 52,694,566
Capital assets	19,271,214	15,061,206
Total assets	<u>73,796,612</u>	<u>67,775,772</u>
LIABILITIES		
Current liabilities	2,136,716	1,805,087
Long-term liabilities	50,233,356	50,277,701
Total liabilities	<u>52,370,072</u>	<u>52,082,788</u>
NET ASSETS		
Invested in capital assets, net of related debt	3,194,347	3,197,628
Restricted for debt service	3,389,700	2,984,715
Unrestricted	14,842,493	9,490,641
Total net assets	<u>\$ 21,426,540</u>	<u>\$ 15,672,984</u>

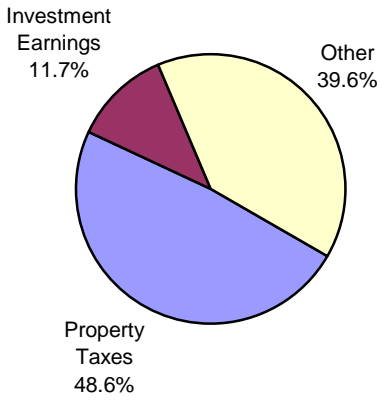
Vernon Redevelopment Agency
 Comparative Statements of Activities
 For the Fiscal Years Ended June 30, 2007 and June 30, 2006

	2007	2006
	Governmental Activities	Governmental Activities
Revenues		
General revenues:		
Taxes	\$ 7,668,705	\$ 6,580,541
Investment earnings	1,847,253	906,066
Other revenues	6,250,904	24,832
Total revenues	15,766,862	7,511,439
Program Expenses		
Governmental activities:		
Community development	8,050,732	1,303,935
Interest on long-term debt	1,962,574	1,724,514
Total expenses	10,013,306	3,028,449
Increase in net assets	5,753,556	4,482,990
Net assets - beginning of year	15,672,984	11,189,994
Net assets - end of year	\$ 21,426,540	\$ 15,672,984

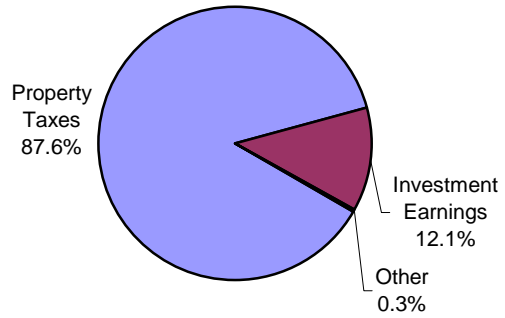
Expenses and Program Revenues- Governmental Activities
For the Fiscal Years Ended June 30, 2007 and June 30, 2006



Revenues by source- Governmental Activities
For the Fiscal Year Ended June 30, 2007



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



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 \$50,765,923, an increase of \$10,004,530 in comparison with the prior year. Approximately 67% of the total fund balance amount, \$33,926,010, constitutes *unreserved fund balance*, which is available for spending at the Agency's discretion. Approximately 24%, \$12,286,790 constitutes *reserved for redevelopment projects*, which is reserved for ongoing projects of the Agency. Approximately 7% of the total fund balance amount, \$3,389,700, constitutes *reserved for debt service*, which is reserved for the repayment of debt. The remainder of 2% or \$1,163,423 is *reserved for encumbrances*, which is reserved to liquidate contracts and purchase orders of the current period.

At the end of the current fiscal year, the Agency's governmental fund reported total assets of \$52,194,494, an increase of \$1,951,346 in comparison with the prior year.

At the end of the current fiscal year, the Agency's governmental fund reported total liabilities of \$1,428,571, a decrease of \$8,053,184 in comparison with the prior year. The main reason for this decrease was due to a decrease in deferred revenue for the sale of land held for resale in the current year.

For the current year, the Agency received \$1,088,164 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 received \$941,187 more in investment earnings due to the Series 2005 Tax Allocation Bonds proceeds being invested over the entire fiscal year.

For the current year, the Agency's redevelopment project costs increased \$6,671,776 as compared to the prior year. This increase was mainly due to the redevelopment activities incurred by the Agency in conjunction with a joint venture between the Agency and the City.

For the current year, the Agency's capital outlay was \$691,629 higher as compared to the prior year. This increase was due to additional expenditures for infrastructure in the current year.

For the current year, the Agency's interest expenditures increased \$1,128,397 as compared to the prior year. This increase was mainly due to the payment of two semi-annual interest payments rather than one semi-annual interest payment made in the prior year.

Capital Asset and Debt Administration

Capital assets. The Agency's investment in capital assets for its governmental activities as of June 30, 2007, amounted to \$19,271,214 (net of accumulated depreciation). The increase in investment in capital assets for the year was \$6,999 for land and \$4,280,018 for infrastructure.

There were no significant construction commitments outstanding as of June 30, 2007.

Outstanding debt. Outstanding at June 30, 2007, were \$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, 2007, \$12,286,790 of the debt proceeds is restricted and committed for future redevelopment projects. As of June 30, 2007, the Agency's Tax Allocation Bonds Series 2005 were rated Aaa by Moody's and that rating has not changed from the prior year.

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, 2007

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 1,401,540
Restricted cash and investments	16,340,290
Interest receivable	93,615
Taxes receivable	712,707
Other assets	10,181,735
Bond issuance costs	2,330,904
Due from City	3,881,467
Escrow deposits	19,583,140
Capital assets:	
Nondepreciable	13,322,284
Depreciable, net	5,948,930
Total assets	<u>73,796,612</u>
LIABILITIES	
Accounts/vouchers payable	1,163,423
Due to City	265,148
Long-term liabilities:	
Due within one year:	
Bonds interest payable	663,800
Bond premium	44,345
Due in more than one year:	
Bonds payable, net	50,233,356
Total liabilities	<u>52,370,072</u>
NET ASSETS	
Invested in capital assets, net of related debt	3,194,347
Restricted for debt service	3,389,700
Unrestricted	14,842,493
Total net assets	<u>\$ 21,426,540</u>



See accompanying notes to the basic financial statements.

VERNON REDEVELOPMENT AGENCY
Statement of Activities
For the Fiscal Year Ended June 30, 2007

	Expenses	Net (Expenses) Revenues and Changes in Net Assets
		Governmental Activities
FUNCTION/PROGRAM ACTIVITIES:		
Primary government:		
Community development	\$ 8,050,732	\$ (8,050,732)
Interest on long-term debt	1,962,574	(1,962,574)
Total governmental activities	\$ 10,013,306	(10,013,306)
GENERAL REVENUES:		
Property tax increment		7,668,705
Investment earnings		1,847,253
Gain on sale of land and swap termination		6,250,904
Total general revenues and transfers		15,766,862
Change in net assets		5,753,556
NET ASSETS, BEGINNING OF YEAR		15,672,984
NET ASSETS, END OF YEAR		\$ 21,426,540

See accompanying notes to the basic financial statements.

VERNON REDEVELOPMENT AGENCY

Balance Sheet Governmental Fund June 30, 2007

	Redevelopment Capital Projects Fund
ASSETS:	
Cash and investments	\$ 1,401,540
Restricted cash and investments	16,340,290
Interest receivable	93,615
Taxes receivable	712,707
Due from City	3,881,467
Other assets	10,181,735
Escrow deposits	19,583,140
Total assets	<u>\$ 52,194,494</u>
LIABILITIES AND FUND	
BALANCE:	
Liabilities:	
Accounts/vouchers payable	\$ 1,163,423
Due to City	265,148
Total liabilities	<u>1,428,571</u>
Fund balance:	
Reserved for debt service	3,389,700
Reserved for redevelopment projects	12,286,790
Reserved for encumbrances	1,163,423
Unreserved	33,926,010
Total fund balance	<u>50,765,923</u>
Total liabilities and fund balance	<u>\$ 52,194,494</u>

See accompanying notes to the basic financial statements.

VERNON REDEVELOPMENT AGENCY
 Reconciliation of the Governmental Fund Balance Sheet to the
 Statement of Net Assets
 June 30, 2007

Fund balance-governmental fund (page 12)	\$	50,765,923
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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, net of depreciation		19,271,214
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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		2,330,904
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental fund.

Bonds payable		(49,420,000)
Bonds interest payable		(663,800)
Unamortized bond premium		(857,701)
		(857,701)

Net assets of governmental activities (page 10)	\$	21,426,540
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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, 2007

	<u>Redevelopment Capital Projects Fund</u>
REVENUES:	
Property tax increment	\$ 7,668,705
Investment earnings	1,847,253
Total revenues	<u>9,515,958</u>
EXPENDITURES:	
Redevelopment project costs	7,853,208
Capital outlay	4,287,018
Debt service:	
Principal payment on advance from City of Vernon	16,860
Interest payment on bonds	2,006,919
Total expenditures	<u>14,164,005</u>
Excess of expenditures over revenues	(4,648,047)
Other financing sources (uses):	
Sale of land proceeds	13,834,297
Swap termination proceeds	818,280
Total other financing sources	<u>14,652,577</u>
NET CHANGE IN FUND BALANCE	10,004,530
FUND BALANCE, BEGINNING OF YEAR	<u>40,761,393</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 50,765,923</u></u>

See accompanying notes to the basic financial statements.

VERNON REDEVELOPMENT AGENCY
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance of Governmental Fund to the
Statement of Activities
For the Fiscal Year Ended June 30, 2007

Net change in fund balance - governmental fund (page 14) \$ 10,004,530

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.

Cost of land sold (8,401,673)

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	4,287,018	
Less current year depreciation	(77,010)	
	4,210,008	4,210,008

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.

Change in unamortized bond issuance cost		(120,514)
Change in unamortized bond premium		44,345

Repayment of advances is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.

Principal payments on advances from City of Vernon		16,860
		16,860

Change in net assets of governmental activities (page 11)		5,753,556
		5,753,556

**VERNON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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.

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, 2007.

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
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

Improvements other than building	40 years
Infrastructure	50 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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, 2007 are classified in the accompanying financial statements as follows:

Cash and investments	\$ 1,401,540
Restricted cash and investments	16,340,290
Total cash and investments	<u>\$ 17,741,830</u>

The Agency's cash and investments as of June 30, 2007 consist of the following:

Deposits with financial institutions	\$ 101,731
Investments	17,640,099
Total cash and investments	<u>\$ 17,741,830</u>

**VERNON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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	5 years	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 it 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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, 2007	% of Total
In custody of Treasurer:			
Deposits with financial institutions	-	\$ 101,731	7.26%
Investments held by Treasurer:			
Commercial Paper	0.01	1,299,809	92.74%
Total in custody of Treasurer	0.01	1,401,540	100.00%
In custody of Trustee:			
Investments held by Trustee:			
Federal Farm Credit Banks	1.38	3,549,375	21.72%
Money Market Mutual Fund	-	12,790,915	78.28%
Total in custody of Trustee	1.38	16,340,290	100.00%
Total cash and investments held by Treasurer and Trustee		\$ 17,741,830	

**VERNON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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, 2007	% of Total
In custody of Treasurer:				
Deposits with financial institutions	Not Rated	Not Rated	\$ 101,731	0.57%
Investments held by Treasurer:				
Commercial Paper	P-1 / A-1	P-1 / A-1	1,299,809	7.33%
Total in custody of Treasurer			1,401,540	7.90%
In custody of Trustee:				
Investments held by Trustee:				
Federal Farm Credit Banks	Aaa / AAA	Aaa / AAA	3,549,375	20.01%
Money Market Mutual Fund	Aaa / AAA	Aaa / AAA	12,790,915	72.09%
Total in custody of Trustee			16,340,290	92.10%
Total cash and investments held by Treasurer and Trustee			\$ 17,741,830	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, 2007, 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, 2007	% of Total
Commercial Paper - Banco Bilbao	P-1 / A-1	P-1 / A-1	\$ 1,299,809	7.33%
Federal Farm Credit Banks - Fidelity	Aaa/AAA	Aaa/AAA	3,549,375	20.01%
Money Market Mutual Fund - AIM	Aaa/AAA	Aaa/AAA	12,790,915	72.09%

**VERNON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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 requirements 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 \$101,731 and the bank balance was \$245,187. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. Of the bank balance, \$100,000 was covered by federal depository insurance and \$145,187 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.

The Agency is not exposed to custodial credit risk related to its investments.

**VERNON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 3 - CAPITAL ASSETS

Capital asset activity of governmental activities for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deletions	Transfers & Adjustments	Balance June 30, 2007
<i>Capital assets, not being depreciated:</i>					
Land	\$ 12,352,402	\$ 6,999	\$ -	\$ -	\$ 12,359,401
Construction in progress	962,883	-	-	-	962,883
Total capital assets, not being depreciated	<u>13,315,285</u>	<u>6,999</u>	<u>-</u>	<u>-</u>	<u>13,322,284</u>
<i>Capital assets, being depreciated</i>					
Building and Improvements	1,768,021	-	-	(1,768,021)	-
Improvements other than Building	-	-	-	12,523	12,523
Infrastructure	-	4,280,018	-	1,755,499	6,035,517
Total capital assets, being depreciated	<u>1,768,021</u>	<u>4,280,018</u>	<u>-</u>	<u>1</u>	<u>6,048,040</u>
Less accumulated depreciation for:					
Building and Improvements	(22,100)	-	-	-	(22,100)
Improvements other than Building	-	(313)	-	-	(313)
Infrastructure	-	(76,697)	-	-	(76,697)
Total accumulated depreciation	<u>(22,100)</u>	<u>(77,010)</u>	<u>-</u>	<u>-</u>	<u>(99,110)</u>
Total capital assets, being depreciated, net					
Building and Improvements	1,745,921	-	-	(1,768,021)	(22,100)
Improvements other than Building	-	(313)	-	12,523	12,210
Infrastructure	-	4,203,321	-	1,755,499	5,958,820
Total	<u>1,745,921</u>	<u>4,203,008</u>	<u>-</u>	<u>1</u>	<u>5,948,930</u>
Governmental activities capital assets, net	<u>\$ 15,061,206</u>	<u>\$ 4,210,007</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 19,271,214</u>

Depreciation

Depreciation expense was charged to the Agency as follows:

Improvements other than building	\$ 313
Infrastructure	76,697

NOTE 4 - ADVANCE TO CITY

During the current year, the Agency repaid \$16,860 of long-term advance from the City.

**VERNON REDEVELOPMENT AGENCY
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 4 - ADVANCE TO CITY (CONTINUED)

The following is a schedule of changes in the Advance from other City funds for the fiscal year ended June 30, 2007:

Advances from, July 1, 2006	\$ 16,860
Advance from City	-
Accrued interest for FY 06/07	-
Interest payment for FY 06/07	-
Loan repayment to City	(16,860)
Advance, June 30, 2007	<u>\$ -</u>

NOTE 5 – LONG-TERM OBLIGATIONS

Outstanding at June 30, 2007, were \$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, 2007
<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	857,701
<i>Total Tax Allocation Bonds</i>				<u>\$ 50,353,458</u>	<u>\$ 50,277,701</u>

As of June 30, 2007, annual debt service requirements of the Agency to maturity are as follows:

**VERNON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

Year ending June 30:	Industrial Redevelopment Project Tax Allocation Bonds Payable	
	Principal	Interest*
2008	\$ -	\$ 2,229,266
2009	-	2,229,266
2010	1,160,000	2,210,956
2011	1,285,000	2,172,364
2012	1,380,000	2,128,574
2013-2017	6,970,000	9,894,360
2018-2022	7,840,000	8,294,679
2023-2027	7,200,000	6,503,418
2028-2032	10,960,000	4,470,563
2033-2036	12,625,000	1,292,339
	<u>\$ 49,420,000</u>	<u>\$ 41,425,785</u>

* As of June 30, 2007, 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, 2007:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Amounts Due Within One Year
Bonds payable	\$ 49,420,000	\$ -	\$ -	\$ 49,420,000	\$ -
Bond premium	902,046	-	(44,345)	857,701	44,345
	<u>\$ 50,322,046</u>	<u>\$ -</u>	<u>\$ (44,345)</u>	<u>\$ 50,277,701</u>	<u>\$ 44,345</u>

**VERNON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 6 – BASIS SWAP AGREEMENT

Basis Swap

Objective of the interest rate swap: As a means to reduce its bond interest cost, the Agency 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 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 March 1, 2007. Under the swap, the Agency 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 0.73% of the USD-ISDA (ISDA) ten-year swap rate index.

Fair value: Because the differential between the BMA index and ISDA index has decreased since execution of the swap, the swap has an aggregate negative fair value of \$(255,741) as of June 30, 2007. 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, 2007 was negative, the Agency does not have credit exposure to the counterparty. Should the swap's fair value become positive, the Agency 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, 2007. 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 Agency to basis risk should the relationship between ISDA index and BMA index diverge to a ratio lower than that stated in the swap. If such a change occurs, the swap may not provide the expected interest cost savings.

Termination risk: The Agency 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 Agency at any time. If at the time of termination, the swap has a negative fair value, the Agency would be liable to the counterparty for a payment equal to the swap's fair value.

**VERNON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 6 – BASIS SWAP AGREEMENT (CONTINUED)

Basis Swap (Continued)

The following summarizes the expected net debt service if BMA remains constant 3.730% and 10 Year ISDA remains constant at 5.6655% (actual rates as of June 30, 2007).

Year Ending June 30	Principal Amount	Interest	Basis Swap, Net	Total Debt Service
2008	\$ -	\$ 2,275,306	\$ (46,040)	\$ 2,229,266
2009	-	2,275,306	(46,040)	2,229,266
2010	1,160,000	2,256,456	(45,500)	3,370,956
2011	1,285,000	2,216,725	(44,361)	3,457,364
2012	1,380,000	2,171,694	(43,120)	3,508,574
2013-2017	6,970,000	10,091,619	(197,259)	16,864,360
2018-2022	7,840,000	8,457,347	(162,668)	16,134,678
2023-2027	7,200,000	6,631,244	(127,826)	13,703,418
2025-2032	10,960,000	4,556,700	(86,137)	15,430,563
2033-2036	12,625,000	1,316,875	(24,536)	13,917,339
	<u>\$ 49,420,000</u>	<u>\$ 42,249,272</u>	<u>\$ (823,487)</u>	<u>\$ 90,845,785</u>

Termination of Interest Basis Swap Agreement

During the fiscal year ended June 30, 2007, an interest basis swap agreement between the Agency and Lehman which was entered into on February 16, 2006 was terminated and replaced with a new interest basis swap agreement dated March 1, 2007 described above. The termination of the February 16, 2006 interest basis swap agreement resulted in the Agency receiving \$818,280 in termination proceeds.



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

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 (City), as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated January 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Finding

For the fiscal year ended June 30, 2007, we identified a transaction initially recorded as an advance to the City that ultimately was determined to be the Agency's proportionate share in an escrow deposit. This occurred because the Agency's system of internal control did not require the proper verification of the nature of the transaction to ensure its proper recording.

Recommendation

Agency management should establish internal controls to ensure that all transactions are properly supported and recorded accurately.

Management Response

Agency management concurs with the finding and recommendation and has developed a corrective action plan to ensure all transactions are properly supported and recorded accurately.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. 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 identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above to be a material weakness.

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*.

The Agency's response to the finding identified in our audit is described above. We did not audit the Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of Agency management, the Agency Governing Board, 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
January 15, 2008