

FINANCIAL SECTION

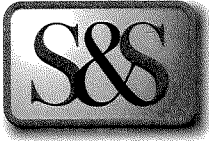


Myron McDuffie may be wheel-chair bound with multiple sclerosis (MS), but thanks to Met Lofts and its affordable housing set-aside, the 50-year-old disabled man now has a downtown home close to mass transit he says “opens the city” to him. The eight-story residential building is part of the renewal effort in South Park, just south of Downtown.

Independent Auditor's Report



For Victoria Meredith, a participant in the CRA/LA West Valley Region's first-time homebuyer program, owning her own home seems "unbelievable at times." A single mother with two children, she is one of more than a dozen people that have benefited from CRA/LA's West Valley first-time homebuyer program.



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRAJNARD C. SIMPSON, CPA
CARL P. SIMPSON, CPA

INDEPENDENT AUDITOR'S REPORT

*The Honorable Laura N. Chick
Controller of the City of Los Angeles and
The Community Redevelopment Agency of
The City of Los Angeles, California*

*The Board of Commissioners of
The Community Redevelopment Agency of
The City of Los Angeles, California*

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of The Community Redevelopment Agency of the City of Los Angeles, California (Agency), as of and for the 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 the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of The Community Redevelopment Agency of the City of Los Angeles, California, as of June 30, 2007, and the respective changes in financial position and cash flows of its proprietary funds for the 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 a report dated December 10, 2007 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 11 through 20, the schedule of funding progress - employees' pension plan on page 66, and the budgetary comparison schedule for the Housing Fund and Special Revenue Fund on pages 67 and 68, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. 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.



Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The other supplementary information identified in the accompanying table of contents as the budgetary comparison schedule for Capital Projects Fund and Debt Service Fund, combining financial statements of the Internal Service Funds and Agency Funds, combined schedules by redevelopment project area, and schedule of third-party indebtedness, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Agency. Such information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The information identified in the accompanying table of contents as the introductory and statistical sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Agency. Such information has not been subjected to the auditing procedures applied in the audit of the Agency's basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in cursive script, appearing to read 'Simpson & Simpson'.

Los Angeles, California
December 10, 2007

Management's Discussion and Analysis



This Ralphs location is a symbol that Downtown Los Angeles is truly a residential community and is proof that thousands now consider Downtown home. This grocery store helped the CRA/LA meet a goal it has been pursuing for 20 years, namely, to make Downtown Los Angeles a livable, workable and walkable community.

**THE COMMUNITY REDEVELOPMENT AGENCY
OF THE CITY OF LOS ANGELES, CALIFORNIA**

Management's Discussion and Analysis

June 30, 2007

As management of The Community Redevelopment Agency of the City of Los Angeles (Agency), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages one through four of this report.

Financial Highlights

- The liabilities of the Agency exceeded its assets at the close of the fiscal year 2007 by \$57,888,000 (deficit). Of this net deficit, \$530,940,000 is either net assets invested in capital assets or restricted for capital projects, low and moderate-income housing activities, and debt service. The remaining deficit of \$588,828,000 will be paid out of future Agency revenues, primarily pledged tax increment to be collected in future years (page 21).
- The Agency's total deficit decreased by \$76,724,000. While the governmental activities net assets increased by \$76,752,000, the business-type activities net assets decreased by \$28,000 (page 22).
- As of the close of fiscal year 2007, the Agency's governmental funds reported combined ending fund balances of \$468,229,000, an increase of \$65,752,000 in comparison with the prior year. Approximately 47.2 percent of this total amount, \$221,229,000, has been appropriated in the 2008 fiscal year budget (page 23).
- The Agency's long-term debt at June 30, 2007 net of unamortized premiums/discounts and deferred amounts from refunding totaled \$759,792,000, a net increase of \$14,757,000 from prior year's balance of \$745,035,000 (page 50).

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 consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to basic financial statements. This report also contains required and other supplementary information in addition 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 current 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 the 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 revenues, and earned but unused vacation leave).

THE COMMUNITY REDEVELOPMENT AGENCY
OF THE CITY OF LOS ANGELES, CALIFORNIA

Management's Discussion and Analysis - (Continued)

June 30, 2007

The governmental activities of the Agency include housing, community and economic development, public improvement, project general, and debt service while the business-type activity of the Agency includes an Agency-owned and operated public parking facility.

The government-wide financial statements can be found on pages 21 and 22 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. All of the funds of the Agency can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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 balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. This reconciliation can be found on pages 24, 26, and 27.

The Agency maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the capital projects fund, debt service fund, housing fund, and special revenue fund, which are all considered to be major funds.

The governmental fund financial statements can be found on pages 23 and 25 of this report.

The Agency adopts an annual appropriated budget for all governmental funds. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the housing and special revenue funds in the *Required Supplementary Information* on pages 67 and 68, and the capital projects and debt service funds in the *Other Supplementary Information* on pages 70 and 71.

Proprietary funds. The Agency maintains two different types of proprietary funds. An *enterprise fund* is used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Agency uses an enterprise fund to account for the operation of a public parking garage financed by a parking revenue bond. *Internal service funds* are an accounting device used to accumulate and allocate costs and revenues internally among the Agency's various functions. The Agency uses internal service funds to account for its personnel and administrative costs, an investment pool, and the transactions of its financing authority. Because all of these functions predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

**THE COMMUNITY REDEVELOPMENT AGENCY
OF THE CITY OF LOS ANGELES, CALIFORNIA**

Management's Discussion and Analysis - (Continued)

June 30, 2007

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the above functions. Conversely, these internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

The proprietary fund financial statements can be found on pages 28 through 30 of this report.

Fiduciary funds. *Fiduciary funds* are used to account for resources held for the benefit of parties outside the Agency. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Agency's own programs. The accounting method used for fiduciary funds is much like that used for proprietary funds except that the fiduciary funds do not have a measurement focus.

The fiduciary fund financial statement can be found on page 31 of this report.

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 32 through 65 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the funding progress of the employees' pension plan of the Agency on page 66 of this report, and a budgetary comparison for the housing and special revenue funds on pages 67 and 68 of this report. Other supplementary information concerning the Agency's budgetary comparison for capital projects and debt service funds, financial statements of the internal service funds, financial statements of the fiduciary funds, financial statements of individual redevelopment project areas, and third-party indebtedness is presented on pages 70 through 91.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As of the close of fiscal year 2007, the liabilities of the Agency exceeded its assets by \$57,888,000 (deficit). Of this net deficit amount, \$56,364,000 is invested in capital assets net of related debt and \$474,576,000 represents restricted net assets for capital projects, low and moderate-income housing activities, and debt service. The remaining balance of \$588,828,000 represents a deficit, which will be paid out of future Agency revenues. The largest portion of the Agency's deficit is caused by the outstanding long-term debt of \$759,792,000. This is primarily due to the nature of redevelopment financing, whereby the Agency issues bonds or incurs long-term debt to finance a substantial portion of its redevelopment activities which include infrastructure projects, housing, public parking, commercial and retail projects, community development activities, and others. Although infrastructure assets are transferred to the City of Los Angeles, the debt remains with the Agency. The Agency also provides gap financing in other types of redevelopment activities and any equity assumed in these projects is usually significantly less than the underlying expenses. In addition to the public purpose of these redevelopment activities, they are designed to generate additional tax increment resources, to service the Agency's debt and finance additional projects.

The Agency's deficit decreased by \$76,724,000 during the current fiscal year. This amount is higher than the decrease of \$15,503,000 in fiscal year 2006 due mainly to revenue increases of \$34,084,000 from tax increment revenues, \$8,179,000 from interest income, and \$7,691,000 net change in loan valuation of the Agency's loan portfolio.

**THE COMMUNITY REDEVELOPMENT AGENCY
OF THE CITY OF LOS ANGELES, CALIFORNIA**

Management's Discussion and Analysis - (Continued)

June 30, 2007

The following table summarizes the Agency's net assets (in thousands of dollars):

Agency's Net Assets (Deficit)

	June 30, 2007			June 30, 2006		
	Governmental	Business-type	Total	Governmental	Business-type	Total
	Activities	Activities		Activities	Activities	
Current and other assets	\$ 532,014	\$ 2,491	\$ 534,505	\$ 454,931	\$ 3,884	\$ 458,815
Restricted assets	78,829	6,347	85,176	63,835	5,992	69,827
Land held for redevelopment	56,981	-	56,981	35,879	-	35,879
Capital assets, net of accumulated depreciation and amortization	65,986	32,684	98,670	66,348	33,332	99,680
Total assets	<u>733,810</u>	<u>41,522</u>	<u>775,332</u>	<u>620,993</u>	<u>43,208</u>	<u>664,201</u>
Current and other liabilities	67,386	3,178	70,564	49,945	3,833	53,778
Long-term liabilities, net of unamortized premium, discount, and deferred amount on refunding	718,319	44,337	762,656	699,695	45,340	745,035
Total liabilities	<u>785,705</u>	<u>47,515</u>	<u>833,220</u>	<u>749,640</u>	<u>49,173</u>	<u>798,813</u>
Net assets:						
Invested in capital assets, net of related debt	65,986	(9,622)	56,364	66,348	(12,008)	54,340
Restricted net assets	468,229	6,347	474,576	402,477	5,992	408,469
Deficit	<u>(586,110)</u>	<u>(2,718)</u>	<u>(588,828)</u>	<u>(597,472)</u>	<u>51</u>	<u>(597,421)</u>
Total deficit	<u>\$ (51,895)</u>	<u>\$ (5,993)</u>	<u>\$ (57,888)</u>	<u>\$ (128,647)</u>	<u>\$ (5,965)</u>	<u>\$ (134,612)</u>

Governmental Activities. During fiscal year 2007, governmental activities reduced the deficit by \$76,752,000 or 59.7 percent of prior year's total deficit. Key elements for the decreases in the deficit are as follows:

- Total revenues for fiscal year 2007 increased by \$47,025,000 or 26.6 percent. The primary increase in revenue came from incremental property taxes, which grew by \$34,084,000 or 26.8 percent. Despite recent real estate market softness, the prior years' strong growth continued to generate healthy growth in assessed valuation. This resulted in higher than expected growth of incremental property taxes.
- The net change in loan valuation of \$7,691,000 is primarily due to the higher valuation rate for the loan portfolio and an overall increase in the loan principal balance.
- The increase in total expenses of \$3,320,000 or 2.2 percent from fiscal year 2006 was more than offset by a higher revenue growth.

**THE COMMUNITY REDEVELOPMENT AGENCY
OF THE CITY OF LOS ANGELES, CALIFORNIA**

Management's Discussion and Analysis - (Continued)

June 30, 2007

- The following table and charts provide a summary of the Agency's revenues and expenses for its governmental activities (in thousands of dollars):

Agency's Changes in Net Assets - Governmental Activities

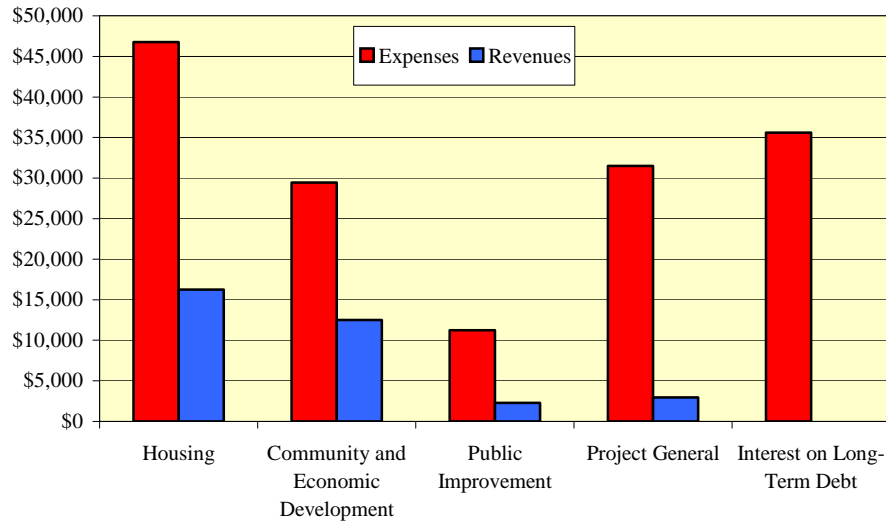
	Fiscal Year Ended	
	June 30, 2007	June 30, 2006
Revenues:		
Program revenues:		
Capital grants and contributions	\$ 29,387	\$ 26,707
Charges for services	4,574	5,297
General revenues:		
Incremental property taxes	161,300	127,216
Interest income	24,441	16,436
Other	3,915	936
Total revenues	223,617	176,592
Program expenses:		
Housing	46,747	31,496
Community and economic development	29,471	32,310
Public improvement	11,242	7,361
Project general	31,496	50,236
Sub-total	118,956	121,403
Interest on long-term debt	35,600	29,833
Total expenses	154,556	151,236
Special item:		
Net change in loan valuation	7,691	(9,155)
Change in net assets	76,752	16,201
Deficit - beginning of year	(128,647)	(144,848)
Deficit - end of year	\$ (51,895)	\$ (128,647)

**THE COMMUNITY REDEVELOPMENT AGENCY
OF THE CITY OF LOS ANGELES, CALIFORNIA**

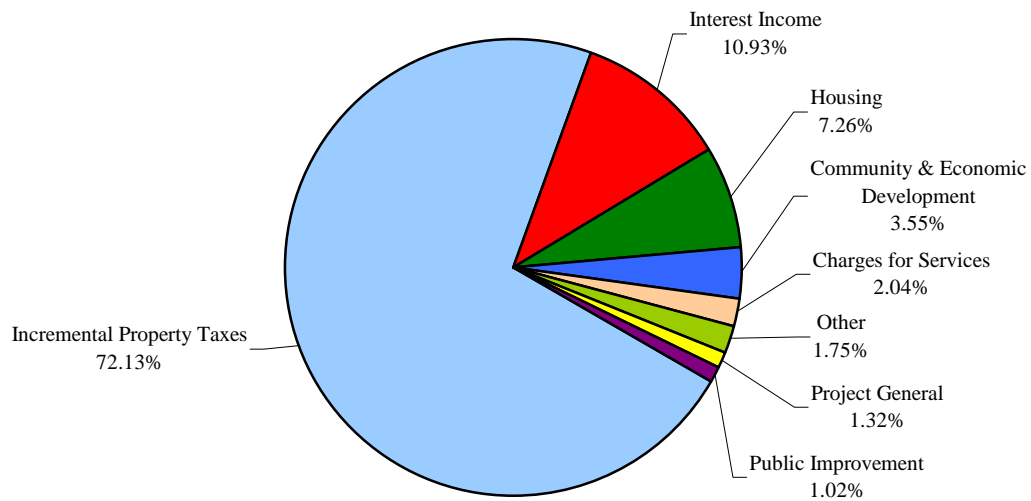
Management's Discussion and Analysis - (Continued)

June 30, 2007

**Expenses and Program Revenues - Governmental Activities
Fiscal Year Ended June 30, 2007**



**Revenues by Source - Governmental Activities
Fiscal Year Ended June 30, 2007**



**THE COMMUNITY REDEVELOPMENT AGENCY
OF THE CITY OF LOS ANGELES, CALIFORNIA**

Management's Discussion and Analysis - (Continued)

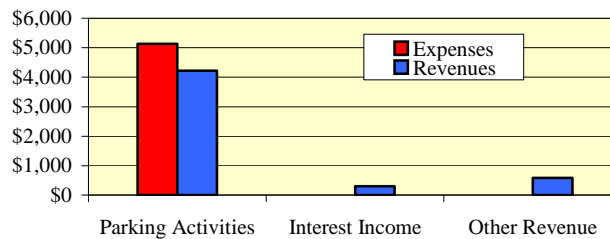
June 30, 2007

Business-Type Activities. A public parking garage financed with parking revenue bonds started operations in March 2002. The net loss on the garage of \$28,000 increased the deficit to \$5,993,000. The following summarizes the operating results of the Agency's enterprise fund for the year ended June 30, 2007 (in thousands of dollars):

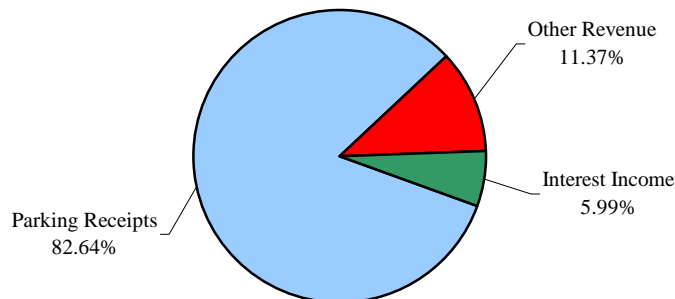
Agency's Changes in Net Assets - Business-type Activities

	Fiscal Year Ended	
	June 30, 2007	June 30, 2006
Revenues:		
Parking receipts	\$ 4,222	\$ 4,035
Interest income	306	132
Other	581	190
Total revenues	5,109	4,357
Expenses:		
Parking activities	5,137	5,055
Change in net assets	(28)	(698)
Deficit - beginning of year	(5,965)	(5,267)
Deficit - end of year	\$ (5,993)	\$ (5,965)

**Expenses and Program Revenues - Business-type Activities
Fiscal Year Ended June 30, 2007**



**Revenues by Source - Business-type Activities
Fiscal Year Ended June 30, 2007**



**THE COMMUNITY REDEVELOPMENT AGENCY
OF THE CITY OF LOS ANGELES, CALIFORNIA**

Management's Discussion and Analysis - (Continued)

June 30, 2007

Financial Analysis of the Agency's Funds

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

Governmental funds. The focus of the Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, the unreserved fund balance serves as a useful measure of the Agency's net resources available for spending at the end of the fiscal year. Individual fund information of governmental funds reported by the Agency include the capital projects fund, debt service fund, housing fund, and special revenue fund, which are all considered major funds.

As of June 30, 2007, the Agency's governmental funds reported a combined ending fund balance of \$468,229,000, an increase of \$65,752,000 in comparison with the prior year. Of the \$468,229,000, \$247,000,000 is reserved for debt service, low and moderate-income housing activities, advances to other funds, and encumbrances. The remaining \$221,229,000, which is approximately 47.2 percent of the total fund balance, constitutes the unreserved fund balance. This amount is available for spending and has been appropriated in the fiscal year 2008 budget.

Capital Projects Fund. The capital projects fund is used to account for redevelopment expenditures from tax increment, bond proceeds, federal grants, and project program income. The balance of this fund at the end of the current fiscal year amounted to \$227,115,000, an increase of \$34,448,000 from prior year's fund balance. This increase in fund balance is primarily due to increases in tax increment revenues, grant revenues, and interest income.

Debt Service Fund. The debt service fund is used to accumulate resources to pay for principal, interest, and other related costs on the Agency's long-term debt. As of June 30, 2007, the debt service fund had a total balance of \$67,801,000 all of which is reserved for debt service. This fund balance showed an increase of \$6,789,000 from the prior year's amount. The increase in the fund balance was mainly due to issuance of additional debt during the fiscal year.

Housing Fund. The housing fund primarily accounts for the portion of tax increment and related revenue designated for low and moderate-income housing. State law requires redevelopment agencies to set aside at least 20 percent of tax increment for low and moderate-income housing projects. At the end of the fiscal year, the housing fund balance increased by \$18,916,000 to a total of \$143,342,000. The increase is primarily due to increase in housing set-asides resulting from increased tax increment revenues and new tax allocation bond issues. The entire fund balance is reserved for low and moderate-income housing projects.

Special Revenue Fund. The special revenue fund is used to account for revenues and expenditures from specific sources such as developer contributions, City participation, art fund contributions, and local grants. In fiscal year 2007, the fund balance of this fund increased by \$5,599,000 to \$29,971,000 as a result of an overall decrease in expenditures charged against this fund.

Proprietary funds. The Agency's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. As of June 30, 2007, the Agency-owned parking garage showed a deficit of \$5,993,000. Other factors concerning the operation of the Agency-owned parking garage have already been addressed in the discussion of the Agency's business-type activities.

**THE COMMUNITY REDEVELOPMENT AGENCY
OF THE CITY OF LOS ANGELES, CALIFORNIA**

Management's Discussion and Analysis - (Continued)

June 30, 2007

Capital Assets

The Agency's investments in capital assets net of accumulated depreciation and amortization for its governmental and its business-type activities as of June 30, 2007 totaled \$65,986,000 and \$32,684,000, respectively. The Agency's capital assets include land, building and improvements, equipment, and a multi-level public parking facility. This 1,725-car public parking facility located in the Hollywood Redevelopment Project area, which was financed by the issuance of \$44,235,000 of parking revenue bonds, was opened for business in March 2002.

Additional information on the Agency's capital assets can be found in note 2-C on pages 44 and 45 of this report.

Debt Administration

At June 30, 2007, the Agency's long-term debt of \$759,792,000, net of unamortized bond premium/discount and deferred amounts on refunding is summarized as follows (in thousands of dollars):

Agency's Long-Term Liabilities

	Governmental Activities	Business-type Activities	Total
Tax allocation bonds	\$ 622,019	\$ -	\$ 622,019
Parking revenue bonds	-	40,300	40,300
Notes payable	19,604	4,037	23,641
Payable to the City	73,832	-	73,832
Total	\$ 715,455	\$ 44,337	\$ 759,792

As of June 30, 2007, the Agency had fifty-eight tax allocation bonds and one parking revenue bond outstanding, totaling \$662,319,000, net of unamortized bond premiums, discounts, and related items of \$2,751,000. Of the 58 tax allocation bond issues, 48 are insured. Thirty-one insured bonds are rated "Aaa/AAA", 12 insured bonds are rated "AA", and five insured bonds are rated "A". This equates to 95.8 percent of the principal amount of bonds issued as insured. The remaining bonds are uninsured and have investment grade ratings.

Additional information on the Agency's long-term liabilities can be found in note 2-F on pages 48 through 55 of this report.

Economic Factors and Next Year's Budget and Rates

- *Employment.* According to the Los Angeles County Economic Development Corporation (LAEDC), the 2006 average non-farm unemployment rate for Los Angeles County was at 4.7 percent. The County's unemployment rate continues to run at low levels during 2007, about 4.8 percent. The LAEDC is projecting non-farm unemployment rate to move up to 5.0 percent in 2008.

**THE COMMUNITY REDEVELOPMENT AGENCY
OF THE CITY OF LOS ANGELES, CALIFORNIA**

Management's Discussion and Analysis - (Continued)

June 30, 2007

- *Personal income growth.* LAEDC projected total personal income growth for Los Angeles County of 5.7 percent for 2007.
- *Inflation rate.* The LAEDC estimated the inflation rate for the Southern California area as measured by the consumer price index, in the 3.1 percent range for 2007 calendar year.

All of the above economic factors were considered in preparing the Agency's budget for fiscal year 2008.

As of June 30, 2007, the Agency's governmental funds showed an unreserved fund balance of \$221,229,000. As part of the Agency's budget process as described in the note to required supplementary information on page 69, this amount was appropriated in the fiscal year 2008 budget.

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 such information. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Chief Financial Officer, The Community Redevelopment Agency of the City of Los Angeles, 354 South Spring Street, Los Angeles, California 90013.