

INTRODUCTORY SECTION



The 34,000 sq. ft. HOWS in North Hollywood, its newest and 5th location, came to the CRA/LA project area as the supermarket anchor in the NoHo Commons mixed-use project. NoHo Commons is a planned masterpiece of transit-oriented development.



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December 27, 2007

To the Honorable Mayor, Members of the City Council, City Controller, and the Board of Commissioners of The Community Redevelopment Agency of the City of Los Angeles:

California redevelopment law requires redevelopment agencies to publish and transmit to their governing bodies and the State Controller within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report (CAFR) of The Community Redevelopment Agency of the City of Los Angeles (Agency) for the fiscal year ended June 30, 2007.

This report consists of management's representations concerning the finances of the Agency. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the Agency has established a comprehensive internal control framework that is designed both to protect the Agency's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Agency's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Agency's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Agency's financial statements have been audited by Simpson and Simpson, Certified Public Accountants. The goal of the independent audit was to provide reasonable assurance that the Agency's financial statements for the fiscal year ended June 30, 2007 are free of material misstatement. The independent audit involved 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; and evaluating the overall financial statement presentation. Based upon the audit, the independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the Agency's financial statements for the fiscal year ended June 30, 2007 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Agency's MD&A can be found immediately following the report of the independent auditor.

PROFILE OF THE AGENCY

The Agency was established by the Los Angeles City Council (City Council) in 1948 under State Law to devise and implement geographically-based action strategies to check and reverse physical and economic blight in the City of Los Angeles' (City) most distressed urban neighborhoods. The Agency will direct governmental and private sector investments, as necessary in implementing these strategies and in undertaking the necessary steps required to engender new investment and growth in these areas. Toward these ends, the Agency provides technical and financial assistance to a variety of partners, including (a) neighborhood-based groups that promote a mission of empowering the community by working toward the achievement of a healthy economic and social infrastructure; (b) residents who seek to take part in the City's prosperity; (c) investors who understand the importance and the needs of the urban markets; and (d) the urban labor pool. The Agency lends assistance to investors willing to take a risk for a more vibrant City, to neighborhood residents exhibiting confidence in their communities, and to those in need who seek to take part in the City's prosperity.

As of June 30, 2007, the Agency operated 32 redevelopment project areas and a revitalization project area in the following regions throughout the City: East Valley, West Valley, Hollywood and Central, Downtown, Eastside, South Los Angeles, and the Los Angeles Harbor regions. The Agency finances a variety of programs in each redevelopment project area, including creating and rehabilitating housing and commercial housing developments, façade improvements and streetscapes, reconstructing deteriorated public facilities and improvements, public art, and grant programs. All Agency activities must be consistent with the goals and objectives of the respective project's redevelopment plan and five-year implementation plan.

Historically, over fifty percent of the Agency revenues come from incremental property taxes. Pursuant to state law, the Agency is required to spend at least 20 percent of this revenue on low and moderate-income housing. Other revenue sources include grants, bond proceeds, leases, proceeds from sale of land, loan collections, and interest income.

Due to the nature of redevelopment financing and changes in the financial reporting requirements established by the Government Accounting Standards Board (GASB) under GASB 34, Agency liabilities normally exceed assets, thus resulting in a deficit in the statement of net assets. Redevelopment activities, which benefit and increase property assessed values in the redevelopment project areas, are primarily financed through the issuance of tax allocation bonds. Proceeds from these tax allocation bonds are used for infrastructure projects, commercial and housing loans, and project operations. The tax allocation bond issues, which are secured by future tax increment revenues, are carried as liabilities in the Agency books. However, the uses of the bond proceeds do not result in equivalent Agency assets. Infrastructure projects are turned over to the City and loans receivable are carried in the Agency books at amounts substantially lower than cost.

A Board of seven commissioners appointed by the Mayor and confirmed by the City Council oversees the Agency. A Chief Executive Officer appointed by the Board directs the Agency staff and its operations. Under the "Oversight Ordinance" adopted in 1991, every action of the Agency is subject to City Council review and/or approval. The "Oversight Ordinance" also designated the City Controller and City Attorney as the Agency's controller and legal counsel, respectively.

Budgetary control. The Agency's annual budget serves as the foundation for financial planning and control. The budget is prepared under the guidelines established by State redevelopment law and the City of Los Angeles budget ordinance. The budget is approved by the City Council and adopted by the Agency Board prior to the start of the fiscal year. In addition, because the Agency's budget is prepared well in advance of the fiscal year to which it relates, the budget is regularly amended for changes in available resources and project objectives with the approval of the Agency Board and the City Council. The appropriated budget is prepared by fund, redevelopment project, cost center, and objective.

The City Budget Ordinance allows Agency management to increase or decrease an objective based on predefined limits. Beyond such limits, the Agency Board and the City Council must approve increases and decreases in expenditures. An objective is defined as a specific project or type of work being performed within a redevelopment project area. A more detailed discussion of the Agency budget can be found in the accompanying *Note to Required Supplementary Information* on page 69.

The budget-to-actual comparison for housing and special revenue funds is presented in the *Required Supplementary Information* of this report on pages 67 and 68, whereas, the budget-to-actual comparison for capital projects and debt service funds is presented in the *Other Supplementary Information* on pages 70 and 71.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Agency operates.

Local economy. Various economic indicators project continued slower growth in 2007 for the Southern California region despite the relative weakness in the housing market. In addition, Agency expects to benefit from the overall growth in assessed valuation resulting from prior years' real estate development projects coupled with the recent growth in value of real estate assets and development projects that are currently in the pipeline.

Cash management policies and practices. In accordance with the Agency Investment Policy, cash temporarily idle during the year was invested in obligations of the U.S. Treasury or U.S. governmental agencies, certificates of deposits, bankers' acceptances, repurchase agreements, commercial paper, the Local Agency Investment Fund administered by the State of California, and guaranteed investment contracts. The maturities of the investments range from days to years, with an average maturity of approximately four months. For the fiscal year ended June 30, 2007, the average yield on investments was 5.20 percent.

Risk management. As part of its risk management program, the Agency carries commercial and general insurance policies. The cost of the insurance is allocated to all the redevelopment projects. A schedule of the Agency's insurance policies appears on page 120.

Pension and other postemployment benefits. The Agency provides pension benefits to its employees. These benefits are provided through the California Public Employees' Retirement System, an agent multiple-employer defined benefit pension plan.

The Agency also provides postemployment health and dental care benefits for certain retirees and their dependents. As of the end of fiscal year 2007, there were 104 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. In June 2004, the Governmental Accounting Standards Board issued GASB 45, which will require governmental entities such as the Agency to recognize postemployment health benefit costs during the working careers of Agency employees starting no later than the fiscal year 2008. The Agency intends to comply with the reporting requirements of GASB 45 in fiscal year 2008. Prior to this time, staff will evaluate and determine the Agency's actuarial liability and obtain authorization to adopt an expense and funding policy for these benefits.

Additional information on the Agency's pension arrangements and postemployment benefits can be found in notes 3-A and 3-B in the *Notes to Basic Financial Statements* and in the *Required Supplementary Information* on page 66.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Agency for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2006. This was the fifth consecutive year the Agency achieved this prestigious award. In order to be awarded a Certificate of Achievement, the Agency published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated efforts of the staff of the Finance and Accounting Division. We would like to express our appreciation to other Agency staff that assisted in the preparation of this report. Credit must also be given to the Agency Board of Commissioners and the City Controller's Office for their unfailing support for maintaining the highest standards of professionalism in the management of the Agency's finances.

Respectfully submitted,



Brencia Culp, Chief Financial Officer



Cecilia V. Estolano, Chief Executive Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

The Community
Redevelopment Agency of the
City of Los Angeles, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

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

BOARD OF COMMISSIONERS



William H. Jackson
Chairman



Madeline Janis
Vice-Chair



Joan Ling
Treasurer



Bruce D. Ackerman
Member



Natalie Cole
Member



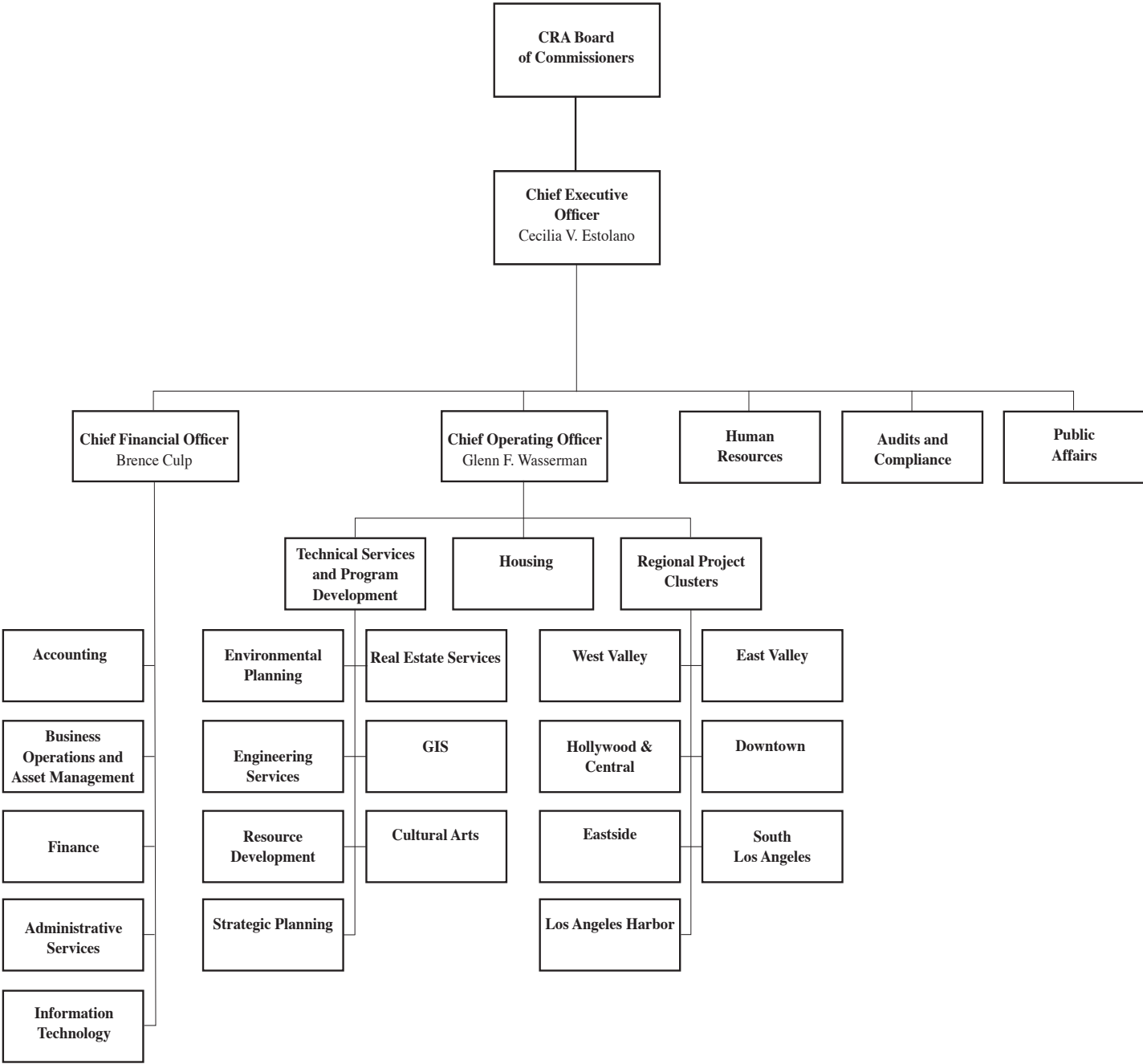
Alejandro Ortiz
Member



John A. Pérez
Member

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

Organizational Chart



CITY OFFICIALS

City of Los Angeles, California



Antonio Villaraigosa
Mayor



Rockard J. Delgadillo
City Attorney



Laura Chick
City Controller



Eric Garcetti
13th District
Council President



Wendy Greuel
2nd District
President Pro-Tempore



Ed P. Reyes
1st District



Dennis P. Zine
3rd District



Tom LaBonge
4th District



Jack Weiss
5th District



Tony Cárdenas
6th District



Richard Alarcón
7th District



Bernard Parks
8th District



Jan Perry
9th District



Herb J. Wesson, Jr.
10th District



Bill Rosendahl
11th District



Greig Smith
12th District



José Huizar
14th District



Janice Hahn
15th District

NON-ELECTED FISCAL OFFICERS

Director of
Finance
Antoinette D. Christovale

City Treasurer
Joya C. De Foor

City Administrative
Officer
Karen Sisson

City Purchasing Agent & General Manager
Department of General Services
Alvin Y. Blain