

**REDEVELOPMENT AGENCY OF THE
CITY OF LA HABRA, CALIFORNIA**

Annual Financial Report

June 30, 2007

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Annual Financial Report
For the Year Ended June 30, 2007

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December 18, 2007

The Board of Directors of the
La Habra Redevelopment Agency

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of La Habra (Agency), a component unit of the City of La Habra, California 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 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 each major fund of the Agency as of June 30, 2007, and the respective changes in financial position thereof 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 our report dated December 18, 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, 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 required supplementary information identified in the accompanying table of contents is not a required part of the basic financial statements, but is 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. The Agency has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying major fund budgetary comparison schedules listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The major fund budgetary comparison schedules 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.

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REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA

Statement of Net Assets

June 30, 2007

<u>Assets</u>	
Current assets:	
Cash and investments	\$ 3,414,849
Cash and investments with fiscal agents	2,670,272
Receivables	54,147
Due from City of La Habra	4,350
Land held for resale	111,000
	<hr/>
Total Current Assets	6,254,618
Noncurrent assets:	
Capital assets not being depreciated	328,522
Capital assets being depreciated (net of accumulated depreciation)	3,852,633
	<hr/>
Total Noncurrent Assets	4,181,155
	<hr/>
Total Assets	10,435,773
 <u>Liabilities</u>	
Current liabilities:	
Accounts payable and accrued liabilities	575,110
Interest payable	151,375
Due to City of La Habra	99,940
Long-term debt, due within one year	250,000
	<hr/>
Total Current Liabilities	1,076,425
Noncurrent liabilities:	
Long-term debt, due in more than one year	18,750,300
	<hr/>
Total Liabilities	19,826,725
 <u>Net Assets</u>	
Invested in capital assets	4,181,155
Restricted for:	
Debt service	283,229
Low-moderate income housing	1,953,834
Unrestricted (deficit)	(15,809,170)
	<hr/>
Total Net Assets (Deficit)	\$ (9,390,952)
	<hr/> <hr/>

See Accompanying Notes to Financial Statements.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA

Statement of Activities

For the Year Ended June 30, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net Governmental Activities</u>
Governmental Activities:			
General government	\$ 179,259		\$ (179,259)
Community development	1,244,905	\$ 26,100	(1,218,805)
Interest on long-term debt	560,103		(560,103)
	<u>560,103</u>	<u>26,100</u>	<u>(560,103)</u>
Total Governmental Activities	<u>\$ 1,984,267</u>	<u>\$ 26,100</u>	<u>(1,958,167)</u>

General Revenues:

Property tax	2,618,896
Income from property and investments	<u>188,750</u>
Total General Revenues	<u>2,807,646</u>
Change in Net Assets	849,479
Net Assets, Beginning of Year	<u>(10,240,431)</u>
Net Assets, End of Year	<u>\$ (9,390,952)</u>

See Accompanying Notes to Financial Statements.

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REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA

Balance Sheet

Governmental Funds

June 30, 2007

<u>Assets</u>	<u>Special Revenue Funds</u>		<u>Capital Projects Fund</u>
	<u>Low-Moderate Income Housing Set-Aside Fund</u>	<u>Operating Fund</u>	
Cash and investments	\$ 1,987,827	\$ 1,427,022	
Cash and investments with fiscal agent			\$ 2,387,042
Receivables	2,923	39,532	
Due from City of La Habra		4,350	
Land held for resale	111,000		
 Total Assets	 <u>\$ 2,101,750</u>	 <u>\$ 1,470,904</u>	 <u>\$ 2,387,042</u>
 <u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 8,963	\$ 557,456	\$ 1,645
Due to City of La Habra	27,953	54,901	12,439
 Total Liabilities	 <u>36,916</u>	 <u>612,357</u>	 <u>14,084</u>
Fund Balances:			
Reserved:			
Land held for resale	111,000		
Debt service			
Low-moderate income housing	1,003,834		
Encumbrances	950,000		
Unreserved		858,547	2,372,958
 Total Fund Balances	 <u>2,064,834</u>	 <u>858,547</u>	 <u>2,372,958</u>
 Total Liabilities and Fund Balances	 <u>\$ 2,101,750</u>	 <u>\$ 1,470,904</u>	 <u>\$ 2,387,042</u>

See Accompanying Notes to Financial Statements.

Debt Service Fund	Total Governmental Funds
	\$ 3,414,849
\$ 283,230	2,670,272
11,692	54,147
	4,350
	111,000
<u>\$ 294,922</u>	<u>\$ 6,254,618</u>

\$ 7,046	\$ 575,110
4,647	99,940
11,693	675,050

	111,000
283,229	283,229
	1,003,834
	950,000
	3,231,505
283,229	5,579,568
<u>\$ 294,922</u>	<u>\$ 6,254,618</u>

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2007

Total fund balances, governmental funds	\$	5,579,568
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 funds.		4,181,155
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in funds.		(151,375)
Long-term liabilities, including bonds payable and advances are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(19,000,300)</u>
Net Assets (Deficit) of Governmental Activities	\$	<u><u>(9,390,952)</u></u>

See Accompanying Notes to Financial Statements.

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REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	Special Revenue Funds		
	Low-Moderate Income Housing Set-Aside Fund	Operating Fund	Capital Projects Fund
Revenues:			
Tax increment	\$ 468,483		
Charges for services			\$ 26,100
Use of money and property	97,539	\$ 18,499	58,543
Total Revenues	<u>566,022</u>	<u>18,499</u>	<u>84,643</u>
Expenditures:			
Current:			
General government			
Community development	221,230	994,555	29,120
Debt service:			
Principal			
Interest			
Total Expenditures	<u>221,230</u>	<u>994,555</u>	<u>29,120</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>344,792</u>	<u>(976,056)</u>	<u>55,523</u>
Other Financing Sources (Uses):			
Debt issuance		259,538	
Transfers in		1,353,430	
Transfers out			
Total Other Financing Sources (Uses)		<u>1,612,968</u>	
Net Changes in Fund Balance	344,792	636,912	55,523
Fund Balances, Beginning of Year	<u>1,720,042</u>	<u>221,635</u>	<u>2,317,435</u>
Fund Balances, End of Year	<u>\$ 2,064,834</u>	<u>\$ 858,547</u>	<u>\$ 2,372,958</u>

See Accompanying Notes to Financial Statements.

Debt Service Fund	Total Governmental Funds
\$ 2,150,413	\$ 2,618,896
	26,100
<u>14,169</u>	<u>188,750</u>
<u>2,164,582</u>	<u>2,833,746</u>
6,566	6,566
	1,244,905
240,000	240,000
<u>563,683</u>	<u>563,683</u>
<u>810,249</u>	<u>2,055,154</u>
<u>1,354,333</u>	<u>778,592</u>
	259,538
	1,353,430
<u>(1,353,430)</u>	<u>(1,353,430)</u>
<u>(1,353,430)</u>	<u>259,538</u>
903	1,038,130
<u>282,326</u>	<u>4,541,438</u>
<u>\$ 283,229</u>	<u>\$ 5,579,568</u>

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2007

Net change in fund balances - total governmental funds:	\$ 1,038,130
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of depreciation expense recorded in the current period.	(172,693)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on changes in net assets.	(19,538)
In the Statement of Activities, interest is accrued on long-term liabilities, whereas in the governmental fund statements, interest expenditures are reported when due. This is the amount by which interest paid exceeds interest accrued.	<u>3,580</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 849,479</u></u>

See Accompanying Notes to Financial Statements.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements
June 30, 2007

I. Summary of Significant Accounting Policies

A. Description and Scope of the Reporting Entity

The Redevelopment Agency of the City of La Habra, California, (Agency) was established in September 1975 pursuant to State of California Health and Safety Code Section 33000 entitled *Community Redevelopment Law*. Its purpose is to prepare and carry out plans for the improvement, rehabilitation, and redevelopment of blighted areas within the City of La Habra (City). The reporting entity also includes the financial information of Community Facilities District No. 1990-1 (District).

The Agency is a “component unit” of the City of La Habra for financial reporting purposes. Since the City Council of the City also serves as the Board of Directors of the Agency, the City, in effect, has the ability to influence and control operations. Therefore, the City has oversight responsibility for the Agency. The financial statements of the Agency are included in the City’s comprehensive annual financial report. The Agency has the same fiscal year as the City. The City’s financial statements can be obtained from the Finance Department of the City.

The blended component unit included in the Agency’s reporting entity is Community Facilities District No. 1990-1. The District was set up to acquire real property and construct a public parking facility. This facility was paid for by the Agency from proceeds received from special tax bonds, which will be repaid from levies on taxable real property within the District.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable to a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. Taxes and other items not properly classified as program revenues are reported as general revenues.

Major individual governmental funds are reported in separate columns in the fund financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2007

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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 when a liability is incurred, regardless of the timing of related cash flows. On an accrual basis, revenue from property taxes is recognized in the fiscal year from which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year from which all eligibility requirements have been satisfied.

Net assets are reported as restricted when constraints placed on their use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through local enabling legislation. When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is principal and interest on long-term debt which is recognized when due.

Real property taxes are levied for period beginning on July 1 to June 30 against property owners of record on January 1. The taxes are due in two installments, on December 10 and April 10, and become delinquent after December 10 and April 10, respectively. Under the provisions of NCGA Interpretation 3, property tax revenue is recognized in the fiscal year for which the taxes have been levied, provided it is collected within 60 days of the end of the fiscal year in the fund financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2007

The Agency participates in a program known as the “Teeter Plan,” whereby the county distributes 100% of the Agency’s portion of the secured tax levy during each fiscal year. In exchange, the Agency waives the right of collect interest and penalties on any delinquent tax collections received by the county on the secured rolls in future years.

The Agency reports the following major governmental funds (all governmental funds are considered “major”):

The Low-Moderate Income Housing Set-Aside Fund, a special revenue fund, is used to account for the 20% of gross property tax increment revenue received by the Agency to fund future projects involving the replacing or rehabilitation of low- and moderate-income housing within City limits.

The Operating Fund, a special revenue fund, is used to account for the financial resources to be used for the improvement and rehabilitation of the community development project areas within the Agency. In the prior year this fund was included as part of the capital projects fund and was reclassified in fiscal year 2006-2007 as the operating fund.

The Capital Projects Fund is used to account for the financial resources to be used for the improvement and rehabilitation of the community development project areas and acquisition or construction of major capital facilities within the Agency.

The Debt Service Fund is used to account for the accumulation of resources for the payment of principal, interest, and related costs associated with all long-term debt of the Agency.

D. Budgetary Data

The budget is legally adopted for the Special Revenue, Operating, Capital Projects and Debt Service funds on the basis which does not differ materially from accounting principles generally accepted in the United States of America. The Board of Directors can revise the budget periodically during the year when deemed necessary.

The appropriated budget is prepared by fund, function, and department. The government’s department head, with approval of the Finance Director and City Manager, may make transfers of appropriations within a department. Transfers of appropriations between departments within a fund must be approved by the City Manager. Transfers between funds must be approved by the City Council; therefore, the legal level of budgetary control is at the fund level. The Council made several supplemental budgetary appropriations throughout the year.

Funds where expenditures exceeded appropriations:

Operating Special Revenue Fund	\$ (278,323)
Debt Service Fund	(4,066)

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2007

E. Cash and Investments

Cash includes amounts in demand deposits. Investments are reported in the accompanying balance sheet at fair value, except for certain money market contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during a fiscal year are recognized as income from property and investments reported for that fiscal year. Income from property and investments includes interest earnings; changes in fair value; any gains or losses realized upon the liquidation, maturity, or sale of investments; property rentals, and the sale of Agency-owned property.

The Agency pools cash and investments of all funds, except for assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. The balance in the pooled cash accounts is available to meet current operating requirements. Investment income earned by the pooled investments is allocated to the various funds on a monthly basis, based on each fund's average cash and investments balance.

Restricted cash and investments are stated at fair value and are those set aside for uses that are specified by bond indentures or agreements.

F. Land Held for Resale

Land held for resale is valued at the lower of cost or estimated net realizable value. The amount of land held for resale outstanding at June 30, 2007 was \$111,000.

G. Capital Assets

Capital assets, which include land, buildings and improvement and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life is not capitalized.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2007

Depreciation is charged to operations using the straight-line method based on the estimated useful life of an asset. The estimated useful lives of depreciable assets are as follows:

<u>Type of Asset</u>	<u>Life in Years</u>
Buildings and improvements	5-40
Infrastructure	30-50

H. Fund Balances

In the fund financial statements, governmental funds report reservations if fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans and are subject to change.

I. Deficit Net Assets

The Agency's unrestricted net assets are in a deficit position primarily due to long-term debt in excess of capital assets owned by the Agency. Generally, the City issues debt whereby the proceeds are loaned to the Agency for development and improvements within its project area. These improvements are for the benefit and ultimate use of the City and, therefore, the capital assets are included as part of the City's capital assets.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2007

II. Detailed Notes on All Funds

A. Cash and Investments

Cash resources of the individual funds are combined to form a pool of cash and investments. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of La Habra. The Agency has not adopted an investment policy separate from that of the City of La Habra. Individual investments cannot be identified with any single fund because the Agency may be required to liquidate its investments at any time to cover large cash outlays required in excess of normal operating needs. Funds must request large outlays in advance so that the City Treasurer will have the funding available.

Cash and investments at June 30, 2007 are classified in the accompanying financial statements as follows:

Cash and investments	\$	3,414,849
Cash and investments with fiscal agents		<u>2,670,272</u>
Total Cash and Investments	\$	<u><u>6,085,121</u></u>

Cash and investments as of June 30, 2007 consist of the following:

Demand deposits with financial institutions	\$	177,466
Investments held by fiscal agents		2,670,272
Investments - LAIF		<u>3,237,383</u>
Total Cash and Investments	\$	<u><u>6,085,121</u></u>

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2007

Investments Authorized by the California Government Code and the Agency's Investment Policy

The table below identifies the investment types that are authorized for the Agency by the California Government Code and by the Agency's adopted investment policy. The table also identifies certain provisions of the California Government Code or the Agency's adopted investment policy, where more restrictive, that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the California Government Code or the Agency's adopted investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentages of Portfolio</u>	<u>Maximum Investment In One Investor</u>
City or City Agency Bonds	5 years	10%	None
U.S. Treasury Obligations	5 years	100%	None
State of California Obligations	5 years	20%	None
California Local Agency Bonds	5 years	20%	None
U.S. Agency Obligations	5 years	100%	10%
Bankers' Acceptance	180 days	20%	5%
Commercial Paper	270 days	30%	10%
Negotiable CDs	5 years	20%	5%
Time Certificates of Deposit	5 years	100%	None
Repurchase Agreements	90 days	100%	None
Medium Term Notes	5 years	20%	5%
Money Market Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	100%	\$40 million per account

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2007

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee is governed by provisions of the debt agreements rather than the general provisions of the California Government Code or the Agency's investment policy. The table below identifies the general investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentages of Portfolio</u>	<u>Maximum Investment In One Investor</u>
U.S. Treasury Obligations	None	None	None
Federal Housing Administration Debentures	None	None	None
U.S. Agency Securities	None	None	None
Unsecured CDs, time deposits and Bankers' Acceptance	30 days	None	None
FDIC Insured bank deposits	None	None	None
Commercial Paper	270 days	None	None
Money Market Funds	N/A	None	None
State Obligations	None	None	None
Pre-funded Municipal Obligations	None	None	None
Repurchase Agreements	90 days	None	None
Investment Agreements	None	None	None
Local Agency Investment Fund (LAIF)	None	None	None

Disclosures Related 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 Agency 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.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2007

Information about the sensitivity of the fair values of the Agency's investment to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

<u>Investment Types</u>	<u>Amount</u>	<u>Remaining Maturity Less Than 1 Year</u>
LAIF	\$ 3,237,383	\$ 3,237,383
Held by fiscal agent:		
Money Market Fund	284,630	284,630
LAIF	<u>2,385,642</u>	<u>2,385,642</u>
Total	<u>\$ 5,907,655</u>	<u>5,907,655</u>

Disclosures Related 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 or the Agency's investment policy, and the actual rating as of year end for each investment type.

<u>Investment Types</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Not Rated</u>
LAIF	\$ 3,237,383	N/A	\$ 3,237,383
Held by Fiscal Agent:			
Money Market	284,630	N/A	284,630
LAIF	<u>2,385,642</u>	N/A	<u>2,385,642</u>
	<u>\$ 5,907,655</u>		<u>\$ 5,907,655</u>

Concentration of Credit Risk

The Agency's investment policy contains certain limitations as disclosed in the accompanying table on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no investments that represent 5% of the Agency's investments.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2007

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 (e.g. broker-dealer) 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 Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). 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 Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2007, \$61,431 of the Agency's deposits with financial institutions was in excess of federal depository insurance limits. As of June 30, 2007, no Agency investments were held by the same broker-dealer (counterparty) that was used by the Agency to buy the securities.

Investment in State Investment Pool

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF), which is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2007

B. Capital Assets

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

	Balance at July 1, 2006	Increases	Decreases	Balance at June 30, 2007
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 328,522			\$ 328,522
Total Capital Assets Not Being Depreciated	328,522			328,522
Capital Assets Being Depreciated:				
Buildings and improvements	320,000			320,000
Infrastructure	3,713,326			3,713,326
Total Capital Assets Being Depreciated	4,033,326			4,033,326
Less Accumulated Depreciation for:				
Buildings and improvements	8,000	\$ 8,000		16,000
Infrastructure		164,693		164,693
Total Accumulated Depreciation	8,000	172,693		180,693
Total Capital Assets Being Depreciated, Net	4,025,326	(172,693)		3,852,633
Governmental Activities Capital Assets, Net	<u>\$ 4,353,848</u>	<u>\$ (172,693)</u>	<u>\$ -</u>	<u>\$ 4,181,155</u>

All depreciation expense of governmental activities was charged to general government.

The Agency had no significant construction commitments outstanding at June 30, 2007.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2007

C. Long-Term Debt

Long-term debt consists of the following at June 30, 2007:

	Balance at July 1, 2006	Increases	Decreases	Balance at June 30, 2007	Due within One Year
Governmental Activities:					
1999 Refunding Special Tax Bonds	\$ 2,575,000		\$ 125,000	\$ 2,450,000	\$ 130,000
2000 Tax Allocation Bonds	7,440,000		115,000	7,325,000	120,000
Advance from Civic Improvement:					
Authority	591,214			591,214	
Advances from the City of La Habra	8,374,548	\$ 259,538		8,634,086	
Total	\$ 18,980,762	\$ 259,538	\$ 240,000	\$ 19,000,300	\$ 250,000

1999 Refunding Special Tax Bonds

On July 1, 1999, the Community Facilities District of the Agency issued 1999 Special Tax Bonds (Refunding Bonds) in the amount of \$3,185,000 at interest rates ranging from 4.25% to 6% to advance refund \$3,250,000 of outstanding 1990 Special Tax Bonds (Refunded Bonds) with interest rates ranging from 7% to 7.75%. The Refunding Bonds mature in varying amounts through September 2019 and are collateralized by and payable from a first pledge of special taxes to be levied on taxable real property with the District. In addition, the Agency has committed, through an Owner Participation Agreement, to subsidize the special taxes payable on the Refunding Bonds with incremental property taxes.

2000 Tax Allocation Bonds

On November 1, 2000, the Agency issued Tax Allocation Bonds in an aggregate amount of \$8,000,000 with variable and fixed interest rates ranging from 4.5% to 5.875% to finance the Agency's redevelopment activities. The bonds mature in various annual amounts through October 1, 2032 and are payable from tax increment revenues.

Civic Improvement Authority

As of June 30, 2007, the Agency had borrowed \$591,214 from the Civic Improvement Authority, which included unpaid interest. There are no repayment terms on these advances.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2007

City of La Habra

As of June 30, 1992, the Agency had borrowed an aggregate amount of \$5.7 million from the City. From that date through September 1998, the balance of the advances, including unpaid interest, from the City totaled \$6,705,000, representing \$5,640,000 from the Series B Tax-Exempt Certificates and \$1,065,000 from the Series C Tax Certificates. On September 15, 1998, a loan agreement was entered into between the City and Agency whereby the Agency would repay these advances in annual principal installments of between \$160,000 and \$455,000, plus interest of between 4.0% and 6.5%, maturing in 2022. In October 2000, the agreement was amended to account for the illiquid position of the Agency whereby the amount of the annual payments will be contingent upon the liquidity of the Agency (i.e. the Agency's ability to make scheduled payments). As of June 30, 2007, the advances, including unpaid interest, from the City to the Agency totaled \$8,634,086.

At June 30, 2007, debt service requirements to maturity for governmental activities long-term debt are as follows:

Fiscal Year Ending June 30	Principal			
	1999 Refunding Special Tax Bonds	2000 Tax Allocation Bonds	Total Principal	Total Interest
2008	\$ 130,000	\$ 120,000	\$ 250,000	\$ 551,460
2009	140,000	125,000	265,000	538,415
2010	145,000	130,000	275,000	524,463
2011	155,000	155,000	310,000	509,075
2012	165,000	220,000	385,000	490,300
2013-2017	980,000	1,265,000	2,245,000	2,096,337
2018-2022	735,000	1,320,000	2,055,000	1,437,581
2023-2027		1,655,000	1,655,000	922,518
2028-2032		1,890,000	1,890,000	420,356
2033		445,000	445,000	13,072
	<u>\$ 2,450,000</u>	<u>\$ 7,325,000</u>	<u>\$ 9,775,000</u>	<u>\$ 7,503,577</u>

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Notes to Financial Statements (Continued)
June 30, 2007

III. Other Information

A. Risk Management

The Agency is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Agency, through the City, carries commercial liability insurance coverage. The Agency carries no insurance coverage for natural disasters. Since the Agency does not have any employees (it uses employees from the City), it is not liable for injury to employees, workers' compensation, or employee health and accident insurance.

The Agency is covered under the City's self-insurance program, which accounts for and finances its uninsured risk of loss. Under the City's program, the Agency is covered up to \$250,000 for each general liability claim. The City purchases commercial insurance for claims in excess of coverage, provided by the program and for all other risks of loss. The City has had no reductions in insurance coverage, nor did the City have any settlements that were in excess of insurance coverage in any of the three preceding fiscal years ending with June 30, 2007.

B. Owner Participation Agreements

The Agency has entered into several Owner Participation Agreements with various business owners within the City. Generally, these agreements require the Agency to remit to these businesses a portion of the sales tax revenue generated by their operations. However, one agreement requires the Agency to remit a percentage of the incremental property tax revenue earned by the Agency, due to the increase in the assessed value of the business property, in addition to a percentage of the sales tax revenue generated by their operations. Most of the agreements provide for limits of the amount of tax that can be remitted back to the business owner, ranging in the aggregate up to a maximum of \$5,839,000. The remaining period of years under these agreements ranges from 1 to 13 years. The Agency remitted approximately \$339,761 during the year ended June 30, 2007, which is included in expenditures of the Operating Fund.

C. Subsequent Event

On August 20, 2007, the City settled a pending case for \$5,200,000. The settlement resulted in the following transactions; the Agency purchased a building and land for \$3,000,000, the City's re-insurers paid \$1,350,000 toward the settlement and the City paid out of its General Fund reserves \$850,000 toward the settlement.

In addition, the City's General Fund, in the form of a short-term advance, loaned the Agency \$2,000,000, at an interest rate of 9%, to purchase the building and land. The Agency has two years to sell the property or obtain private financing to pay back the loan to the City.

REQUIRED SUPPLEMENTARY INFORMATION

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Low-Moderate Income Housing Set-Aside Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2007

	Budget		Actual	Variance
	Original	Final		Positive (Negative)
Revenues:				
Tax increment	\$ 445,632	\$ 445,632	\$ 468,483	\$ 22,851
Use of money and property	20,000	20,000	97,539	77,539
Total Revenues	465,632	465,632	566,022	100,390
Expenditures:				
Community development	266,796	266,796	221,230	45,566
Excess (Deficiency) of Revenues Over (Under) Expenditures	198,836	198,836	344,792	145,956
Other Financing Sources (Uses):				
Transfers in	50,000	50,000		(50,000)
Net Changes in Fund Balance	248,836	248,836	344,792	95,956
Fund Balances, Beginning of Year	1,720,042	1,720,042	1,720,042	
Fund Balances, End of Year	<u>\$ 1,968,878</u>	<u>\$ 1,968,878</u>	<u>\$ 2,064,834</u>	<u>\$ 95,956</u>

See Accompanying Note to Required Supplementary Information.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Operating Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2007

	Budget		Actual	Variance
	Original	Final		Positive (Negative)
Revenues:				
Use of money and property			\$ 18,499	\$ 18,499
Expenditures:				
Current:				
Community development	\$ 716,232	\$ 716,232	994,555	(278,323)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(716,232)	(716,232)	(976,056)	(259,824)
Other Financing Sources (Uses):				
Debt issuance			259,538	259,538
Transfers in	1,208,426	1,208,426	1,353,430	145,004
Net Changes in Fund Balance	492,194	492,194	636,912	144,718
Fund Balances, Beginning of Year	221,635	221,635	221,635	
Fund Balances, End of Year	\$ 713,829	\$ 713,829	\$ 858,547	\$ 144,718

See Accompanying Note to Required Supplementary Information.

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Note to Required Supplementary Information
June 30, 2007

I. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund, function and department. The government's department head, with approval of the Finance Director and City Manager, may make transfers of appropriations within a department. Transfers of appropriations between departments within a fund must be approved by the City Manager. Transfers between funds must be approved by the City Council; therefore, the legal level of budgetary control is at the fund level

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Funds where expenditures exceeded appropriations:

Operating Special Revenue Fund	\$ (278,323)
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SUPPLEMENTARY INFORMATION

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Capital Projects Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2007

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Charges for services	\$ 26,100	\$ 26,100	
Use of money and property		58,543	\$ 58,543
Total Revenues	<u>26,100</u>	<u>84,643</u>	<u>58,543</u>
Expenditures:			
Current:			
Community development	50,000	29,120	20,880
Capital outlay	<u>1,039,373</u>		<u>1,039,373</u>
Total Expenditures	<u>1,089,373</u>	<u>29,120</u>	<u>1,060,253</u>
Net Changes in Fund Balance	(1,063,273)	55,523	1,118,796
Fund Balance, Beginning of Year	<u>2,317,435</u>	<u>2,317,435</u>	
Fund Balance, End of Year	<u><u>\$ 1,254,162</u></u>	<u><u>\$ 2,372,958</u></u>	<u><u>\$ 1,118,796</u></u>

REDEVELOPMENT AGENCY OF THE CITY OF LA HABRA
Debt Service Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2007

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Tax increment	\$ 2,014,609	\$ 2,150,413	\$ 135,804
Use of money and property		14,169	14,169
Total Revenues	<u>2,014,609</u>	<u>2,164,582</u>	<u>149,973</u>
Expenditures:			
Current:			
General government	7,500	6,566	934
Debt service:			
Principal	240,000	240,000	
Interest	558,683	563,683	(5,000)
Total Expenditures	<u>806,183</u>	<u>810,249</u>	<u>(4,066)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,208,426	1,354,333	145,907
Other Financing Sources (Uses):			
Transfers out	<u>(1,208,426)</u>	<u>(1,353,430)</u>	<u>(145,004)</u>
Net Change in Fund Balance		903	903
Fund Balance, Beginning of Year	<u>282,326</u>	<u>282,326</u>	
Fund Balance, End of Year	<u>\$ 282,326</u>	<u>\$ 283,229</u>	<u>\$ 903</u>

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COMPLIANCE SECTION

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December 18, 2007

The Board of Directors of the
La Habra Redevelopment Agency

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance (Including the Provisions Contained in the Guidelines for Compliance Audits of Redevelopment Agencies) and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Agency (Agency) of the City of La Habra, a component unit of the City of La Habra, California, 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, and have issued our report thereon dated December 18, 2007. 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.

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 a combination of control deficiencies, that adversely affects the Agency'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 Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

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 Agency's internal control.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the basic financial statements of the Agency 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, Division of Accounting and Reporting. 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. However, the results of our procedures disclosed immaterial instances of noncompliance with the provisions described in the Guidelines for Compliance Audits of California Redevelopment Agencies, as listed below.

01-07 Health and Safety Code 33333.2 requires that agencies set a time limit not to exceed 30 years on the effectiveness of the redevelopment plans. Eight amended plans (Alpha 1, Alpha 2, Alpha 3, Beta 1, Beta 2, Beta 3, Delta 1, and Gamma 1) exceeded the time limit.

02-07 Health and Safety Code 33333.2 requires that agencies establish time limits on the establishing of loans, advances, and indebtedness to be paid with the proceeds of property taxes received pursuant to Health and Safety Code 33670 and that this time limit shall not exceed 45 years. Eight amended plans (Alpha 1, Alpha 2, Alpha 3, Beta 1, Beta 2, Beta 3, Delta 1, and Gamma 1) exceeded the time limit.

This report is intended for the information of the Board of Directors, management and others within the Agency and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

Marland & Associates, Inc.