NORCO COMMUNITY REDEVELOPMENT AGENCY

REPORT ON AUDIT AND COMPLIANCE

FOR THE YEAR ENDED JUNE 30, 2007

Norco Community Redevelopment Agency
Established January, 1980

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Frank Hall	Vice-Chairperson
Herb Higgins	Board Member
Kathy Azevedo	Board Member
Hal H. Clark	Board Member

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John R. Harper	Agency Attorney
Brian Oulman	Agency Director
Andy Okoro	Agency Finance Director

Norco Community Redevelopment Agency
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Governing Board
Norco Community Redevelopment Agency
Norco, CA 92860

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Norco Community Redevelopment Agency (the Agency), a component unit of the City of Norco, California as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these component unit 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 component unit financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit 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 component unit 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 Norco Community Redevelopment 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 November 5, 2007, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Rogers, Anderson, Malody & Scott, LLP

November 5, 2007

Management's Discussions and Analysis

The management of the Community Redevelopment Agency of the City of Norco (Agency) is pleased to provide an overview of the Agency's financial activities for the fiscal year ended June 30, 2007. This overview information should be read in conjunction with the information presented in the accompanying basic financial statements.

The Purpose of the Agency

The Agency is component unit of the City of Norco; the City controls it and Council Members serve as the Agency's Governing Board of Directors. City employees perform all the duties and functions required of the Agency.

The Agency's purpose under California law is to eliminate urban blight in the City of Norco; it is also given certain powers under the law to assist in that endeavor. The Agency may condemn property under certain circumstances and only to the extent the City may condemn property as prescribed by the law, and it may incur indebtedness to finance redevelopment of property and related projects. The Agency may not assess or receive property taxes, but it may receive any increases in property taxes over amounts received in the year before the property in the Agency's area became subject to redevelopment (called base year). These increases are called Property Tax Increments. One-fifth of property tax increments received must be used to fund programs that increase the supply of low and moderate-income housing. The Agency also has agreements with other pre-existing government entities within its redevelopment area under which it passes through a portion of the property tax increment it receives.

Fiscal Year 2007 Financial Highlights

Financial highlights for fiscal year 2007 include the following:

Agency-wide:

- The Agency's net assets increased by $5.1 million because total revenues received during the fiscal year exceed total program expenses.
- Total Agency revenues were $18.8 million compared total expenses of $13.7 million. Revenues include investment earnings of $2.8 million while expenses include interest on long-term debt of $4.2 million.

Fund Basis:

- Low and Moderate Income Housing Fund revenues were $3.5 million and expenditures were $2.3 million. Total other financing sources exceeded total other financing uses by $.1 million.
- Low and Moderate income Housing Fund ending fund balance increased by $1.4 million to $16.9 million. However, $8.3 million of fund balance is not available for expenditures.
- Combined capital projects and debt service funds expenditures were $14.9 million while revenues were $15.2 million. Revenues include investment earnings of $2.2 million, $11.9 million of tax increment and $1.0 million of intergovernmental revenues. Expenditures include $6.0 million of pass-through payments; $5.2 million of debt service and $3.7 million of other expenditures.

The Basic Financial Statements

The basic financial statements comprise the Agency-wide financial statements and the fund financial statements. These two financial statements provide two different views of the Agency's financial activities and financial position.

The Agency-wide financial statements provide a long-term view of the Agency's activities as a whole and comprise the statement of net assets and statement of activities. The statement of net assets provide information about the financial position of the Agency as a whole, including capital assets and long-term liabilities on a full accrual basis of accounting similar to that used by private-sector companies. The statement of activities provides information about all the Agency's revenues and all its expenses, also on a full accrual basis, with emphasis on measuring net revenues or expenses of all of the Agency's programs. The statement of activities also explains in detail the changes in net assets for the year.

All of the Agency's activities are grouped into governmental funds because they are tax supported.

The fund financial statements report the Agency's operations in more detail than the Agency-wide statements and focus primarily on the short-term activities of the Agency's three funds. The three funds are comprised of a special revenue fund, a capital projects fund and a debt service fund. The fund financial statements measure only current financial resources including revenues, expenditures and fund balances. They exclude capital assets, long-term liabilities and other long-term amounts.

Major funds account for the major financial activities of the Agency and are presented individually, while non-major funds are presented in summary with subordinate schedules presenting the detail for each of these other funds. The Agency reports all three of its funds as major funds. The purpose of each fund is explained in Note 1 to the financial statements.

Agency-wide Financial Statements

The statement of net assets and statement of activities present information about the following:

- **Governmental activities** – All of the Agency's basic services are considered to be governmental activities, including intergovernmental school district pass-through and economic development payments. General Agency revenues consisting primarily of property tax increments and investment earnings support these services.

Agency-wide financial statements are prepared on the accrual basis of accounting, which means the focus is on measuring the flow of all economic resources of the Agency as whole.

Fund Financial Statements

The fund financial statements provide detailed information about each of the Agency's most significant funds, called major funds. The concept of major funds, and determination of which funds are major, was established by Governmental Accounting Standards Board (GASB) Statement 34. This concept replaced the concept of combining like funds and presenting them in total. Under this concept, each major fund is presented individually, with all non-major funds summarized and presented only in a single column. All of the Agency's three funds are presented as major funds.

Since all of the Agency's funds are governmental funds; financial statements for these funds at the fund level are prepared using the modified accrual basis of accounting, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the governmental funds financial statements.

Comparisons of budget and actual financial information are presented only for the low and moderate income housing special revenue fund.

Financial Activities of the Agency as a Whole

The analysis that follows focuses on the changes in the Agency's financial position as reported in the statement of net assets. As previously stated, all of the Agency's financial transactions are presented as governmental activities in the agency-wide statements of net assets and statement of activities.

During the year, the Agency's net assets increased by $5.1 million as a result of program revenues exceeding program expenditures. This change is reflected in the statement of activities. Other financial highlights of the Agency's financial activities include:

- The Agency's total combined net assets for fiscal years ended June 30, 2007 and 2006 were $22.7 million and $27.8 million respectively. The negative net assets position reflects the inclusion in the financial statements the outstanding balance of all long-term debts. The proceeds of these debts are generally used to finance the construction and acquisition of capital assets, which are not included in these financial statements. These capital assets are eventually turned over to the City or to private parties within the redevelopment project area.

Net assets of the Agency are classified as follows:

	2007	2006
NET ASSETS		
Invested in capital assets, net of related debt	$ 3,456,289	$ 1,959,102
Restricted:		
Community Development	17,770,952	16,787,084
Capital Projects	22,967,649	23,188,816
Debt Service	5,122,921	4,990,567
Unrestricted	(71,968,582)	(74,724,664)
Total net assets	$ (22,650,771)	$ (27,799,095)

Liabilities of the Agency are classified as follows:

	2007	2006
LIABILITIES		
Current	$ 4,057,928	$ 3,991,932
Long-term	83,904,627	86,302,737
Total liabilities	$ 87,962,555	$ 90,294,669

- Total long-term debt of $83.9 million including $83.6 million of Tax Allocation Bonds secured by future tax increment revenues.

	2007	2006
ASSETS		
Other Assets	$ 61,855,495	$ 60,536,472
Capital assets	3,456,289	1,959,102
Total assets	$ 65,311,784	$ 62,495,574

- Cash and investments total $44.2 million; total program revenues were $18.8 million and total program expenses were $13.7 million.

Fiscal Year 2007 Governmental Activities

The Agency's fiscal year 2007 revenue of $18.8 million came primarily from property tax increments of $14.6 million. Investment earnings contributed $2.8 million and other revenues were $1.4 million.

Agency expenditures of $13.7 million were primarily for redevelopment activities $3.6 million; pass through payments to various agencies $6.0 million, and debt service payments $4.1 million. The Agency has agreements with the school district and other agencies under which it passes through a portion of the property tax increments that it receives.

Fund Financial Statements

Under the fund financial statements, the Agency reported $1.6 million of excess revenues and other financing sources over expenditures and other financing uses. Excess of revenues and other financing sources over expenditures and other financing uses $1.4 million and $.5 million were reported in the special revenue and capital projects funds respectively. Expenditures and other financing uses exceeded revenues and other financing sources in the debt service fund by $.3 million. The total fund balance at June 30, 2007 was $ 59.4 million compared to $57.8 million at June 30, 2006. It is to be noted that $20.7 million of fund balance is reserved and not readily available for expenditures while $38.7 million is unreserved.

Debt Administration

The Agency has outstanding as of June 30, 2007, Tax Allocation Bonds, Notes and Loans. The Agency's overall debt management strategy is to issue debt when necessary to finance planned capital improvements provided projected future cash flows are sufficient to maintain adequate debt coverage. Debts are refunded from time to time to reduce interest costs. During the fiscal year, the Agency did not undertake any new debt issuance or refunding transaction. Each of the Agency's debt issue is discussed in detail in Note 4 to the financial statements.

Cash Management

To obtain flexibility in cash management, the City of Norco employs a pooled cash system (see the City of Norco Comprehensive Annual Financial Report for the year ended June 30, 2007) in which the Agency participates. The City invests the cash of all funds and component units in eligible securities as constrained by state law and further limited by the City's Investment Policy and bond indentures. The goals of the City of Norco's Investment Policy are safety, liquidity and yield.

Capital Assets

The Agency's capital assets consist of building improvements and construction in progress totaling $3,456,289 net of depreciation recorded for building improvements. This amount is recorded as part of the net capital assets of the Agency in the government-wide financial statements.

Contacting the City

This financial report is designed to provide the citizens of Norco, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need any additional information, contact the Director of Fiscal and Support Services Department, City of Norco, 2870 Clark Avenue, Norco, California 92860, or call (909) 735-3900.

Norco Community Redevelopment Agency
Statement of Net Assets
June 30, 2007

ASSETS	
Cash and investments	$ 19,582,631
Cash with fiscal agents	24,602,754
Receivables:	
Interest	778,130
Loans	8,482,030
Due from other governments	983,183
Deferred charges	1,735,178
Land held for resale	5,691,589
Capital assets, net of depreciation	3,456,289
Total assets	65,311,784
LIABILITIES	
Accounts payable and accrued liabilities	255,530
Accrued interest payable	1,364,580
Retentions payable	47,469
Non-current liabilities:	
Due within one year	2,390,349
Due in more than one year	83,904,627
Total liabilities	87,962,555
NET ASSETS	
Invested in capital assets	3,456,289
Restricted:	
Community development	17,770,952
Capital projects	22,967,649
Debt service	5,122,921
Unrestricted	(71,968,582)
Total net assets	$ (22,650,771)

The accompanying notes are an integral part of these financial statements.

Norco Community Redevelopment Agency
Statement of Activities
For the Year Ended June 30, 2007

EXPENSES	
Governmental activities:	
Community development	$ 3,558,046
Pass-through agreements	5,965,252
Interest on long-term debt	4,159,702
Total program expenses	13,683,000
GENERAL REVENUES	
Taxes:	
Incremental property taxes	14,852,364
Intergovernmental	1,040,107
Investment earnings	2,795,949
Other	142,904
Total general revenues	18,831,324
Change in net assets	5,148,324
Net assets, beginning of year	(27,799,095)
Net assets, end of year	$ (22,650,771)

The accompanying notes are an integral part of these financial statements.

Norco Community Redevelopment Agency
Balance Sheet
Governmental Funds
June 30, 2007

	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and investments	$ 2,585,998	$ 8,155	$ 16,988,478	$ 19,582,631
Cash with fiscal agents	5,905,653	6,495,100	12,202,001	24,602,754
Receivables:				
Interest	151,875	104,165	522,090	778,130
Loans	8,181,396	-	300,634	8,482,030
Due from other governments	69,803	683,495	229,885	983,183
Land held for resale	125,900	-	5,565,689	5,691,589
Total assets	$ 17,020,625	$ 7,290,915	$ 35,808,777	$ 60,120,317
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	$ 37,736	$ -	$ 215,512	$ 253,248
Retentions payable	15,351	-	32,118	47,469
Deposits payable	-	-	2,282	2,282
Loan payable	-	-	389,215	389,215
Total liabilities	53,087	-	639,127	692,214
Fund Balances:				
Reserved for:				
Long term receivables	8,181,396	-	300,634	8,482,030
Land held for resale	125,900	-	5,565,689	5,691,589
Debt service	-	6,487,501	-	6,487,501
Unreserved, reported in:				
Special revenue fund	8,660,242	-	-	8,660,242
Debt service fund	-	803,414	-	803,414
Capital projects fund	-	-	29,303,327	29,303,327
Total fund balances	16,967,538	7,290,915	35,169,650	59,428,103
Total liabilities and fund balances	$ 17,020,625	$ 7,290,915	$ 35,808,777	$ 60,120,317

The accompanying notes are an integral part of these financial statements.

Norco Community Redevelopment Agency
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
For the Year Ended June 30, 2007

Fund balances of governmental funds	$ 59,428,103
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.	3,456,289
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds.	
Deferred charges	1,735,178
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Bonds payable	(85,260,000)
Compensated absences payable	(145,261)
Accrued interest payable	(1,364,580)
Deferred loss on refunding	292,590
Bond premium	(793,090)
Net assets of governmental activities	$ (22,650,771)

The accompanying notes are an integral part of these financial statements.

Norco Community Redevelopment Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Taxes	$ 2,920,961	$ -	$ 11,931,403	$ 14,852,364
Intergovernmental	-	1,040,107	-	1,040,107
Use of money and property	616,781	320,300	1,858,868	2,795,949
Other	120,889	-	22,015	142,904
Total revenues	3,658,631	1,360,407	13,812,286	18,831,324
EXPENDITURES				
Current:				
Economic development	1,226,309	-	2,493,592	3,719,901
Pass-through payments	-	-	5,965,252	5,965,252
Debt service:				
Principal	349,000	1,726,000	-	2,075,000
Interest	680,668	3,470,710	26,586	4,177,964
Total expenditures	2,255,977	5,196,710	8,485,430	15,938,117
Excess of revenues over (under) expenditures	1,402,654	(3,836,303)	5,326,856	2,893,207
OTHER FINANCING SOURCES (USES)				
Transfers to City	-	-	(1,258,787)	(1,258,787)
Transfers in	10,000	3,584,816	-	3,594,816
Transfers out	-	(10,000)	(3,584,816)	(3,594,816)
Total other financing sources (uses)	10,000	3,574,816	(4,843,603)	(1,258,787)
Net change in fund balances	1,412,654	(261,487)	483,253	1,634,420
Fund balances, beginning of year	15,554,884	7,552,402	34,686,397	57,793,683
Fund balances, end of year	$ 16,967,538	$ 7,290,915	$ 35,169,650	$ 59,428,103

The accompanying notes are an integral part of these financial statements.

Norco Community Redevelopment Agency
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 of governmental funds	$ 1,634,420
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 those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of depreciation expense that was exceeded by capital outlays for the period.	1,497,187
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 an effect on net assets.	
Principal payments on debt	2,075,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Accrued interest expense	21,292
Amortization of bond issuance costs	(55,677)
Amortization of deferred charge on refunding	(16,255)
Compensated absences	(20,868)
Amortization of bond premium	38,031
Amortization of bond discount	(24,806)
Change in net assets of governmental activities	$ 5,148,324

The accompanying notes are an integral part of these financial statements.

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Norco Community Redevelopment Agency (the Agency) conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies.

Description of the reporting entity

The Agency is a component unit of a reporting entity which consists of the following oversight and component units:

Reporting Entity:

Oversight Unit:

City of Norco

Component Units:

Norco Community Redevelopment Agency
Norco Financing Authority

Oversight responsibility is determined by such criteria as financial interdependency, selection of governing authority and designation of management, budget control, ability to significantly influence operations, etc.

The component unit financial statements contain information relative only to the Agency as a component unit which is an integral part of the total reporting entity. They do not contain financial data relating to the other reporting unit. The Agency was established on January 2, 1980 pursuant to the State of California Health and Safety Code, Section 33000. Its purpose is to prepare and carry out plans for the improvement, rehabilitation and development of blighted areas within the territorial limits of the City of Norco.

As of June 30, 2007, the Norco Community Redevelopment Project Area No. 1 was the only project area formed by the Agency.

Accounting and reporting policies

The Agency has conformed to the pronouncements of the GASB, which are the primary authoritative statements of accounting principles generally accepted in the United States of America applicable to state and local governments.

Note 1: Summary of Significant Accounting Policies (continued)

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Currently, the Agency does not report any business-type activities.

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 with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the Agency does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances within the Agency have been eliminated on the statement of net assets and the statement of activities.

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 the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 to be *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 generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Note 1: Summary of Significant Accounting Policies (continued)

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Agency reports the following major governmental funds:

The *Low-Moderate Income Housing Special Revenue Fund* is used to account for the portion of the Agency's tax increment that is required to be set aside for low and moderate-income housing and related expenditures.

The *Debt Service Fund* is used to account for the accumulation of resources to be used for the repayment of Agency debt.

The *Capital Projects Fund* is used to account for the financial resources used in developing the project area as well as the administrative expenditures incurred in sustaining Agency activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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

Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to" or "from other funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "advances to" or "advances from" (i.e., the long term portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the Agency does not have any business-type activities.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Note 1: Summary of Significant Accounting Policies (continued)

Property taxes

The County of Riverside collects property taxes for the Agency. Tax liens attach annually as of 12:01 A.M. on the first day in March preceding the fiscal year for which the taxes are levied. The tax levy covers the fiscal period July 1st to June 30th. All secured personal property taxes and one-half of the taxes on real property are due November 1st, the second installment is due February 1st. All taxes are delinquent, if unpaid, on December 10th and April 10th, respectively. Unsecured personal property taxes become due on the first of March each year and are delinquent, if unpaid, on August 31st.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than or equal to $5,000 (amount not rounded) (infrastructure assets $50,000) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the Agency is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	5 - 50
Vehicles and equipment	5 - 20
Infrastructure	10 - 50

Compensated absences

The Agency utilizes the Special Revenue Fund and Capital Projects Fund to account for compensated absences. The short-term portion is determined to be the amount due to employees for future absences which is attributable to services already rendered and which is expected to be paid during the next fiscal year. The total amount of liability for compensated absences is segregated between short-term and long-term as indicated above.

Vacation pay is payable to employees at the time a vacation is taken or upon termination of employment. Normally, an employee cannot accrue more than two times his regular annual entitlement.

Sick leave is payable when an employee is unable to work because of illness. Upon termination, regular employees with 10 years continuous service will be paid 50% for any unused sick leave. Managers and confidential employees with 5 years continuous service are paid 50% for any unused sick leave.

Note 1: Summary of Significant Accounting Policies (continued)

Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities column in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Fund equity

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

Use of estimates

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary data

General Budget Polices

The Governing Board approves each year's budget submitted by the Executive Director prior to the beginning of the new fiscal year. Public hearings are conducted prior to its adoption by the Governing Board. Supplemental appropriations, where required, during the period are also approved by the Board. Intradepartmental budget changes are approved by the Executive Director. In most cases, expenditures may not exceed appropriations at the function level. At fiscal year-end all operating budget appropriations lapse.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level within a department.

Encumbrances

Encumbrances are estimations of costs related to unperformed contracts for goods and services. These commitments are recorded for budgetary control purposes in the governmental funds. Encumbrances outstanding at year-end are reported as a reservation of fund balance. They represent the estimated amount of the expenditure ultimately to result if unperformed contracts in-process at year-end are completed. They do not constitute expenditures or estimated liabilities.

III. DETAIL NOTES ON ALL FUNDS

Note 2: Cash and Investments

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

Statement of net assets:	
Cash and investments	$ 19,582,631
Cash with fiscal agents	24,602,754
Total cash and investments	$ 44,185,385

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

Pooled cash with the City of Norco	$ 3,396,595
Investments	40,788,790
Total cash and investments	$ 44,185,385

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

Currently, the Agency follows the City of Norco's investment policy. The table below identifies the investment types that are authorized for the Agency's investment policy. The table also identifies certain provisions of the Agency's investment policy 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 investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of * Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Securities	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
State of California Obligations	5 years	None	None
Medium-Term Notes	5 years	30%	None
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

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

Note 2: Cash and Investments (continued)

Investments authorized by debt agreements

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	365 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Agreements	None	None	None
Certificates of Deposit, Savings Accounts, etc.	None	None	None
Municipal Obligations	None	None	None
Repurchase Agreements	None	None	None
State Investment Pools	None	None	None

Disclosures relating to interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the 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.

Information about the sensitivity of the fair values of the Agency's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

		Remaining Maturity (in months)			
Investment Type	Total	12 months or less	13 to 24 months	25 to 60 months	More than 60 months
State investment pool	$ 16,186,036	$ 16,186,036	$ -	$ -	$ -
Held by bond trustee:					
Money market funds	2,014,045	2,014,045	-	-	-
Investment contracts	6,128,973	-	-	-	6,128,973
Federal agency securities	16,459,736	7,265,000	9,194,736	-	-
	$ 40,788,790	$ 25,465,081	$9,194,736	$ -	$ 6,128,973

Note 2: Cash and Investments (continued)

Disclosures relating to credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Agency's investment policy or debt agreements, and the actual rating as of year end for each investment type.

Investment Type	Total	Minimum Legal Rating	Rating as of Year End	Not Rated
State investment pool	$ 16,186,036	N/A	-	$ 16,186,036
Held by bond trustee:				
Money market funds	2,014,045	AAA/Aa	AAA	-
Investment contracts	6,128,973	N/A	-	-
Federal agency securities	16,459,736	N/A	AAA	-
	$ 40,788,790			

Concentration of credit risk

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Agency investments are as follows:

Issuer	Investment Type	Reported Amount
Federal Home Loan Agency	Federal agency securities	$ 7,265,000
Federal National Mortgage Association	Federal agency securities	$ 9,194,736

Note 2: Cash and Investments (continued)

Custodial credit risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (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 City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2007, $1,180,557 of the City of Norco's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

Investment in State investment pool

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that 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.

LAIF is a governmental investment pool managed and directed by the California State Treasurer and is not registered with the Securities and Exchange Commission. An oversight committee comprised of California State officials and various participants provide oversight to the management of the fund. The daily operations and responsibilities of LAIF fall under the auspices of the State Treasurer's office. The maximum investment in LAIF is $40,000,000.

Fair value of investments

GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the Agency reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized, as revenue in the operating statement.

Note 3: Capital Assets

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

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	$ 1,204,501	$ 1,807,343	$ 256,087	$ 2,755,757
Total capital assets, not being depreciated	1,204,501	1,807,343	256,087	2,755,757
Capital assets, being depreciated:				
Building and improvements	60,862	-	-	60,862
Equipment	405,386	-	-	405,386
Infrastructure	507,000	-	-	507,000
Total capital assets, being depreciated	973,248	-	-	973,248
Less accumulated depreciation for:				
Building and improvements	(60,862)	-	-	(60,862)
Equipment	(56,385)	(20,269)	-	(76,654)
Infrastructure	(101,400)	(33,800)	-	(135,200)
Total accumulated depreciation	(218,647)	(54,069)	-	(272,716)
Total capital assets, being depreciated, net	754,601	(54,069)	-	700,532
Governmental activities capital assets, net	$ 1,959,102	$ 1,753,274	$ 256,087	$ 3,456,289

Depreciation expense is charged to community development in the statement of activities.

Note 4: Long-Term Debt

a. A description of individual issues of bonds, notes and loans outstanding during the fiscal year ending June 30, 2007 are as follows:

In May 1998, the Agency received a loan of $2,139,068 from Riverside County Transportation Commission through the City. The Agency was originally responsible for repayment of construction costs related to the interchange as defined by the Right-of-Way Cooperative Agreement. Under the existing loan agreement, the City's General Fund will be negatively impacted by diversion of Measure A Funds for repayment of the loan. The Agency will be required to repay the City's annual debt principal and interest semi-annually on June 1 and December 1 at a rate from 3.75% to 4.75% commencing December 1, 1997 through June 1, 2009.

Note 4: Long-Term Debt (continued)

In June 2000, the Agency issued Norco Redevelopment Project Area No. 1 Tax Allocation Bonds, Issue of 2000, in an aggregate principal amount of $2,425,000. The bonds are dated June 1, 2000 with interest paid at a rate from 4.25% to 5.78% semi-annually on March 1 and September 1 in each year, commencing on March 1, 2001. The purpose of these bonds was to fund projects undertaken for redevelopment purposes.

In December 2001, the Agency issued Norco Redevelopment Project Area No. 1 Refunding Tax Allocation Bonds, Issue of 2001, in an aggregate principal amount of $36,000,000. The Bonds are dated December 1, 2001 with interest paid at a rate from 2.10% to 5.125% payable semiannually on March 1 and September 1, commencing on March 1, 2002. The purpose of these bonds were to defease $18,310,000 of the Refunding Tax Allocation Bonds, Issue of 1992 and to fund projects undertaken for redevelopment purposes. Proceeds from the sale were placed in an irrevocable trust that is to be used to service the future debt service requirements of the old debt.

In December 2001, the Agency issued Norco Redevelopment Project Area No. 1 Tax Allocation Refunding Bonds (School District Pass-Through), Issue of 2001, in an aggregate principal amount of $5,100,000. The Bonds are dated December 1, 2001 with interest paid at a rate from 2.50% to 5.50% payable semiannually on March 1 and September 1, commencing on March 1, 2002. The Bonds were issued to refund on a current basis a portion of the Norco Redevelopment Project Area No. 1, School District Capital Appreciation Tax Allocation Bonds, Issue of 1992. The Bonds were issued concurrently with and on a senior lien basis to the $3,375,000 Norco Redevelopment Project Area No. 1 Subordinated Tax Allocation Refunding Notes (School District Pass-Through), Issue of 2001 (the Notes). The proceeds from the sale were placed in an irrevocable trust along with the proceeds of the Notes to be used to service the future debt service requirements of the old debt. The Bonds are limited obligations of the Agency payable solely from Pledged Tax Revenues otherwise required by the Pass-Through Agreement to be passed through to the Corona Norco Unified School District.

In July 2003, the Agency issued Norco Redevelopment Project Area No. 1 Tax Allocation Bonds, Issue of 2003, in an aggregate principal amount of $21,500,000. The bonds are dated July 1, 2003 with interest paid at a rate from 2.00% to 4.75% semi-annually on March 1 and September 1 in each year, commencing on September 1, 2003. The purpose of these bonds was to fund projects undertaken for redevelopment purposes.

In November 2004, the Agency issued Norco Redevelopment Project Area No. 1 Tax Allocation Refunding Bonds (School District Pass-through), Issue of 2004, in the aggregate principal of $11,250,000. The bonds are dated November 22, 2004 with interest paid at a rate from 1.75% to 4.50% semi-annually on March 1 and September 1 each year, commencing on March 1, 2006. The bonds were issued on a parity basis with the Agency's previously issued Norco Redevelopment Project Area No. 1, Tax Allocation Refunding Bonds (School District Pass-through), Issue of 2001, to refund on a current basis the $3,375,000 Norco Redevelopment Project Area No. 1 Subordinated Tax Allocation Refunding Notes (School District Pass-through), Issue of 2001. The bonds were also issued to fund projects undertaken for redevelopment purposes.

Note 4: Long-Term Debt (continued)

In December 2005, the Agency issued Norco Redevelopment Project Area No. 1 Refunding Tax Allocation Bonds, Issue of 2005, in the aggregate principal of $17,245,000. The bonds are dated December 7, 2005 with interest paid at a rate from 3.00% to 4.35% semi-annually on March 1 and September 1 each year, commencing on March 1, 2006. The bonds were issued on a parity basis with the Agency's previously issued Norco Redevelopment Project Area No. 1, 2000 Tax Allocation Bonds, Norco Redevelopment Project Area No. 1, 2001 Refunding Tax Allocation Bonds and Norco Redevelopment Project Area No. 1, 2003 Tax Allocation Bonds to refund on a current basis the $16,335,000 Norco Redevelopment Project Area No. 1, 1996 Refunding Tax Allocation Bonds. The bonds were issued to reduce future debt service payments. A portion of the bond proceeds from the sale were placed in an irrevocable trust to be used to service the future debt service requirements of the old debt.

The reacquisition price exceeded the net carrying amount of the old debt by $325,100. This amount is being netted against the new debt and being amortized over the remaining life of the refunded debt. The advance refunding resulted in a decrease in debt service payments over the next 20 years of $1,257,574 and resulted in an economic gain of $888,220.

b. The Agency has issued $1,915,000 of Certificates of Participation which have not been reflected in the statement of net assets because these bonds are special obligations payable solely from and secured by specific revenue sources described in the resolutions and official statements of the respective issues. Neither the faith and credit nor the taxing power of the City, the Agency, the State of California or any political subdivision thereof, is pledged for the payment of these certificates of participation.

Note 4: Long-Term Debt (continued)

c. The following is a schedule of changes in long-term debt of the Agency for the fiscal year ended June 30, 2007:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Bonds:					
2000 Tax allocation bonds	$ 2,155,000	$ -	$ 45,000	$ 2,110,000	$ 50,000
2001 Refunding tax allocation bonds	32,810,000	-	1,120,000	31,690,000	1,160,000
2001 Refunding tax allocation bonds (School district)	4,550,000	-	100,000	4,450,000	105,000
2003 Tax allocation bonds	19,905,000	-	525,000	19,380,000	530,000
2004 Tax allocation refunding bonds (School district pass-through)	10,890,000	-	230,000	10,660,000	235,000
2005 Refunding tax allocation bonds	17,025,000	-	55,000	16,970,000	55,000
Subtotal bonds	87,335,000	-	2,075,000	85,260,000	2,135,000
Plus deferred amounts:					
For deferred loss on refunding	(308,845)	-	(16,255)	(292,590)	-
For issuance premium	831,121	-	38,031	793,090	-
Total bonds	87,857,276	-	2,096,776	85,760,500	2,135,000
Loans:					
City of Norco (RCTC Loan)	599,972	-	210,757	389,215	219,034
Compensated absences	124,393	97,275	76,407	145,261	36,315
Total long-term debt	$ 88,581,641	$ 97,275	$ 2,383,940	$ 86,294,976	$ 2,390,349

Note 4: Long-Term Debt (continued)

d. The following schedules illustrate the debt service requirements to maturity for bonds and loans outstanding as of June 30, 2007:

Fiscal Years Ending June 30,	Tax Allocation Bonds	
	Principal	Interest
2008	$ 2,135,000	$ 4,093,740
2009	2,205,000	4,024,325
2010	2,285,000	3,944,031
2011	2,375,000	3,854,848
2012	2,470,000	3,759,059
2013-2017	14,120,000	17,026,386
2018-2022	17,935,000	13,218,589
2023-2027	22,890,000	8,324,312
2028-2032	18,845,000	2,184,544
Total	$ 85,260,000	$ 60,429,834

Fiscal Years Ending June 30,	City of Norco (RCTC Loan)	
	Principal	Interest
2008	$ 219,034	$ 18,488
2009	170,181	8,084
Total	$ 389,215	$ 26,572

Note 5: Defeasance of Debt

In prior years, the Agency defeased certain debt issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds and notes. Accordingly, the trust account assets and the liability for the defeased bonds and notes are not included in the Agency's financial statements. As of June 30, 2007, the 1989 Tax Allocation Bonds of $20,240,000, the 1992 Subordinated Tax Allocation Notes of $12,000,000, the 1992 School District Capital Appreciation TAB's, the 1992 Refunding Tax Allocation Bonds of $19,730,000 and the 1996 Refunding Tax Allocation Bonds of $16,335,000 are considered defeased.

Note 6: Loans Receivable

On October 17, 2001, the Agency entered into a Loan Agreement with the City, where the Agency was to advance up to $500,000 to the City for site work at Ingalls Park. The Agreement was later amended to increase the advance to $700,000. Interest shall accumulate on the unpaid loan principal at 5% from the date of the loan inception to June 30, 2008, and at that time annual payments are to begin from accumulated DAG Fees collected by the City during the development of the Norco Ridge Ranch Project. The loan balance as of June 30, 2007 is $300,634.

On May 22, 2007, the Agency entered into a Loan Agreement with a Developer to provide a loan of $5,100,000 to provide a portion of the funds to finance the rehabilitation and conversion of eighty-six units of low-and very-low income housing units in Heritage Park Senior Citizen Apartment Complex. The financial assistance is in the form of a residual receipts loan which is to be repaid over a fifty-seven year affordability covenant period. The Loan is secured by a Second Deed of Trust against the property. The loan payments are 50% of the residual receipts with simple interest at 1%. The complex will remain as a low/moderate income senior housing complex over the entire term of the loan.

Deferred loans receivable

The Agency administers several deferred loan programs to its low to moderate-income residents. Balances under the Sewer Connection Fee Program are forgiven after fifteen years with the loan amount equal to the actual cost. Due to the nature of this program and the probability of forgiveness of these loans, they are not reflected on the financial statements as receivables.

First time home buyer loans are available to qualifying low to moderate-income residents with a maximum loan amount of $80,000. Loans are due in 30 years or upon sale of property. Additionally, loans for nonrecurring closing costs up to 2% of purchase price are available. These are due and payable in five years or upon sale of property. Deferred loans are available to qualifying residents with a maximum loan amount of $40,000, up to $60,000 with executive approval. Loans are due in 15 years or upon sale of property. For seniors and the disabled, the loan is not payable until sale of the property. Interest on all loans accrues at 0% to 3% per year, with 0% loans available for qualified seniors and handicapped disabled owner occupants. The 3% loan is available to qualified households without an age restriction. As of June 30, 2007, the loans amounted to $3,081,396.

As of June 30, 2007, total loans receivable were as follows:

City of Norco	$ 300,634
Deferred Loans	3,081,396
Developer Loans	5,100,000
Totals	$ 8,482,030

Note 7: Risk Management

The Agency is a member of the Public Entity Risk Management Authority (a joint powers authority of 18 California Cities and 8 special districts) for the purpose of pooling the losses and claims of general liability with those of other member cities and agencies. The Agency, through the Authority, has a self-insured retention amount of $125,000 per occurrence. Claims above the $125,000 up to $1,000,000 are shared by the pool. Claims above $1,000,000 up to $40,000,000 are covered by excess insurance purchased through the pool.

Note 8: Allowance for Decline in Value

The Agency has acquired several parcels of land as part of its primary purposes. The Agency records these parcels as land held for resale in its financial records. The properties are being carried in the Capital Projects and Special Revenue Funds at the lower of cost or estimated net realizable value, until such time as there is an event which would indicate an agreed-upon sales price. At June 30, 2007, the land held for resale is being carried at a cost of $5,850,695, and is offset by a reservation of fund balance.

Note 9: Interfund Transfers

Fund receiving transfers	Fund making transfers	Amount
Redevelopment Debt Service	Redevelopment Capital Projects	$ 3,584,816 (1)
Redevelopment Special Revenue	Redevelopment Debt Service	10,000 (1)
Total transfers in		$ 3,594,816

(1) = These transfers were made to pay debt service.

Note 10: Contingencies

As of June 30, 2007, in the opinion of the Agency's Administration, there are no outstanding matters which would have a significant effect on the financial position of the Agency.

Required Supplementary Information
Norco Community Redevelopment Agency
Budgetary Comparison Schedule - Special Revenue Fund
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Taxes	$ 2,387,880	$ 2,387,880	$ 2,920,961	$ 533,081
Use of money and property	185,400	185,400	616,781	431,381
Other	75,000	75,000	120,889	45,889
Total revenues	2,648,280	2,648,280	3,658,631	1,010,351
EXPENDITURES				
Current:				
Economic development	5,834,114	5,903,674	1,226,309	4,677,365
Debt service:				
Principal	349,000	349,000	349,000	-
Interest	681,916	681,916	680,668	1,248
Total expenditures	6,865,030	6,934,590	2,255,977	4,678,613
Excess of revenues over (under) expenditures	(4,216,750)	(4,286,310)	1,402,654	5,688,964
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	10,000	10,000
Total other financing sources (uses)	-	-	10,000	10,000
Net change in fund balance	(4,216,750)	(4,286,310)	1,412,654	5,698,964
Fund balance, beginning of year	15,554,884	15,554,884	15,554,884	-
Fund balance, end of year	$ 11,338,134	$ 11,268,574	$ 16,967,538	$ 5,698,964

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Governing Board
Norco Community Redevelopment Agency
Norco, CA 92860

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

We have audited the financial statements of Norco Community Redevelopment Agency (the Agency) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 5, 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 purposes 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 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.

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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 Norco Community Redevelopment Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller. 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, others within the organization, and the State Controller and is not intended to be and should not be used by anyone other than these specified parties.

Rogers, Anderson, Malody & Scott, LLP

November 5, 2007