NORCO COMMUNITY REDEVELOPMENT AGENCY

(A Component Unit of the City of Norco)

REPORT ON AUDIT AND COMPLIANCE

FOR THE YEAR ENDED JUNE 30, 2011

Norco Community Redevelopment Agency
Established January, 1980

GOVERNING BOARD

Berwin Hanna	Chairperson
Kevin Bash	Vice-Chairperson
Kathy Azevedo	Board Member
Greg Newton	Board Member
Harvey Sullivan	Board Member

OTHER OFFICIALS

Beth Groves	Executive Director
Brenda Jacobs	Secretary
John R. Harper	Agency Attorney
Andy Okoro	Agency Finance Director

Norco Community Redevelopment Agency
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CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

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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, each major fund and the aggregate remaining fund information 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, 2011, 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 misstatement. 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, each major fund and the aggregate remaining fund information of the Norco Community Redevelopment Agency as of June 30, 2011, 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.

As explained in Note 13 of these financial statements, it is uncertain as to the future continuation of redevelopment agencies in the State of California as a result of certain legislative actions enacted by the California State Legislature.

During the year under audit, the Agency adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Rogers, Anderson, Malody & Scott, LLP

November 22, 2011

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, 2011. 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 a 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 project 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 2011 Financial Highlights

Financial highlights for fiscal year 2011 include the following:

Agency-wide:

- The Agency's net assets decreased by $8.4 million because total expenses incurred during the fiscal year exceeded total program revenues. The amount of expenditures was due mainly to the loss recognition of $5.9 million for the transfer of land to the City; debt service repayments; and pass-through payments to other taxing entities as a result of changes in the tax increment sharing formula between the Agency and other taxing entities.
- Total Agency revenues were $17.5 million compared to total expenses of $25.8 million. Revenues include investment earnings of $0.3 million while expenses include interest on long-term debt of $5.2 million.

Fund Basis:

- Low and Moderate Income Housing Fund revenues were $3.1 million and expenditures were $1.9 million.
- Low and Moderate Income Housing Fund ending fund balance increased by $1.1 million to $21.7 million. Low and Moderate Income Housing Fund balance of $21.7 million is restricted by the California Health and Safety Code which can only be used for certain eligible expenditures.
- Combined capital projects and debt service funds expenditures were $23.3 million while revenues were $13.9 million. Revenues include investment earnings of $0.3 million, $11.6 million of tax increment and $2.0 million of intergovernmental and other revenues. Expenditures include $8.4 million of pass-through payments; $5.9 million of debt service; and $9.0 million of capital project 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 four funds. The four funds are comprised of two special revenue funds, 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 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 activities.

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 a 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. The Agency presents three funds 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 statement of net assets and statement of activities.

During the year, the Agency's net assets decreased by $8.4 million as a result of program expenses exceeding program revenues. 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, 2011 and 2010 were $(50.7) million and $(42.3) million respectively. The negative net assets position reflects the inclusion in the financial statements of 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:

	2011	2010
Invested in capital assets, net of related debt	$ 484,603	$ 538,324
Restricted for:		
Community Development	20,522,304	24,287,604
Capital Projects	3,429,397	13,326,872
Debt Service	7,876,763	5,709,832
Unrestricted	(83,001,979)	(86,182,704)
Total net assets	$ (50,688,912)	$ (42,320,072)

Liabilities of the Agency are classified as follows:

	2011	2010
Current	$ 3,295,719	$ 3,875,448
Long-term	90,804,312	90,804,312
Total liabilities	$ 94,100,031	$ 94,679,760

Total long-term debt of $90.8 million includes $90.8 million of long-term Tax Allocation Bonds secured by future tax increment revenues.

Assets of the Agency are classified as follows:

	2011	2010
Other Assets	$ 42,926,516	$ 51,821,364
Capital Assets, net	484,603	538,325
Total assets	$ 43,411,119	$ 52,359,689

Cash and investments total $25.6 million; total general revenues were $17.5 million; and total program expenses were $25.8 million.

Fiscal Year 2011 Governmental Activities

The Agency's fiscal year 2011 revenue of $17.5 million came primarily from property tax increments of $14.4 million. Investment earnings contributed $0.3 million and intergovernmental plus other revenues were $2.7 million.

Agency expenses of $25.8 million were primarily for redevelopment activities; $12.2 million for community development; pass through payments to various agencies of $8.4 million, and interest expense of $5.1 million. The Agency has agreements with the school district and other agencies under which it passes through a portion of the property tax increment that it receives.

Fund Financial Statements

Under the fund financial statements, the Agency reported $9.9 million of excess expenditures and other financing uses over revenues and other financing sources. Total excess of other financing uses over other financing sources were $2.1 million. Expenditures and other financing uses exceeded revenues and other financing sources in the debt service and capital projects funds by $1.0 million and $10.5 million respectively. The total fund balance at June 30, 2011 was $39.6 million compared to $49.5 million at June 30, 2010. It is to be noted the fund balance of $39.6 million is restricted for expenditures regulated by the California Health and Safety Code, and $7.9 million of that fund balance is committed for debt payments.

Debt Administration

The Agency has outstanding Tax Allocation Bonds as of June 30, 2011. 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 2010 fiscal year, the Agency issued Norco Redevelopment Project Area No. One Refunding Tax Allocation Bonds – Issue of 2010 in the aggregate amount of $24.5 million to current and advance refund existing debt at the time and improve future cash flows. Each of the Agency's debt issues are 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, 2011) 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 equipment totaling $484,603 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 Deputy City Manager/Director of Finance, City of Norco, 2870 Clark Avenue, Norco, California 92860, or call (909) 735-3900.

Norco Community Redevelopment Agency
Statement of Net Assets
June 30, 2011

ASSETS	
Cash and investments	$ 9,922,763
Cash with fiscal agents	15,696,192
Receivables:	
Accounts	7,128
Interest	80,351
Loans	10,544,315
Due from other governments	193,814
Deferred charges	1,713,078
Land held for resale	4,768,875
Capital assets, net of depreciation	484,603
Total assets	43,411,119
LIABILITIES	
Accounts payable and accrued liabilities	619,159
Accrued interest payable	1,684,314
Retentions payable	75,664
Deferred revenue	3,343
Due to the City	913,239
Non-current liabilities:	
Due within one year	2,018,100
Due in more than one year	88,786,212
Total liabilities	94,100,031
NET ASSETS	
Invested in capital assets	484,603
Restricted for:	
Community development	20,522,304
Capital projects	3,429,397
Debt service	7,876,763
Unrestricted	(83,001,979)
Total net assets	$ (50,688,912)

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

Norco Community Redevelopment Agency
Statement of Activities
For the Year Ended June 30, 2011

EXPENSES		
Governmental activities:		
Community development	$	12,240,584
Pass-through agreements		8,413,267
Interest on long-term debt		5,171,019
Total program expenses		25,824,870
GENERAL REVENUES		
Taxes:		
Incremental property taxes		14,424,830
Intergovernmental		2,605,636
Investment earnings		286,518
Other		139,046
Total general revenues		17,456,030
Change in net assets		(8,368,840)
Net assets, beginning of year		(42,320,072)
Net assets, end of year	$	(50,688,912)

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

Norco Community Redevelopment Agency
Balance Sheet
Governmental Funds
June 30, 2011

	Special Revenue	Debt Service	Capital Projects	Non-major Special Revenue	Total Governmental Funds
ASSETS					
Cash and investments	$ 3,918,794	$ -	$ 6,003,969	$ -	$ 9,922,763
Cash with fiscal agents	1,707,379	7,815,188	6,173,625	-	15,696,192
Receivables:					
Accounts	-	-	7,128	-	7,128
Interest	14,706	61,575	4,070	-	80,351
Loans	9,648,759	-	387,482	508,074	10,544,315
Due from other governments	54,882	-	78,698	60,234	193,814
Advances to other funds	3,000,000	-	-	-	3,000,000
Land held for resale	3,369,583	-	1,399,292	-	4,768,875
Total assets	$ 21,714,103	$ 7,876,763	$ 14,054,264	$ 568,308	$ 44,213,438
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	$ 35,120	$ -	$ 581,757	$ -	$ 616,877
Retentions payable	25,435	-	32,708	17,521	75,664
Due to City	31	-	870,495	42,713	913,239
Deferred revenue	3,343	-	-	-	3,343
Deposits payable	-	-	2,282	-	2,282
Advances from other funds	-	-	3,000,000	-	3,000,000
Total liabilities	63,929	-	4,487,242	60,234	4,611,405
Fund Balances:					
Restricted for:					
Loans and advances	12,648,759	-	387,482	447,840	13,484,081
Land held for resale	3,369,583	-	1,399,292	-	4,768,875
Low-Mod Housing	5,631,832	-	7,780,248	-	13,412,080
Grantors	-	-	-	60,234	60,234
Debt Service	-	7,876,763	-	-	7,876,763
Total fund balances	21,650,174	7,876,763	9,567,022	508,074	39,602,033
Total liabilities and fund balances	$ 21,714,103	$ 7,876,763	$ 14,054,264	$ 568,308	$ 44,213,438

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
June 30, 2011

Fund balances of governmental funds	$	39,602,033
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.		484,603
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Deferred charges		1,713,078
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Bonds payable		(93,415,000)
Accrued interest payable		(1,684,314)
Deferred loss on refunding		2,313,868
Issuance discount		525,381
Bond premium		(228,561)
Net assets of governmental activities	$	(50,688,912)

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, 2011

	Special Revenue	Debt Service	Capital Projects	Nonmajor Special Revenue	Total Governmental Funds
REVENUES					
Taxes	$ 2,825,686	$ -	$ 11,599,144	$ -	$ 14,424,830
Intergovernmental	140,594	-	1,982,339	482,703	2,605,636
Investments earnings	30,850	209,455	46,080	133	286,518
Other	69,178	3,685	66,183	-	139,046
Total revenues	3,066,308	213,140	13,693,746	482,836	17,456,030
EXPENDITURES					
Current:					
Economic development	989,263	-	9,012,658	1,689	10,003,610
Pass-through payments	-	-	8,413,267	-	8,413,267
Debt service:					
Principal	274,000	1,671,000	-	-	1,945,000
Interest	675,667	4,182,055	-	-	4,857,722
Total expenditures	1,938,930	5,853,055	17,425,925	1,689	25,219,599
Excess of revenues over (under) expenditures	1,127,378	(5,639,915)	(3,732,179)	481,147	(7,763,569)
OTHER FINANCING SOURCES (USES)					
Transfers (to)/from City	-	-	(2,120,969)	-	(2,120,969)
Transfers in	-	4,679,081	-	-	4,679,081
Transfers out	-	-	(4,679,081)	-	(4,679,081)
Total other financing sources (uses)	-	4,679,081	(6,800,050)	-	(2,120,969)
Net change in fund balances	1,127,378	(960,834)	(10,532,229)	481,147	(9,884,538)
Fund balances, beginning of year	20,522,796	8,837,597	20,099,251	26,927	49,486,571
Fund balances, end of year	$ 21,650,174	$ 7,876,763	$ 9,567,022	$ 508,074	$ 39,602,033

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, 2011

Net change in fund balances of governmental funds	$	(9,884,538)
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 exceeded capital outlays for the period.		(53,721)
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		1,945,000
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.		
Change in accrued interest expense		(156,108)
Amortization of bond issuance costs		(87,573)
Amortization of deferred charge on refunding		(126,060)
Amortization of bond premium		16,325
Amortization of bond discount		(22,165)
Change in net assets of governmental activities	$	(8,368,840)

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, 2011, 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 non-fiduciary activities of the reporting entity. For the most part, the effect of inter-fund 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 segments 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 inter-fund 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.

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. It is also the Agency's policy to consider committed amounts as being reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balances classifications could be used.

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

Activities 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 "due from other funds" (i.e., the current portion of inter-fund loans). All other outstanding balances between funds are reported as "advances to" or "advances from" (i.e., the long term portion of inter-fund 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.

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 are 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 Internal Service Fund of the City 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 up to a maximum of 90 days of sick time. Managers and confidential employees with 5 years continuous service are paid 50% for any unused sick leave up to a maximum of 90 days of sick time.

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

Beginning with the current fiscal year, the Agency implemented GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

> Non-spendable – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.
>
> Restricted – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions or by enabling legislation.
>
> Committed – amounts constrained to specific purposes by a government itself, using the highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
>
> Assigned – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
>
> Unassigned – amounts that are for any purpose; positive amounts are reported only in a general fund.

The Agency's Board establishes, modifies and/or rescinds fund balance commitments by passage of an ordinance or resolution.

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 were lapsed.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the fund 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 represent the estimated amount of the expenditures 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, 2011 are classified in the accompanying financial statements as follows:

Statement of net assets:		
Cash and investments (pooled with City)	$	9,922,763
Cash with fiscal agents		15,696,192
Total cash and investments	$	25,618,955

Cash and investments as of June 30, 2011 consist of the following:

Pooled cash with the City of Norco	$	142,508
Investments		25,476,447
Total cash and investments	$	25,618,955

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
Bankers' 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
Bankers' 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 or less	13 to 24	25 to 60	More than 60
State investment pool	$ 9,625,809	$ 9,625,809	$ -	$ -	$ -
Certificates of deposit	154,445	94,550	59,895	-	-
Held by bond trustee:					
Money market funds	741,845	741,845	-	-	-
Investment contracts	3,243,016	-	-	734,450	2,508,566
Comercial paper	3,963,000	-	-	3,963,000	-
Federal agency securities	7,748,332	7,748,332	-	-	-
Totals	$ 25,476,447	$ 18,210,536	$ 59,895	$ 4,697,450	$ 2,508,566

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	$ 9,625,809	N/A	-	$ 9,625,809
Certificates of deposit	154,445	N/A	-	154,445
Held by bond trustee:				
Money market funds	741,845	AAA/Aa	AAA	-
Investment contracts	3,243,016	N/A	-	-
Commercial paper	3,963,000	N/A	A-1+/P-1/F-	-
Federal agency securities	7,748,332	N/A	AAA	-
Total	$ 25,476,447			

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
US Bank	Commercial Paper	$ 3,963,000
Federal Home Loan Banks	Federal Agency Securities	7,748,332

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, 2011, the City of Norco had no deposits with financial institutions in excess of federal depository insurance limits.

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 $50,000,000.

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, 2011, was as follows:

Governmental activities:	Beginning balance	Additions	Deletions	Ending balance
Capital assets, being depreciated:				
Building and improvements	$ 60,862	$ -	$ -	$ 60,862
Vehicle and 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)
Vehicle and equipment	(137,462)	(20,269)	-	(157,731)
Infrastructure	(236,600)	(33,452)	-	(270,052)
Total accumulated depreciation	(434,924)	(53,721)	-	(488,645)
Governmental activities capital assets, net	$ 538,324	$ (53,721)	$ -	$ 484,603

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, 2011 are as follows:

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. The bonds were refunded in April 2010 with proceeds from the 2010 Refunding Tax Allocation Bonds.

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.

Note 4: Long-Term Debt (continued)

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% semiannually 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. The bonds were advanced refunded in April 2010 with proceeds from the 2010 Refunding Tax Allocation Bonds.

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% semiannually 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.

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% semiannually 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.

Note 4: Long-Term Debt (continued)

In April 2009, the Agency issued Norco Redevelopment Project Area No. 1 Tax Allocation Bonds (School District Pass-through), Issue of 2009, in an aggregate principal amount of $12,200,000. The Bonds are dated March 1, 2009 with interest paid at a rate from 3.25% to 7.15% payable semiannually on March 1 and September 1, commencing on March 1, 2010. 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, and with the Agency's previously issued Norco Redevelopment Area No. 1 Tax Allocation Refunding Bonds (School District Pass-through), Issue of 2004. 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 April 2010, the Agency issued Norco Redevelopment Project Area No. 1 Refunding Tax Allocation Bonds, Issue of 2010, in the aggregate principal of $24,500,000. The bonds are dated May 11, 2010 with interest paid at a rate from 2.15% to 6.14% semiannually on March 1 and September 1 each year, commencing on March 1, 2011. 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 $1,955,000 Norco Redevelopment Project Area No. 1, 2000 Tax Allocation Bonds, to advance refund the $28,065,000 Norco Redevelopment Project Area No. 1, 2005 Refunding Tax Allocation Bonds, to fund capitalized interest and the Reserve Account, and to finance the Project Area. The bonds were issued to reduce volatility in future debt service payment requirements in an effort to improve future cash flows. 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 $2,196,103. 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 an increase in debt service payments over the next 25 years of $22,802,534 and resulted in an economic loss of $4,112,492.

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, 2011:

	Beginning balance	Additions	Deletions	Ending balance	Due within one year
Bonds					
2001 Refunding tax. allocation bonds	$ 28,065,000	$ -	$ 1,305,000	$ 26,760,000	$ 1,365,000
2001 Refunding tax allocation bonds (School district)	4,120,000	-	120,000	4,000,000	125,000
2004 Tax allocation refunding bonds (School district pass-through)	9,940,000	-	255,000	9,685,000	260,000
2005 Refunding tax allocation bonds	16,805,000	-	65,000	16,740,000	65,000
2009 Tax allocation bonds (School district pass-through)	11,930,000	-	200,000	11,730,000	215,000
2010 Refunding tax allocation bonds	24,500,000	-	-	24,500,000	120,000
Subtotal bonds	95,360,000	-	1,945,000	93,415,000	2,150,000
Plus deferred amounts					
For deferred loss on refunding	(2,439,928)	-	(126,060)	(2,313,868)	(126,060)
For issuance premium	244,886	-	16,325	228,561	16,325
For issuance discount	(547,546)	-	(22,165)	(525,381)	(22,165)
Total bonds	92,617,412	-	1,813,100	90,804,312	2,018,100
Total long-term debt	$ 92,617,412	$ -	$ 1,813,100	$ 90,804,312	$ 2,018,100

The Agency has pledged 100% of future tax increment revenue (less amounts payable by or required to be set-aside by the Agency under any pass-through agreements and by the amount required to be set-aside for low and moderate housing as required by the California Health and Safety Code) as security for the bonds (as listed below) in the amount of $170,486,795 (total principal and interest). The Agency prefunded the low and moderate housing set-aside with proceeds from the debt for the 2000, 2001, 2003 and 2005 bonds, so 20% of the debt service payments are made from the funds set-aside in the Housing Fund. For the School District bonds as indicated below the Agency has pledged the amount of the annual pass-through to the School District to repay the bonds.The pledges are considered outstanding for the duration of the debt service requirements. Total pledged revenues for the fiscal year ended June 30, 2011, totaled $16,407,169 with the required debt service amount of $6,802,722 for the following Bonds:

2001 Refunding tax allocation bonds
2005 Refunding tax allocation bonds
2010 Refunding tax allocation bonds

2001 Refunding tax allocation bonds (School District)
2004 Tax allocation refunding bonds (School District)
2009 Tax allocation bonds (School District pass-through)

Note 4: Long-Term Debt (continued)

d. The following schedule illustrates the debt service requirements to maturity for bonds outstanding as of June 30, 2011:

Fiscal Years Ending June 30,	Tax Allocation Bonds Principal	Tax Allocation Bonds Interest
2012	$ 2,150,000	$ 5,052,942
2013	2,240,000	4,960,341
2014	2,335,000	4,860,474
2015	2,450,000	4,748,655
2016	2,570,000	4,629,773
2017-2021	14,900,000	21,100,590
2022-2026	19,110,000	16,894,539
2027-2031	24,730,000	11,268,655
2032-2036	22,930,000	3,555,825
Totals	$ 93,415,000	$ 77,071,795

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, 2011, 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, the 1996 Refunding Tax Allocation Bonds of $16,335,000, the 2000 Tax Allocation Bonds of $2,425,000 and the 2003 Tax Allocation Bonds of $21,500,000 are considered defeased.

Note 6: Loans Receivable

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. The loan balance as of June 30, 2011 is $4,782,345.

In December of 2008 the Agency entered into a Loan Agreement with a local automobile dealership to provide a Line of Credit not to exceed $500,000 from which the dealer could draw from in order to maintain its operations. The Loan is secured by Promissory Note executed by the owner. The loan is payable over seven years with interest at 5.15%. The balance outstanding at June 30, 2011 is $341,672.

Note 6: Loans Receivable (continued)

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 or refinance of property. Deferred loans for home repairs 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 refinance 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, 2011, the loans amounted to $4,866,414.

Loans are available to qualifying low- and very low-income residents through the Cal Home program to assist with the cost of rehabilitating owner-occupied residences. Loans carry interest rates of either 0% (for eligible senior citizens) or 3% (for non senior citizens). Loans are due up to 30 years after origination or in the event the property is sold or refinanced. As of June 30, 2011, the total amount of loans disbursed under the program amounted to $508,074.

As of June 30, 2011, total loans receivable were as follows:

Automobile Dealer Loans	$ 341,672
Cal Home Program Loans	508,074
Deferred Loans	4,866,414
Developer Loans	4,782,345
Other Capital Projects Loans	45,810
Totals	$ 10,544,315

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 9 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, 2011, the land held for resale is being carried at a cost of $4,768,875.

Note 9: Inter-fund Transfers

Fund receiving transfers	Fund making transfers	Amount
Redevelopment Debt Service	Redevelopment Capital Projects	$ 4,679,081*
Total transfers in		$ 4,679,081

*Transfer made to pay long-term debt.

Note 10: Contingencies

As of June 30, 2011, 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.

Note 11: Advances

Advances at June 30, 2011 consist of the following:

Advances to	Advances from	Amount
Redevelopment Capital Projects	Redevelopment Special Revenue	$ 3,000,000

The advance from the Low and Moderate Housing Fund to the Capital Projects Fund was to fund the required Supplemental Educational Revenue Augmentation Fund property tax shift required by the State of California (see note 12). The amount outstanding is a carrying balance from June 30, 2010.

Note 12: Supplemental Educational Revenue Augmentation Fund

On July 24, 2009, the State Legislature passed Assembly Bill (AB)X4-26, which requires redevelopment agencies statewide to deposit a total of $2.05 billion of property tax increment in county "Supplemental" Educational Revenue Augmentation Funds (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of $2.05 billion will be made over two years, $1.7 billion in fiscal year 2009-2010 and $350 million in fiscal year 2010-2011. The SERAF would then be paid to school districts and the county offices of education which have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools. The Agency's share of this revenue shift was $4,904,827 for fiscal year 2009-2010 and $1,003,457 for fiscal year 2010-2011. Payments are to be made by May 10 of each respective fiscal year. In response to ABX4-26, the Agency funded the SERAF payment due in May 2010 with the Low/Mod Housing Fund.

The California Redevelopment Association (CRA) is the lead petitioner on a lawsuit to invalidate ABX4-26, similar to last year's successful lawsuit challenging the constitutionality of AB 1389. CRA filed the lawsuit on October 20, 2009. The lawsuit asserted that the transfer of property tax increment to the SERAF is not permitted under Article XVI, Section 16 of the California Constitution. The complaint also asserted impairment of contract and gift of public funds arguments. While the State made adjustments in ABX4-26 to address the constitutional issues raised by the Superior Court over last year's lawsuit challenging AB 1389, the Agency, along with the CRA and other California redevelopment agencies, believe that the SERAF remains unconstitutional. In May 2010, the Superior Court upheld the legality of ABX4-26. In August 2010, the CRA filed an appeal with the Third District Court. As of June 30, 2011 the district court had not reached a final decision on the August 2010 appeal.

Note 13: Recent Changes In Legislation Affecting California Redevelopment Agencies

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend (effective July 1, 2011) nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program by adopting an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that they violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012."

Note 13: Recent Changes In Legislation Affecting California Redevelopment Agencies (continued)

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in ABX1 26.

On August 17, 2011, Agency Ordinance No. 936 was adopted, indicating that the Agency will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the agency is estimated to be $3.2 million with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated $0.8 million will be due annually. The semiannual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any new debt is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low- and moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that fiscal year are dependent upon the outcome of litigation surrounding the actions of the state.

Required Supplementary Information
Norco Community Redevelopment Agency
Budgetary Comparison Schedule – Special Revenue Fund
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Taxes	$ 2,754,571	$ 2,754,571	$ 2,825,686	$ 71,115
Intergovernmental	700,000	760,000	140,594	(619,406)
Investment earnings	20,000	20,000	30,850	10,850
Other	72,000	72,000	69,178	(2,822)
Total revenues	3,546,571	3,606,571	3,066,308	(540,263)
EXPENDITURES				
Current:				
Economic development	1,897,759	1,586,225	989,263	596,962
Debt service:				
Principal	274,000	274,000	274,000	-
Interest	445,189	445,189	675,667	(230,478)
Total expenditures	2,616,948	2,305,414	1,938,930	366,484
Net change in fund balance	929,623	1,301,157	1,127,378	(173,779)
Fund balance, beginning of year	20,522,796	20,522,796	20,522,796	-
Fund balance, end of year	$ 21,452,419	$ 21,823,953	$ 21,650,174	$ (173,779)

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information 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, 2011, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated November 22, 2011. 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a misstatement of the Agency's financial statements will not be prevented or detected and corrected on a timely basis.

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 over financial reporting that might be deficiencies, 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 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. 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*.

This report is intended solely for the information and use of management, Agency Board, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Rogers, Anderson, Malody & Scott, LLP

November 22, 2011

RAMS

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH HEALTH AND SAFETY CODE SECTION 33081.1

Compliance

We have audited the Norco Community Redevelopment Agency's (the Agency) compliance with the California Health and Safety Code as required by Section 33080.1 for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Agency has occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements. In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Agency's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A *deficiency in internal control* over compliance 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 and correct, noncompliance on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Agency Board, others within the entity, 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.

Rogers, Anderson, Malody + Scott, LLP

November 22, 2011

Norco Community Redevelopment Agency
Computation of Low and Moderate Income Housing
Special Revenue Fund - Excess Surplus
July 1, 2010

Opening fund balance - July 1, 2010		$ 6,049,716
Adjusted balance		2,990,211
Limitation (greater of $1,000,000 or last four years' set-aside)		
2008 - 2009	$ 3,099,380	
2007 - 2008	3,167,575	
2006 - 2007	2,920,961	
2005 - 2006	2,517,436	
Total	$ 11,705,352	
Base limitation	$ 1,000,000	
Greater amount		11,705,352
Computed excess surplus - July 1, 2010		$ -