REDEVELOPMENT AGENCY OF THE CITY OF ROCKLIN, CALIFORNIA

Audited Financial Statements
and Compliance Report

June 30, 2007

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THE CITY OF ROCKLIN, CALIFORNIA

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TABLE OF CONTENTS

Independent Auditor's Report.. 1
Management's Discussion and Analysis.. 3

Basic Financial Statements

Statement of Net Assets and Governmental Funds Balance Sheet.. 8
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances.. 10

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Major Funds.. 12
Notes to Basic Financial Statements.. 15

Compliance Report

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.. 28

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Redevelopment Agency of the City of Rocklin, California

We have audited the basic financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Rocklin, California (the Agency), as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note A, the financial statements present only the Agency and are not intended to present fairly the financial position and results of operations of the City of Rocklin, California, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note I, the Agency determined a parcel of land and the building on it should be reflected as an asset of the Agency. Accordingly, an adjustment has been made to assets and net assets as of July 1, 2006.

In our opinion, the basic 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 Redevelopment Agency of the City of Rocklin, California, as of June 30, 2007, and the respective changes in financial position thereof and the respective budgetary comparison for the major funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2008 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 and 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.

To the Board of Directors
Redevelopment Agency of the City of Rocklin, California

Management's discussion and analysis on pages 3 through 7 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Richardson & Company

February 5, 2008

Rocklin Redevelopment Agency
Component Unit Basic Financial Statements
Management's Discussion and Analysis

For the year ended June 30, 2007

This section of the Rocklin Redevelopment Agency (Agency) Component Unit Financial Statements presents Management's Discussion and Analysis of the Agency's financial performance during the fiscal year ended June 30, 2007. Since this Management's Discussion and Analysis is designed to focus on current activities, resulting change and currently known facts, please read it in conjunction with the Agency's Basic Financial Statements, and the related footnotes.

I. Financial Highlights

At June 30, 2007, the Agency's net assets for governmental funds decreased to ($11,428,208) from ($9,128,314) at June 30, 2006. This is a change in net assets of ($2,299,894), due to increased project fund expenditures.

In February, 2007, the Agency issued 2007 Tax Allocation Bonds, which were issued to partially defease the 2002 Tax Allocation Bonds and to finance certain capital improvements within the Redevelopment Agency's project area.

The Agency's primary revenue source, Tax increment revenue, increased $605,655 over the previous fiscal year.

The Agency provided $2,500,000 to fund a new Low/Moderate Income Down Payment Assistance Program.

II. Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Agency's Basic Financial Statements. The Agency's Basic Financial Statements comprise three components: 1) Government-wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Financial Statements. This report also contains other required supplementary information in addition to the Basic Financial Statements themselves.

Government-wide Financial Statements. The Government-wide Financial Statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. The Agency, while a separate legal entity, acts as a financial conduit for the City of Rocklin (the City) and as such does not hold title to the assets it helps construct. Therefore, its net assets are not any indication of its financial health.

The Statement of Activities presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

<u>Fund Financial Statements.</u> A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements are prepared on the modified accrual basis of accounting in accordance with generally accepted principles promulgated by the Governmental Accounting Standards Board. Revenues are recognized in the accounting period in which they become available and measurable and expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. All of the funds of the Agency can be divided into three categories: Capital Projects, Debt Service, and Housing Set-aside Funds.

<u>Capital Projects</u>. A capital projects fund is used to account for the capital expenditures of the agency.

<u>Debt Service.</u> A debt service fund is used to account for operating expenditures, and the repayment of principal and interest on debt as well as pass through obligations to other taxing agencies.

<u>Low/Moderate Income Housing Special Revenue Fund.</u> A Low/Moderate Income Housing Special Revenue Fund is used to account for 20% of the tax increments that are required by State Law to be used for low and moderate income housing purposes.

The Agency adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

<u>Notes to the Basic Financial Statements.</u> The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements. The Notes to the Basic Financial Statements can be found on page 15 of this report.

<u>Compliance Report.</u> In addition to the Basic Financial Statements and accompanying notes, this report also presents a report on compliance and internal control. This report comments on the Agency's compliance with certain provisions of laws and regulations identified in the "Guidelines for Compliance Audits of California Redevelopment Agencies", issued by the State Controller. This report also addresses internal control over financial reporting.

The annual financial statements include the Independent Auditors' Report, this Management's Discussion and Analysis, the Basic Financial Statements, Notes to Basic Financial Statements, and the Compliance Report.

III. Government-wide Financial Analysis

The largest portion of the Agency's net assets reflect amounts designated to be used as a funding source for capital projects within the redevelopment area. Unlike most other types of governmental bodies who provide day-to-day services, the main purpose of the Agency is to provide capital funds for the development of certain geographical areas of the City.

IV. Financial Analysis of the Agency

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

Governmental Funds. The focus of the Agency's Governmental Funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. It should, however, be noted that all of the Agency's fund balances are considered reserved for specific uses.

The Agency is required by State Law to set aside 20% of the tax revenue in a separate fund for low and moderate-income housing purposes. This fund had total revenue of $976,349, expenditures of $194,129 and transfers out of $2,522,313. The ending fund balance was $1,575,922, which is a decrease of $1,740,093 from the prior year. This decrease is due mainly to a $2,500,000 transfer from the Low/Moderate Income Housing Special Revenue Fund to establish a new down payment assistance program.

The Debt Service Fund had total revenue of $15,451,245, of which $218,373 was interest earnings. The issuance of the 2007 Tax Allocation bonds in February, 2007, provided $11,815,000 to partially defease the 2002 Tax Allocation Bonds. The expenditures including partial retirement of the 2002 Tax Allocation Bonds, debt service, pass thru payments and other operating expenditures to other taxing agencies amounted to $14,062,003. The fund balance of $5,083,300 is reserved for future debt service payments on the 2005 and 2007 tax allocation bonds and on the unrefunded portion of the 2002 tax allocation bonds.

The Capital Projects Fund had total revenue of $4,293,875 of which $562,448 was interest earnings on the project funds that are invested with the City's pooled cash. Federal Grant revenues in the amount of $68,002 were received and used to help finance the Rocklin Rd Pedestrian Crossing project. The issuance of the 2007 Tax Allocation bonds in February, 2007, provided $4,000,000 for capital projects. The fund balance increased by $2,133,453 over the previous year and is designated for upcoming capital projects within the Project Area.

The following is a list of the major construction projects funded during the 2006/2007 fiscal year.

Sierra College/ I-80 Interchange Right of Way (ROW) Acquisitions	$ 1,663,478
Granite Dr Overlay & Landscape Medians	$ 417,542

V. Capital Asset and Debt Administration

Capital Assets. At June 30, 2007, the Statement of Net Assets designates Capital Assets at $795,994.

Long-term Debt. At the end of the current fiscal year, the Agency had a total bonded debt outstanding of $29,566,741. All bonded debt of the Agency is secured by the tax increment revenues of the Agency.

Compensated Absences. As the Redevelopment Agency has become more active in addressing the needs of the project area, additional staff hours have been added resulting in the need to recognize compensated absences. At June 30, 2007, the balance of compensated absences was $72,348.

The Agency's long term liabilities increased by $4,581,733 during the fiscal year. This increase is a result of the issuance of the 2007 Tax Allocation Bonds.

VI. Economic Factors and Next Year's Budgets

Since the Agency's primary source of revenue is tax increments, property values and new construction in the redevelopment area are key economic factors that define the future resources of the Agency. The area within the Agency is a mix of older commercial buildings and single family residences along with several undeveloped parcels. Most of the revenue growth for the Agency is expected to come from an increase in property values in the region and future construction and rehabilitation in the project area which will create an increase in assessed values.

The anticipated tax increment for Fiscal Year 2007-2008 is $4,198,100. Of this, $839,600 is budgeted to be set aside for the low-moderate housing fund to be used for housing projects and/or low interest loans for first time homebuyers.

The expenditures budgeted for the upcoming fiscal year include $716,813 for compensation, $412,852 for operating expenditures, and $6,390,000 for the following capital projects: Safe School Route Phase IV, Civic Center Drive Design, Civic Center Drive Right of Way Acquisition, Drainage Improvement Design, and Heritage Park.

VII. Requests for Information

This financial report is designed to provide a general overview of the Agency's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, 3970 Rocklin Road, Rocklin, California, 95677.

REDEVELOPMENT AGENCY OF
THE CITY OF ROCKLIN, CALIFORNIA

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2007

	Redevelopment Agency Capital Projects Fund	Redevelopment Agency Debt Service Fund	Low/Moderate Income Housing Special Revenue Fund	Totals
ASSETS				
Cash and cash equivalents	$ 40,580	$ 3,320,067	$ 482,235	$ 3,842,882
Receivables:				
Interest receivable	132,346		154,474	286,820
Taxes receivable		286,749		286,749
Notes receivable			1,113,198	1,113,198
Due from other governments	491,348			491,348
Restricted cash and cash equivalents	9,424,794	1,796,579		11,221,373
Unamortized bond issuance costs				
Capital assets, net				
TOTAL ASSETS	$ 10,089,068	$ 5,403,395	$ 1,749,907	$ 17,242,370
LIABILITIES				
Accounts payable	$ 13,850	$ 4,811		$ 18,661
Accrued liabilities		20,504	$ 9,088	29,592
Interest payable				
Deferred revenue			154,474	154,474
Advances from the City of Rocklin		269,029		269,029
Compensated absences		25,751	10,423	36,174
Long-term liabilities:				
Due within one year				
Due in more than one year				
TOTAL LIABILITIES	13,850	320,095	173,985	507,930
FUND BALANCES/NET ASSETS				
Fund balances:				
Reserved for:				
Notes receivable			1,113,198	1,113,198
Debt service		5,083,300		5,083,300
Low and moderate income housing			462,724	462,724
Capital projects	10,075,218			10,075,218
TOTAL FUND BALANCES	10,075,218	5,083,300	1,575,922	16,734,440
TOTAL LIABILITIES AND FUND BALANCES	$ 10,089,068	$ 5,403,395	$ 1,749,907	$ 17,242,370
Net assets:				
Invested in capital assets, net of related debt				
Restricted for debt service				
Restricted for community development				
Unrestricted				
TOTAL NET ASSETS				

The accompanying notes to component unit financial statements are an integral part of this statement.

Adjustments (Note G)	Statement of Net Assets
	$ 3,842,882
	286,820
	286,749
	1,113,198
	491,348
	11,221,373
$ 835,016	835,016
795,994	795,994
1,631,010	18,873,380
	18,661
	29,592
417,565	417,565
(154,474)	
	269,029
(36,174)	
321,174	321,174
29,245,567	29,245,567
29,793,658	30,301,588
(1,113,198)	
(5,083,300)	
(462,724)	
(10,075,218)	
(16,734,440)	
795,994	795,994
5,083,300	5,083,300
1,575,922	1,575,922
(18,883,424)	(18,883,424)
$ (11,428,208)	$ (11,428,208)

REDEVELOPMENT AGENCY OF
THE CITY OF ROCKLIN, CALIFORNIA

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS
REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES

For the Year Ended June 30, 2007

	Redevelopment Agency		Low/Moderate	
	Capital Projects Fund	Debt Service Fund	Income Housing Special Revenue Fund	Totals
EXPENDITURES:				
Current:				
General government		$ 1,320,422	$ 120,200	$ 1,440,622
Public works		1,331		1,331
Community development	$ 2,160,422	176,249	73,929	2,410,600
Culture and recreation		20,201		20,201
Debt service:				
Principal retirement		10,953,686		10,953,686
Interest and fiscal charges		1,590,114		1,590,114
TOTAL EXPENDITURES/EXPENSES	2,160,422	14,062,003	194,129	16,416,554
NET PROGRAM EXPENSE				
GENERAL REVENUES:				
Tax increment revenue		3,605,004	842,758	4,447,762
Interest earnings	562,448	218,373	124,779	905,600
Intergovernmental	68,002	31,754	8,812	108,568
Other revenue	90,945			90,945
Issuance of long-term debt	4,000,000	11,815,000		15,815,000
Transfers to the City of Rocklin	(427,520)	(218,886)	(2,522,313)	(3,168,719)
TOTAL GENERAL REVENUES AND TRANSFERS	4,293,875	15,451,245	(1,545,964)	18,199,156
EXCESS OF REVENUES OVER EXPENDITURES AND TRANSFERS OUT	2,133,453	1,389,242	(1,740,093)	1,782,602
CHANGE IN NET ASSETS				
FUND BALANCE/NET ASSETS:				
Beginning of year	7,941,765	3,694,058	3,316,015	14,951,838
Prior period adjustment				
END OF YEAR	$ 10,075,218	$ 5,083,300	$ 1,575,922	$ 16,734,440

The accompanying notes to component unit financial statements are an integral part of this statement.

Adjustment (Note H)	Statement of Activities
$ (624,079)	$ 816,543
	1,331
	2,410,600
	20,201
(10,953,686)	
9,410	1,599,524
(11,568,355)	4,848,199
	4,848,199
	4,447,762
49,370	954,970
	108,568
	90,945
(15,815,000)	
	(3,168,719)
(15,765,630)	2,433,526
(1,782,602)	
(2,414,673)	(2,414,673)
(24,080,152)	(9,128,314)
114,779	114,779
$ (28,162,648)	$ (11,428,208)

REDEVELOPMENT AGENCY OF
THE CITY OF ROCKLIN, CALIFORNIA

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR FUNDS

For the Year Ended June 30, 2007

	Redevelopment Fund - Capital Projects			
	Budgeted Amounts		Actual	Variance With Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Tax increment revenue				
Use of money and property	$ 122,300	$ 122,300	$ 562,448	$ 440,148
Intergovernmental revenues	55,700	55,700	68,002	12,302
Other revenues			90,945	90,945
	178,000	178,000	721,395	543,395
EXPENDITURES:				
Current:				
General government				
Public works				
Community development	2,394,100	2,394,100	2,160,422	233,678
Culture and recreation				
Debt service:				
Principal retirement				
Interest and other charges				
TOTAL EXPENDITURES	2,394,100	2,394,100	2,160,422	233,678
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,216,100)	(2,216,100)	(1,439,027)	777,073
OTHER FINANCING (SOURCES) USES:				
Issuance of long-term debt			4,000,000	4,000,000
Transfers out to City funds	(414,200)	(414,200)	(427,520)	(13,320)
NET CHANGE IN FUND BALANCES	(2,630,300)	(2,630,300)	2,133,453	4,763,753
FUND BALANCES				
Beginning of year	7,941,765	7,941,765	7,941,765	
END OF YEAR	$ 5,311,465	$ 5,311,465	$ 10,075,218	$ 4,763,753

The accompanying notes to financial statements are an integral part of this statement.

Redevelopment Fund - Debt Service			
Budgeted Amounts			Variance With Final Budget Positive
Original	Final	Actual	(Negative)
$ 2,807,900	$ 2,807,900	$ 3,605,004	$ 797,104
40,500	40,500	218,373	177,873
		31,754	31,754
2,848,400	2,848,400	3,855,131	1,006,731
1,454,000	1,454,000	1,320,422	133,578
		1,331	(1,331)
490,900	490,900	176,249	314,651
		20,201	(20,201)
375,000	375,000	10,953,686	(10,578,686)
1,195,200	1,195,200	1,590,114	(394,914)
3,515,100	3,515,100	14,062,003	(10,546,903)
(666,700)	(666,700)	(10,206,872)	(9,540,172)
		11,815,000	11,815,000
(139,200)	(139,200)	(218,886)	(79,686)
(805,900)	(805,900)	1,389,242	2,195,142
3,694,058	3,694,058	3,694,058	
$ 2,888,158	$ 2,888,158	$ 5,083,300	$ 2,195,142

REDEVELOPMENT AGENCY OF
THE CITY OF ROCKLIN, CALIFORNIA

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR FUNDS (Continued)

For the Year Ended June 30, 2007

	Low/Moderate Income Housing Fund			
	Budgeted Amounts			Variance With Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES:				
Tax increment revenue	$ 702,000	$ 702,000	$ 842,758	$ 140,758
Use of money and property	39,400	39,400	124,779	85,379
Intergovernmental revenues			8,812	8,812
TOTAL REVENUES	741,400	741,400	976,349	234,949
EXPENDITURES:				
Current:				
General government	157,600	160,100	120,200	39,900
Community development	174,800	174,800	73,929	100,871
TOTAL EXPENDITURES	332,400	334,900	194,129	140,771
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	409,000	406,500	782,220	375,720
OTHER FINANCING USES				
Transfers out to City funds			(2,522,313)	(2,522,313)
NET CHANGE IN FUND BALANCES	409,000	406,500	(1,740,093)	(2,146,593)
FUND BALANCES				
Beginning of year	3,316,015	3,316,015	3,316,015	
END OF YEAR	$ 3,725,015	$ 3,722,515	$ 1,575,922	$ (2,146,593)

The accompanying notes to financial statements are an integral part of this statement.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying summary of the more significant accounting policies of the Redevelopment Agency of the City of Rocklin (the Agency) is presented to assist the reader in interpreting the financial statements and other data in this report. The accounting policies of the Agency conform in all material respects to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

Reporting Entity: The Agency was organized pursuant to the Community Redevelopment Law of the California Health and Safety Code. The accounting methods and procedures adopted by the Agency conform to generally accepted accounting principles as applied to governmental entities.

The Agency is considered to be a component unit of the City of Rocklin (the City). These entities are legally separate from each other. However, the City elected officials have a continuing full or partial oversight responsibility over and accountability for fiscal matters of the Agency. As a result, the Agency is presented as a blended component unit within the City's financial statements.

The primary purpose of the Agency is to prepare and carry out plans for improvement, rehabilitation and redevelopment of blighted areas within the City. The Agency has one project area, which encompasses approximately 13% of the City. The Agency's primary source of revenue comes from property taxes, referred to in the accompanying financial statements as "tax increment revenue." Section 333346 subdivision (c) of the California Health and Safety Code requires the Agency project areas to deposit 20% of allocated tax increment revenues into a Low and Moderate Income Housing Fund.

Basis of presentation – Government-wide Financial Statements: The government-wide financial statements (i.e. the statement of net assets and statement of activities) report information on all of the nonfiduciary activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. The Agency has only governmental activities, which are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable 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 grants and 2) contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Tax increment revenue and other items not properly included among program revenues are reported instead as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 are met.

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

Basis of presentation – Fund Financial Statements: The accounts of the Agency are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for each governmental fund. All of the Agency's funds are considered to be major individual governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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 be used to pay liabilities of the current period. For this purpose, the Agency 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.

Tax increment revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Governmental funds are used to account for the Agency's expendable financial resources and related liabilities. The Agency utilizes the following governmental fund types:

Capital Projects Fund: Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities. The Agency's capital project fund consists of the following:

Redevelopment Agency Capital Projects: The Capital Projects Fund is used to account for redevelopment project costs.

Debt Service Fund: Debt Service Funds are used to account for the accumulation of resources for the payment of principal and interest on general obligation bonds, tax increment bonds, and certificates of participation. The Agency's debt service fund consists of the following:

Redevelopment Agency Debt Service: The Debt Service Fund is used to account for the repayment of principal and interest on the tax allocation bonds issued by the Agency, as well as pass-through obligations to other taxing agencies, and the payment of operating expenditures.

Special Revenue Fund: Special Revenue Funds are used to account for specific revenues that are restricted by law or administrative action to expenditures for particular purposes. The Agency's Special Revenue Fund consists of the following:

Low/Moderate Income Housing Fund: The Low/Moderate Income Housing Fund accounts for the 20% tax increment income, which will be used by the Agency for the purposes of increasing and improving the City's supply of housing for persons and families of low or moderate income.

Receivables and Payables: Tax increment revenue related to the current fiscal year are accrued as revenue and accounts receivable and considered available if received within 60 days of year-end. Federal and State grants are considered receivable and accrued as revenue when reimbursable costs are incurred under the accrual basis of accounting in the government-wide statement of net assets. The amount recognized as revenue under the modified accrual basis is limited to the amount that is deemed measurable and available.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term loans in governmental funds are recognized as revenue in the year advanced and are offset with a reservation of fund balance for non-current assets to indicate they do not constitute resources available for appropriation. Loans are recognized when advanced in the government-wide statements.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Restricted Assets: Certain proceeds of the Agency's long-term debt are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Capital Assets: Capital assets for governmental fund types are not capitalized in the funds used to acquire or construct them. Capital acquisitions are reflected as an expenditure in the governmental fund, and the related assets are reported in the government-wide financial statements. Capital assets owned by the Agency are stated at historical cost, or estimated historical cost, if actual historical cost is not available, except for donated capital assets, which are recorded at their estimated fair value at the date of donation.

It is the Agency's policy to capitalize land, structures and improvements and equipment greater than $5,000. Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement. The proceeds from the sale of capital assets is included in the statement of revenues, and changes in fund balances of the related fund. The proceeds reported in the governmental fund are eliminated and the gain or loss on sale is reported in the government-wide presentation.

Deferred Revenues: Deferred revenues in governmental funds arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has legal claim to them, (i.e., when grant monies are received prior to the incurrence of qualifying expenditures).

Compensated Absences: The Authority's policies regarding vacation and sick leave permit employees to accumulate earned, but unused, vacation and sick leave. The liability for these compensated absences is recorded as long-term liability in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources. Typically, each fund liquidates its own compensated absence liability.

Long-Term Debt: All long-term debt to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable. Long-term debts for governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures.

Fund Balance: 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. At June 30, 2007, reservations of fund balances included:

> Reserved for notes receivable – to reflect the portion of assets that do not represent available, spendable resources.
>
> Reserved for debt service – to reflect the portion of fund balance legally restricted to make debt service payments.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reserved for low/moderate housing – to reflect the portion of fund balance relating to State required low-to-moderate income housing.

Reserved for capital projects – to reflect the portion of fund balance legally restricted by bond indenture for capital projects.

Net Assets: The government-wide financial statements utilize a net assets presentation. Net assets consist of the following:

Invested in capital assets, net of related debt – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of those assets reduce the balance in this category.

Restricted net assets – This category represents net assets with external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments; or restrictions imposed by law through constitutional provisions or enabling legislation.

Restricted for debt service – to reflect the portion of net assets legally restricted to make debt service payments.

Restricted for community development – to reflect the portion of net assets retricted for purposes of increasing and improving the City's supply of low/moderate income housing.

Unrestricted net assets – This category represents net assets of the Agency not restricted for any project or purpose.

Tax Increment Financing: Tax increment financing has been established pursuant to the California Community Redevelopment Law. It is defined as the excess of taxes levied and collected each year in a redevelopment project area over and above the amount which would have been produced, at current rates, by the assessed value shown on the assessment roll last equalized prior to the effective date of the ordinance of the City establishing the redevelopment project area. Such funds are restricted to pay the principal and interest on loans, monies advanced to, or indebtedness incurred by, the Agency to finance or refinance such redevelopment projects, and are available to the Agency only after indebtedness, which is certified by the State of California, is incurred.

When the Agency's loans, advances and indebtedness, if any, together with interest thereon have been paid, all monies thereafter received from taxes upon the taxable property in such redevelopment project shall be paid into the funds of the respective taxing agencies.

Property Taxes: The County of Placer (the County) is responsible for the collection and allocation of property taxes. Under California law, property taxes are assessed and collected by the County up to 1% of the full cash value of taxable property plus other increases approved by the voters with statutory formulas. The Agency recognizes property taxes when the individual installments are due provided they are collected within 60 days after year end. Secured property taxes are levied on or before July 30 of each year. They become a lien on real property on January 1 preceding the fiscal year for which taxes are levied. These taxes are paid in two equal installments; the first is due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Secured property taxes, which are delinquent and unpaid as of June 30, are declared to be tax defaulted and are subject to redemption penalties, cost, and interest when paid.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Agency has elected to receive the property taxes from the County under the Teeter Bill. Under this program, the Agency receives 100% of the levied property taxes in periodic payments with the County assuming responsibility for the delinquencies.

Budgetary Principles: As required by the laws of the State of California, the Agency prepares and legally adopts a final operating budget on or before July 1 of each fiscal year, which is prepared on the modified accrual basis of accounting. Supplemental appropriations, which increases appropriations, may be made during the fiscal year. All budget amounts presented in the accompanying financial statements have been adjusted for legally authorized revisions of the annual budget during the year.

Annual Financial Statements: These financial statements are intended to reflect only the financial position and results of operations of the Redevelopment Agency of the City of Rocklin, California. The Agency is a component unit of and is included in the financial statements of the City. The financial statements of the City of are available at the City's Finance Department.

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

NOTE B – CASH AND CASH EQUIVALENTS

The Agency's cash and cash equivalents consisted of the following as of June 30, 2007:

Unrestricted cash and cash equivalents		
Pooled cash and cash equivalents	$	3,842,882
Restricted cash and cash equivalents		
Money Market Mutual Fund		1,796,579
Local Agency Investment Fund		9,424,794
		11,221,373
Total cash and cash equivalents	$	15,064,255

The Agency participates in the City's cash and investment pool. These balances are stated at fair value. The Agency's share of the cash and investment pool is separately accounted for and interest earned is apportioned annually based upon the relationship of its average daily cash balance to the total of the pooled cash and investments. The City's Investment Committee has oversight responsibility for the City's cash and investment pool. The value of pool shares in the City that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the Agency's position in the pool.

The Agency invests in the Local Agency Investment Fund (LAIF), a State of California external investment pool. Regulatory oversight for the pool is provided by the State of California. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. The fair value of the Agency's position in LAIF is the same as the value of the pool shares.

NOTE B – CASH AND INVESTMENTS (Continued)

The Agency's investments in LAIF are stated at fair value. The total amount invested by all public agencies in LAIF is $66,051,251,287 and is managed by the State Treasurer. Of that amount, 96.53% is invested in non-derivative financial products and 3.47% in derivative financial products. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of pool shares in LAIF which may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the Agency's position in the pool.

Investment policy: The Agency has adopted the City of Rocklin's investment policy. A summary of the City of Rocklin's investment policy may be found in the notes to City of Rocklin's basic financial statements.

Investments Authorized by Debt Agreements: Investment 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 City's investment policy. The 2002, 2005 and 2007 Tax Allocation Bonds contain certain provisions that address interest rate risk, credit risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
Federal securities	None	None	None
Tax exempt obligations	None	None	None
Secured long-term debt obligations	None	None	None
Negotiable Certificates and Time Deposits	None	None	None
Bank Repurchase Agreements	None	None	None
Money Market Mutual Funds*	None	None	None
Investment Agreements	None	None	None

*Must be rated in one of the three highest rating categories.

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 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 City'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:

NOTE B – CASH AND INVESTMENTS (Continued)

		Remaining Maturity (in months)
	Total	12 months or Less
City cash and investment pool	$ 3,842,882	$ 3,842,882
Local Agency Investment Fund	9,424,794	9,424,794
Held by bond trustee:		
Money Market Mutual Funds	1,796,579	1,796,579
	$ 15,064,255	$ 15,064,255

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. The current rating of the money market mutual fund is AAA. The City's cash and investment pool does not have ratings assigned by a nationally recognized statistical organization.

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. As of June 30, 2007, there were no investments that represented more than 5% of the total investments (other than U.S Treasury Obligations, mutual funds and external investment pools) in any one issuer.

Custodial credit risk: Custodial risk is the risk that the government will not be able to recover its deposits or the value of its investments that are in the possession of an outside party. Custodial credit risk does not apply to a local government's indirect deposits or investment in securities through the use of government investment pools (such as the City of Rocklin investment pool). The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer or custodian) 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.

NOTE C – NOTES RECEIVABLE

The Agency has made business loans to qualifying businesses in the redevelopment area and various loans to qualifying participants within the City. Certain notes receivable payments are deferred, resulting in interest receivable being accrued. Interest receivable not due in one year is offset with deferred revenue to recognize that the interest receivable does not represent available spendable resources. The interest receivable is recognized for government-wide purposes unless management determines the amount to be uncollectible. Notes receivable consist of the following:

Villa Serena II Loan – On July 24, 2001, the Agency entered into an agreement with Stanford Arms, a California Limited Partnership, for a loan in the amount of $1,100,000. The loan has been used to finance the acquisition of real property located at Villa Serena Way and Park Drive. The loan is at 3% simple interest and is to be repaid from residual receipts over a thirty-year period. The loan is secured by a deed of trust covering the property, improvements, and fixtures and by all deposits of the borrower.

NOTE C – NOTES RECEIVABLE (Continued)

Miscellaneous Housing Loans – The Agency maintains loans receivable for Low and Moderate Income Housing. Certain notes receivable payments are deferred with interest being capitalized and recorded in the respective principal balances. Interest on certain loans may be waived by the Agency if the loan remains outstanding for the full term.

A summary of the activity of notes receivable is as follows:

	Balance at July 1, 2006	Additions	Retirements	Balance at June 30, 2007
Special Revenue Fund:				
Villa Serena II	$ 1,100,000			$ 1,100,000
Miscellaneous	13,302		$ (104)	13,198
TOTAL NOTES RECEIVABLE	$ 1,113,302		$ (104)	$ 1,113,198

NOTE D – CAPITAL ASSETS

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

	Restated Balance at July 1, 2006	Additions	Disposals	Balance at June 30, 2007
Capital assets, not being depreciated:				
Land	$ 685,997			$ 685,997
Total capital assets, not being depreciated	685,997			685,997
Capital assets, being depreciated:				
Buildings	143,474			143,474
Less accumulated depreciation for:				
Buildings	(28,695)	$ (4,782)		(33,477)
Capital assets being depreciated, net	114,779	(4,782)		109,997
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	$ 800,776	$ (4,782)		$ 795,994

NOTE E – LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2007:

	Balance at July 1, 2006	Incurred	Retired	Balance at June 30, 2007	Due Within One year
2002 Tax Allocation Bonds	$ 13,085,000		$(10,685,000)	$ 2,400,000	$ 40,000
2005 Tax Allocation Bonds	11,900,000		(220,000)	11,680,000	245,000
2007 Tax Allocation Bonds		$ 15,815,000		15,815,000	
Pass-through obligation	48,686		(48,686)		
Compensated absences	64,738	39,979	(32,369)	72,348	36,174
	25,098,424	15,854,979	(10,986,055)	29,967,348	$ 321,174
Less: Bond discounts	(113,416)	(301,140)	13,949	(400,607)	
	$ 24,985,008	$ 15,553,839	$(10,972,106)	$ 29,566,741	

Long-term debt consists of the following:

<u>2002 Tax Allocation Bonds</u>: On January 1, 2002, tax allocation bonds were issued, in the amount of $13,730,000, to defease the 1994 tax allocation bonds of the Agency. The proceeds of the tax allocation bonds are being used to finance certain capital improvements within the Agency's project area. On February 23, 2007, $10,535,000 of principal was defeased from the issuance of the 2007 Tax Allocation Bonds. The remaining bonds are payable from and secured by certain tax revenues payable to the Agency. Tax increment revenues are the sole revenue source pledged for repayment of this debt. Interest rates range from 4.60% to 5.50%. Principal payments ranging from $40,000 to $190,000 are payable annually on September 1 and interest payments ranging from $5,225 to $63,466 are payable semi-annually on March 1 and September 1 through September 1, 2032.

<u>2005 Tax Allocation Bonds</u>: On July 15, 2005, tax allocation bonds were issued, in the amount of $11,900,000. The proceeds of the tax allocation bonds are being used to defease the 1997 refunding tax allocation bonds of the Agency and to finance certain capital improvements within the Agency's project area. The bonds are payable from and secured by certain tax revenues payable to the Agency. Tax increment revenues are the sole revenue source pledged for repayment of this debt. Interest rates range from 3% to 4.5%. Principal payments ranging from $245,000 to $1,530,000 are payable annually on September 1 and interest payments ranging from $34,425 to $241,063 are payable semi-annually on March 1 and September 1 through 2035.

<u>2007 Tax Allocation Bonds</u>: On February 23, 2007, tax allocation bonds were issued, in the amount of $15,815,000 to partially defease the 2002 Tax Allocation Bond of the Agency and to finance certain capital improvements within the Agency's project area. The bonds are payable from and secured by certain tax revenues payable to the Agency. Tax revenues are the sole revenue source pledged for repayment of this debt. Interest rates range from 4% to 4.375%. Principal payments ranging from $90,000 to $1,700,000 are payable annually on September 1 and interest payments ranging from $15,969 to $332,916 are payable semi-annually on March 1 and September 1 through September 1, 2037.

NOTE E – LONG-TERM LIABILITIES (Continued)

The annual debt service requirements on the bonds are as follows:

Year Ending	2002 Refunding Tax Allocation Bonds		2005 Tax Allocation Bonds		2007 Tax Allocation Bonds	
June 30:	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 40,000	$ 125,990	$ 245,000	$ 478,451		$ 654,734
2009	40,000	124,105	250,000	471,026	$ 255,000	660,731
2010	45,000	122,105	255,000	463,451	265,000	650,331
2011	45,000	119,990	265,000	455,651	275,000	639,531
2012	45,000	117,875	280,000	447,301	280,000	628,431
2013 - 2017	290,000	552,773	1,325,000	2,094,809	1,760,000	2,954,156
2018 - 2022	460,000	455,369	1,045,000	1,885,341	2,600,000	2,510,556
2023 - 2027	485,000	322,205	1,845,000	1,622,522	2,715,000	1,942,119
2028 - 2032	760,000	169,400	1,505,000	1,185,747	3,985,000	1,286,578
2033 - 2037	190,000	5,225	4,665,000	506,363	2,950,000	547,094
2038 - 2042					730,000	15,969
	$ 2,400,000	$ 2,115,037	$ 11,680,000	$ 9,610,662	$ 15,815,000	$ 12,490,230

On February 23, 2007, the Redevelopment Agency of the City of Rocklin issued $15,815,000 of Refunding Tax Allocation Bonds (2007 Bonds), to partially refund outstanding 2002 Tax Allocation Bonds (2002 Bonds) and generate $4,000,000 of additional proceeds to fund new projects. An analysis of the debt issuance indicates $10,928,015 of the $15,815,000 principal amount of the 2007 Bonds was required to refund the outstanding 2002 Bonds. The portions of the 2007 Bonds responsible for the refunding of the 2002 Bonds had an average interest rate of 4.24%. The 2007 Bonds advance refunded a portion of the 2002 Bonds with an average interest rate of 5.40% and a par value of $10,535,000.

The 2007 Bonds were issued at a discount of $202,296 and, after paying issuance costs of $217,757, contributing $1,136,648 to the 2007 Bonds reserve fund, paying a bond insurance premium of $157,094 and paying an underwriter's discount of $98,844, the net proceeds were $13,978,047 plus $949,968 from the 2002 Bond reserve fund. Of the net proceeds, $10,928,015 was used to refund the 2002 Bonds.

The net proceeds from the issuance of the 2007 Bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are called on September 1, 2009. The advance refunding met the requirements of an in-substance defeasance and the term bonds were removed from the Agency's government-wide financial statements as of June 30, 2007.

As a result of the partial refunding, Redevelopment Agency of the City of Rocklin reduced its total debt service requirements by $1,322,363, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $513,033.

NOTE F – INTERFUND TRANSACTIONS WITH CITY

At June 30, 2007, the Agency owed the City $269,029. This amount was loaned by the City to the Agency to pay debt service expenses. This loan will be paid off in following years from tax increment revenues.

As of June 30, 2007, the Agency had made $3,168,719 in net transfers to the City made up of indirect cost allocations, retiree health benefits allocations, engineering fees related to various projects within the City, and a transfer of $2,500,000 to establish the City’s down payment assistance program.

NOTE G – RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GVERNMENT-WIDE STATEMENT OF NET ASSETS

Amounts reported for governmental activities in the governmental funds balance sheet are being adjusted to arrive at the statement of net assets. The adjustments are as follows:

Total governmental fund balance		$ 16,734,440
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds' balance sheet.		795,994
Long-term interest receivable is not available to pay current period expenditures and therefore is recorded as deferred revenue in the governmental funds.		154,474
Governmental Funds report debt issuance costs as part of debt service expenditures, whereas these amounts are deferred and amortized in the Government-wide Statement of Net Assets.		835,016
Interest payable on a long-term debt does not require current financial resources and therefore interest payable is not reported as a liability Governmental Funds Balance Sheet.		(417,565)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds' balance sheet.		
Long-term debt	$ (29,931,174)	
Less: Bond discount (net of amortization)	400,607	(29,530,567)
NET ASSETS OF GOVERNMENTAL ACTIVITIES		$(11,428,208)

NOTE H – RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Amounts reported for governmental activities in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances are adjusted to arrive at the Statement of Activities for Government-wide presentation. The adjustments are as follows:

Net Change in Fund Balance – Total Governmental Funds	$ 1,782,602
Some receivables are deferred in the Governmental Funds because the amounts do not represent current financial resources that are recognized under the accrual basis in the Statement of Activities.	49,370
Depreciation expense on capital assets is reported in the Government-wide Statement of Activities, but they do not require the use of current fiancial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds.	(4,782)
Interest expense on long-term debt is reported in the Government-wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, interest expense is not reported as expenditures in governmental funds. The following amount represents the change in accrued interest from the prior year.	(9,410)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Government-wide Statement of Net Assets. Repayment of principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds exceeded repayment.	(4,861,314)
Governmental funds report debt issuance costs (deferred charges) as part of debt service expenditures, whereas these costs are deferred and amortized in the Government-wide Statement of Activities. This the amount of issuance costs, net of amortization.	345,475
Governmental funds report bond discount as other financing source; however, these costs are capitalized and amortized in the Government-wide Statement of Activities.	287,191
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.	
Compensated absences	(3,805)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ (2,414,673)

NOTE I – PRIOR PERIOD ADJUSTMENT

The Agency determined that a certain parcel of land and the building on it should be reflected as an Agency asset. As a result of this prior period adjustment, the net assets reported on the statement of net assets were increased by $114,779 as of July 1, 2006.

COMPLIANCE REPORT

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

The Board of Directors
Redevelopment Agency of the City of Rocklin, California

We have audited the basic financial statements of the Redevelopment Agency of the City of Rocklin, California (the Agency) as of and for the year ended June 30, 2007, and have issued our report thereon dated February 5, 2008. We conducted our audit in accordance with generally accepted auditing standards 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 opinion 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 entity'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 entity's internal control.

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

The Board of Directors
Redevelopment Agency of the City of Rocklin, California

Compliance

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 grants, 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 the management, Board of Directors, and the State Controller's Office and is not intended and should not be used by anyone other than these specified parties.

Richardson & Company

February 5, 2008