

**REDEVELOPMENT AGENCY OF THE  
CITY OF GRASS VALLEY  
(A COMPONENT UNIT OF THE CITY  
OF GRASS VALLEY, CALIFORNIA)**



**FINANCIAL STATEMENTS  
TOGETHER WITH  
INDEPENDENT AUDITORS' REPORTS  
FOR THE YEAR ENDED  
JUNE 30, 2008**

**REDEVELOPMENT AGENCY OF THE  
CITY OF GRASS VALLEY  
(A Component Unit of the City of Grass Valley, California)  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2008**

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# FINANCIAL SECTION

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- **Independent Auditor's Report**
  - **Management's Discussion and Analysis**
  - **Financial Statements**
  - **Required Supplementary Information**

**INDEPENDENT AUDITOR'S REPORT**

To the Governing Board  
Redevelopment Agency of the City of Grass Valley  
City of Grass Valley, California


We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Grass Valley (Agency)(a redevelopment agency formed under the laws of the State of California) and a component unit of the City of Grass Valley, California, as of and for the year ended June 30, 2008, as listed in the table of contents. These component unit 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 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 the significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 1, 2008, 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 important for assessing the results of our audit.

The accompanying Required Supplementary Information, such as the Management's Discussion and Analysis and the Budgetary Comparison Schedules as listed in the table of contents, is not a required part of the component unit financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Smith & Newell CPA's  
Yuba City, California  
December 1, 2008

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(Unaudited)**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the Redevelopment Agency of the City of Grass Valley's (the Agency) annual financial report presents our discussion and analysis of the Agency's financial performance during the fiscal year ended June 30, 2008. The Redevelopment Agency of the City of Grass Valley issues financial statements in the format prescribed by the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). GASB 34 requires the Agency to provide this overview of its financial activities for the fiscal year and should be read in conjunction with the Agency's financial statements, which follow this section.

### **THE PURPOSE OF THE AGENCY**

The Agency is a component unit of the City of Grass Valley (the City). It is controlled by the City and the City Council serves as the Agency's Board. City employees perform all the duties and functions required of the Agency through a cooperation agreement between the City and the Agency.

The Agency's purpose under California law is to eliminate urban blight in the City. It is given certain powers under the law to assist it 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. The Agency may not assess or receive property taxes; it receives increases in property taxes over amounts received in the year before the property in the Agency's project area became subject to redevelopment (the base year). The increases are called property tax increments. Twenty percent of the property tax increments received must be used to increase or preserve the supply of low and moderate income housing. The Agency also has agreements with other pre-existing governmental entities within its redevelopment area under which it passes through a portion of the property tax increments it receives.

### **FISCAL 2008 FINANCIAL HIGHLIGHTS**

#### **Agency-wide**

- The Agency's total net assets increased \$1,189,471 in fiscal 2008 as compared to a June 30, 2007 net deficit of \$131,035.
- At June 30, 2008, the Agency's net assets were \$1,058,436.
- Total Agency revenues were \$2,087,850.

#### **Fund Level:**

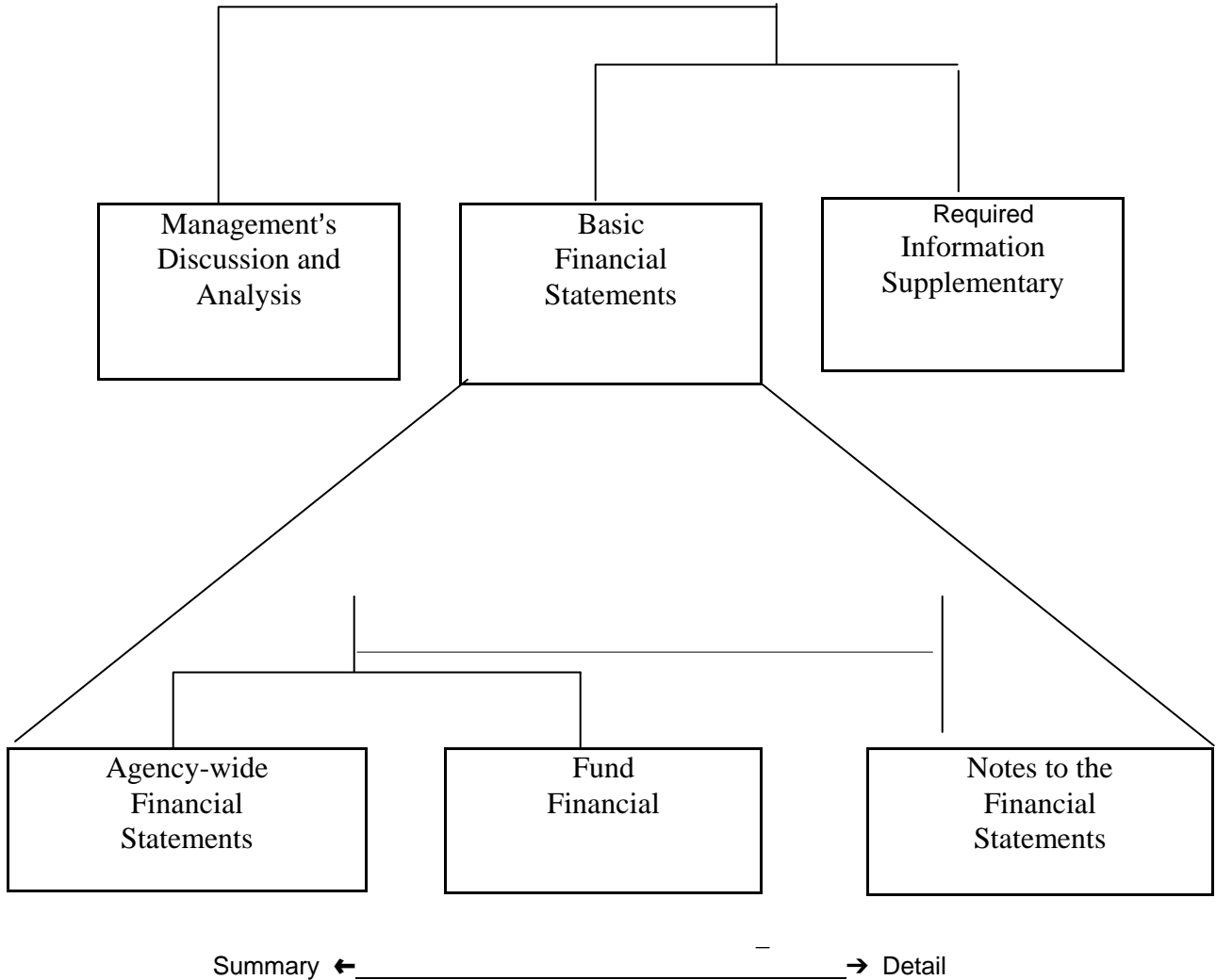
- Housing Fund revenues were \$413,193, expenses \$234,633 and net transfers to and from the City \$96,249 for a net increase in resources of \$82,311 for the fiscal year. Actual results compared to budget estimates were \$40,413 better due to \$35,193 in increased revenues over budgeted amounts and \$5,220 in decreased expenditures over appropriations. Revenues were up primarily because of additional tax increment and interest income received. Expenditures were down primarily because of salary and benefit savings.
- Capital Projects Fund revenues were \$1,674,657, expenses \$1,047,287 and \$19,548 in transfers to the City of Grass Valley for sidewalk lane expansion projects and for purchase of property on S. Auburn Street, for a net increase in resources of \$607,822 for the fiscal year.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual financial report consists of management's discussion and analysis (this part), the basic financial statements and required supplementary information.

- The Agency-wide financial statements provide both long-term and short-term information about the Agency's overall financial status.
- Fund financial statements focus on individual parts of the Agency's government, reporting the Agency's operations in more detail than the Agency-wide statements.
- ◇ Governmental funds statements tell how general government services such as housing programs were financed in the short term as well as what remains for future spending. Both of the Agency's funds are governmental type funds.

## Components of the Financial Section



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

### Agency-wide Financial Statements

The Agency-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Agency's assets and liabilities. All current year revenues and expenses are reported in the statement of activities regardless of when cash is received or paid.

The two Agency-wide statements report the Agency's net assets and how they have changed during the fiscal year. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the Agency is improving or deteriorating. To assess the overall health of the Agency you need to consider additional nonfinancial factors such as changes in the Agency's property tax assessed value.

The Agency-wide financial statements include:

- **Governmental activities** - All of the Agency's activities are included here, such as housing community development, infrastructure activity (in the form of transfers to the City towards projects) and school pass-through. The Agency does not have any other types of activities such as business type activities.

## **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 the determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Subordinate schedules normally present the detail of Non-major funds but due to the Agency's small number of funds, both funds are presented.

Both of the Agency's funds are Governmental funds. Financial Statements for these funds are prepared on the modified accrual basis, 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 Fund Financial Statements.

Comparisons of Budget and Actual financial information are presented only for the Housing Special Revenue Fund.

## **FINANCIAL ACTIVITIES OF THE AGENCY AS A WHOLE**

This analysis focuses on the net assets and changes in net assets of the Agency's Governmental Activities in the Agency-wide Statement of Net Assets and Statement of Activities. Net assets represent the difference between the Agency's resources and its obligations.

- At June 30, 2008, the Agency's total assets of \$5,259,535 consisted of 80% cash and investments, 17% in non-depreciable capital assets and 3% in interest, loans and taxes receivable. The high amount of cash and investments is a result of accumulation of taxes and assessments for proposed infrastructure projects to be built by the City of Grass Valley and for potential additional property acquisition. Total assets are offset by liabilities of \$4,201,099 consisting of short-term payables and bonded indebtedness.
- The agency's net assets at June 30, 2008 were \$1,058,436 as compared to the agency's net deficit of \$131,035 from June 30, 2007. The net deficit is a function of the agency incurring debt for infrastructure projects of the City that are not owned, managed or maintained by the Agency. Additional capital asset information can be found in the Capital Asset and Debt Administration section of this MD&A.
- Restricted net assets represent amounts that may be used in accordance with external restriction. The unrestricted balance of net assets may be used at the City's discretion.

## **FINANCIAL ANALYSIS OF THE FUND STATEMENTS**

The Agency uses fund accounting to assure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of the Agency government, reporting the Agency's operations in more detail than the Agency-wide statements.

The Agency's governmental funds provide information on near-term inflows, outflows and balances of spendable resources. The City's governmental funds reported combined fund balances at June 30, 2008 of \$4.36 million, an increase of \$.69 million over the previous fiscal year. The Housing Fund increased by \$82,311 thousand and the Construction Fund increased by \$607,822 thousand.

### **Revenues**

The Agency's total revenue of \$2,087,850 for the fiscal year ended June 30, 2008 consisted of property tax increments of \$1,882,363 and investment earnings of \$205,487. Revenues increased over 9.86% compared to the prior year.

### **Expenses**

Expenses of the Agency totaled \$1,281,920. The Agency's expenses are primarily for debt interest, housing program administration, general administration and school pass-through payments.

## Housing Fund Budgetary Highlights

Over the course of the year, the Agency Board revised the Agency's Housing fund budget for expenses incurred for housing programs in the City's Revolving Loan Funds that, due to the timing of when loans were issued, were not eligible for housing program income. The Agency also adjusted the Housing fund budget to further assist in the provision or maintenance of affordable housing per the guidelines of the Agency's Low and Moderate Housing (LMI) account. In total, the Agency authorized an additional allocation of \$96,249 in LMI funds to assist the City's Housing Rehabilitation Programs during 2007/2008.

Actual expenditures for 2007/2008 were \$5,220 below final budgeted amounts. This positive budget variance is due to savings in budgeted operating expenditures that included outside services, salaries and benefits.

Revenues during the year were \$35,193 above the final budgeted amount with \$16,473 attributable primarily to increased property tax revenues and \$18,720 to increased interest income. New building construction and sales of property in the Agency's project area has increased assessed property values.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital assets

GASB 34 requires the Agency to record all its capital assets including infrastructure. The Agency transfers money from operations and bond proceeds to the City to fund or partially fund infrastructure projects in the Agency's project area. Historically the resulting capital assets are owned and managed by the City and therefore reported on the City's records. However, certain land has been purchased by the Agency in recent years and is owned and managed by the Agency, and therefore, reported on the Agency's records.

### Long-term Debt

At June 30, 2007 and 2008 respectively, the Agency had \$4.25 and \$4.18 million in long term debt outstanding. The decrease in long term debt was a result of scheduled principal payments and no new debt was issued. The Agency made all scheduled repayments of existing debt on time. More detailed information about the Agency's total long-term liabilities is presented in Note 2, C. to the financial statements. As of June 30, 2008, the Agency's long-term debt consisted of:

### Outstanding Debt

**June 30, 2008**

#### Governmental Activities Debt:

2000 Redevelopment Agency tax allocation bonds - 6%-6.125% due 12/2034	\$2,950,000
2002 ABAG Lease Revenue Bonds - Redevelopment Agency portion - 3%-5% due 12/2025	<u>1,230,000</u>
Total Governmental Activities Debt	<u>\$4,180,000</u>

These bond issues are insured and rated as follows:

2000 Redevelopment Agency Tax Allocation Bonds - uninsured - Standard and Poor's rating – A.  
2002 ABAG Lease Revenue Bonds - insured by Ambac - Moody's rating - AAA.

Standard & Poor's Ratings Services raised the outstanding tax allocation bonds two notches to 'A' from 'BBB+' during November 2008. The raised rating reflects the project area's declining volatility ratio and reduced tax base concentration. The Agency is also preparing documents for the sale of \$6,135,000 in preliminary principal tax allocation bonds. The bonds will be sold by the Agency to the Grass Valley Capital Improvements Authority for concurrent resale to the underwriter. Proceeds from the sale of the bonds will be used to (a) finance redevelopment activities within and for the benefit of the Redevelopment Project, (b) fund capitalized interest on the bonds through June 1, 2009, (c) fund a reserve account for the bonds, and (d) provide for the costs of issuing the Bonds.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Agency has been experiencing strong growth in assessed real property values in recent years. This is a result of new construction and the sale of properties. The Agency's project area covers the older part of the City and many recent sales are of "Pre-Proposition 13 " properties. Property values have increased since these properties last changed hands and the sales increase assessed values and the Agency's tax increment revenues. The Agency has consistent assessed valuation growth in the project area averaging 9.75% annually since 2004. Taxable values of the Project Area have increased from \$217 million in 2004/05 to \$314 million in 2008/2009. The total percentage change was 45.10% over the period and the average annual percentage change in values was 9.75%. It is anticipated the Agency will have continued good assessed valuation growth given the current ongoing and planned projects within the project area.

New construction and the continued increase in real estate values in the area will help ensure strong revenues for the Agency in the near future. Economic downturns in the economy will affect the Agency, but tax increment revenues are still projected to increase though the percentage increase may be more modest as compared to the years with double digit increases. As the Agency's tax increment revenues increase, its ability to issue bonds to complete projects increases. The Agency plans to issue approximately \$6,135,000 in tax allocation bonds during fiscal year 2008/2009.

Major projects budgeted for 2008/2009 are: East Main Street/Idaho-Maryland Intersection improvements, conceptual design of South Auburn/Neal Street Intersection, lane expansion at East Main/Richardson, Main/Auburn Street Traffic Signal Improvements, Feasibility Analysis for expanding the boundaries of the existing Agency, various Downtown, Facility and Master Plan Programs. The Agency purchased property to provide opportunities to create additional public parking, enhance vehicular and pedestrian circulation and to stimulate future redevelopment. Funding has also been allocated to continue an Affordable Housing Assistance Program. The intent is to provide housing incentive and/or assistance designed to facilitate development of affordable housing within the Redevelopment areas.

The Agency's time limit for issuing debt is deleted as of November 27, 2007. This allows the Agency to incur debt up to its plan effective date of 11/8/2029 and maximize its use. The Agency amended the ordinance to eliminate the time limit for indebtedness and extended the time limit on the repayment of indebtedness and receipt of tax increment funds to 11/8/2039. The Agency also plans to hire a consultant to handle a Feasibility Analysis Study for Brunswick Basin. The Agency's Five Year Implementation Plan currently includes years 2004/2005 through 2008/2009.

The Agency is planning to continue to use Housing Fund resources as a match toward City grant funded housing rehabilitation and first time home buyer programs. .

## **CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Finance Department, 125 East Main Street, Grass Valley, CA, 95945, (530) 274-4300.

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**FINANCIAL STATEMENTS**  
**Government-Wide Financial Statements**

**REDEVELOPMENT AGENCY OF THE  
CITY OF GRASS VALLEY, CALIFORNIA**  
(A Component Unit of the City of Grass Valley, California)  
**STATEMENT OF NET ASSETS**  
JUNE 30, 2008

	<b>Governmental Activities</b>	<b>Total</b>
<b><u>ASSETS</u></b>		
Cash and investments	\$ 3,800,624	\$ 3,800,624
Cash with fiscal agent	413,941	413,941
Interest receivable	1,598	1,598
Taxes receivable	162,059	162,059
Loans receivable	1,270	1,270
Non depreciable capital assets	880,043	880,043
<b>Total Assets</b>	5,259,535	5,259,535
<b><u>LIABILITIES</u></b>		
Accounts payable	5,840	5,840
Salaries and benefits payable	6,888	6,888
Due to City of Grass Valley	8,371	8,371
Long-term liabilities:		
Due within one year	70,000	70,000
Due in more than one year	4,110,000	4,110,000
<b>Total Liabilities</b>	4,201,099	4,201,099
<b><u>NET ASSETS</u></b>		
Invested in capital assets	880,043	880,043
Restricted for capital projects	3,661,472	3,661,472
Restricted for other purposes	696,921	696,921
Unrestricted	(4,180,000)	(4,180,000)
<b>Total Net Assets</b>	\$ 1,058,436	\$ 1,058,436

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

**REDEVELOPMENT AGENCY OF THE  
CITY OF GRASS VALLEY, CALIFORNIA**  
(A Component Unit of the City of Grass Valley, California)  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

<b><u>FUNCTIONS/PROGRAMS</u></b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue and Changes in Net Assets</b>		
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Total</b>
Governmental activities:						
General government	\$ 298,574	\$ -	\$ -	\$ -	\$ (298,574)	\$ (298,574)
Community development	234,633	-	-	-	(234,633)	(234,633)
Interest on long-term debt	249,375	-	-	-	(249,375)	(249,375)
<b>Total Governmental Activities</b>	<b>\$ 782,582</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(782,582)</b>	<b>(782,582)</b>
<b>General revenues:</b>						
Taxes:						
Property taxes					1,882,363	1,882,363
Interest and investment earnings					205,487	205,487
<b>Transfers to the City of Grass Valley</b>					<b>(115,797)</b>	<b>(115,797)</b>
<b>Total General Revenues and Transfers</b>					<b>1,972,053</b>	<b>1,972,053</b>
<b>Change in Net Assets</b>					<b>1,189,471</b>	<b>1,189,471</b>
<b>Net Assets - Beginning</b>					<b>(131,035)</b>	<b>(131,035)</b>
<b>Net Assets - Ending</b>					<b>\$ 1,058,436</b>	<b>\$ 1,058,436</b>

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

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**FINANCIAL STATEMENTS**  
Fund Financial Statements

**REDEVELOPMENT AGENCY OF THE  
CITY OF GRASS VALLEY, CALIFORNIA**  
(A Component Unit of the City of Grass Valley, California)  
**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008**

	<b>Redevelopment Housing</b>	<b>Redevelopment Projects</b>	<b>Totals</b>
<b><u>ASSETS</u></b>			
Cash and investments	\$ 666,785	\$ 3,133,839	\$ 3,800,624
Cash with fiscal agent	-	413,941	413,941
Interest receivable	-	1,598	1,598
Taxes receivable	32,412	129,647	162,059
Loans receivable	1,270	-	1,270
	<b>\$ 700,467</b>	<b>\$ 3,679,025</b>	<b>\$ 4,379,492</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b><u>LIABILITIES</u></b>			
Accounts payable	\$ 244	\$ 5,596	\$ 5,840
Salaries and benefits payable	3,302	3,586	6,888
Due to City of Grass Valley	-	8,371	8,371
	<b>3,546</b>	<b>17,553</b>	<b>21,099</b>
<b><u>FUND BALANCES</u></b>			
Fund balance			
Reserved for:			
Encumbrances	1,642	10,000	11,642
Long-term receivables	1,270	-	1,270
Unreserved, reported in:			
Special revenue funds			
Undesignated	694,009	-	694,009
Capital project funds			
Designated	-	3,651,472	3,651,472
	<b>696,921</b>	<b>3,661,472</b>	<b>4,358,393</b>
<b>Total Fund Balances</b>	<b>696,921</b>	<b>3,661,472</b>	<b>4,358,393</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 700,467</b>	<b>\$ 3,679,025</b>	<b>\$ 4,379,492</b>

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

**REDEVELOPMENT AGENCY OF THE  
CITY OF GRASS VALLEY, CALIFORNIA**  
(A Component Unit of the City of Grass Valley, California)  
**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCES  
TO THE GOVERNMENT-WIDE STATEMENT OF  
NET ASSETS - GOVERNMENTAL ACTIVITIES  
JUNE 30, 2008**

<b>Total Fund Balance - Total Governmental Funds</b>	<b>\$ 4,358,393</b>
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 governmental funds balance sheets.	880,043
Certain liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.	
Bonds payable	<u>(4,180,000)</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 1,058,436</u></b>

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

**REDEVELOPMENT AGENCY OF THE  
CITY OF GRASS VALLEY, CALIFORNIA**  
(A Component Unit of the City of Grass Valley, California)  
**STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Redevelopment Housing</b>	<b>Redevelopment Projects</b>	<b>Totals</b>
<b><u>REVENUES</u></b>			
Taxes and assessments	\$ 376,473	\$ 1,505,890	\$ 1,882,363
Use of money and property	36,720	168,767	205,487
<b>Total Revenues</b>	413,193	1,674,657	2,087,850
<b><u>EXPENDITURES</u></b>			
Current:			
General government	-	298,574	298,574
Community development	234,633	-	234,633
Debt service:			
Principal	-	70,000	70,000
Interest and other charges	-	249,375	249,375
Capital outlay	-	429,338	429,338
<b>Total Expenditures</b>	234,633	1,047,287	1,281,920
<b>Excess of Revenues Over (Under) Expenditures</b>	178,560	627,370	805,930
<b><u>OTHER FINANCING SOURCES (USES)</u></b>			
Transfers in	-	-	-
Transfers out	-	-	-
Transfers in (out) from City of Grass Valley	(96,249)	(19,548)	(115,797)
<b>Total Other Financing Sources (Uses)</b>	(96,249)	(19,548)	(115,797)
<b>Net Change in Fund Balances</b>	82,311	607,822	690,133
<b>Fund Balances - Beginning</b>	614,610	3,053,650	3,668,260
<b>Fund Balances - Ending</b>	\$ 696,921	\$ 3,661,472	\$ 4,358,393

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

**REDEVELOPMENT AGENCY OF THE  
CITY OF GRASS VALLEY, CALIFORNIA**  
(A Component Unit of the City of Grass Valley, California)  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 690,133</b>
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.	
Expenditures for capital outlay	429,338
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the 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.	
Principal retirements	<u>70,000</u>
<b>Change in Net Assets of Governmental Activities</b>	<b><u><u>\$ 1,189,471</u></u></b>

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

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**FINANCIAL STATEMENTS**  
Notes to Financial Statements

**REDEVELOPMENT AGENCY OF THE  
CITY OF GRASS VALLEY**  
(A Component Unit of the City of Grass Valley, California)  
**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Redevelopment Agency of the City of Grass Valley 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 Grass Valley. 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. The criteria used to determine the scope of the reporting entity for financial reporting purposes are (1) exercise of oversight responsibility over such agencies by the governmental units elected officials, (2) selection of governing authority, (3) designation of management, (4) ability to significantly influence operations, and (5) accountability for fiscal matters.

Based on the application of these criteria, the Redevelopment Agency of the City of Grass Valley is presented as a blended component unit within the City of Grass Valley's financial statements.

**B. Basis of Presentation**

**Government-Wide Financial Statements**

The statement of net assets and statement of activities display information about the Agency. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities. All activity of the Agency is reflected as a governmental type activity. Governmental activities, which are normally supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Agency's governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods and services offered by the program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**Fund Financial Statements**

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the Agency or meets the following criteria:

- Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The Agency reports the following major governmental funds:

- The Redevelopment Housing Fund is a special revenue fund used to account for monies set aside for low and moderate income housing redevelopment.
- The Redevelopment Projects fund is a capital projects fund used to account for financial resources used for the acquisition or construction of major capital facilities.

The Agency does not report any major proprietary funds.

**REDEVELOPMENT AGENCY OF THE  
CITY OF GRASS VALLEY**  
(A Component Unit of the City of Grass Valley, California)  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**C. Basis of Accounting and Measurement Focus**

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 at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Agency gives (or receives) value without directly receiving (or giving) equal value in exchange, include property tax, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. The Agency considers revenues reported in the governmental funds to be available if they are collected within 60 days after the end of the current fiscal year. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to claims and judgments are recorded only when payment is due. Governmental capital assets acquisitions are reported as expenditures in the various functions of the governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, grants, entitlements, and investment earnings associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in the current fiscal period when they meet the measurable and available criteria. Fines, licenses and permits, and charges for services are considered to be measurable and available only when they Agency receives cash.

**D. Cash and Investments**

The Agency pools cash and investment of all funds, except for amounts held by fiscal agents, with cash and investments of the City of Grass Valley. The City sponsors an investment pool that is managed by the Grass Valley City Council. The Council invests on behalf of most funds of the City and external participants in accordance with the California State Government Code and the City's investment policy. State statutes authorize the City to invest its cash surplus in obligations of the U.S. Treasury, agencies and instrumentalities, corporate bonds, medium term notes, bankers' acceptances, certificates of deposit, commercial paper, repurchase agreements, and the State of California Local Agency Investment Fund. Investment income from pooled investments is allocated to all funds in the pool. Interest is allocated on the basis of average month end cash balance amounts for each fund as a percentage of the total balance.

Investments are reported in the accompanying balance sheet at fair value which is determined using selected bases. Short term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Cash deposits are reported at carrying amount which reasonably estimates fair value. Managed funds not listed on an established market are reported at the estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities.

Participant's equity in the investment pool is determined by the dollar amount of participant deposits, adjusted for withdrawals and distributed investment income. Investment income is determined on an amortized cost basis. Amortized premiums and accreted discounts, accrued interest, and realized gains and losses, net of expenses, are apportioned to pool participants every quarter. This method differs from the fair value method used to value investments in these financial statements as unrealized gains or losses are not apportioned to pool participants. During the fiscal year ended June 30, 2008, the Grass Valley City Council has not entered into any legally binding guarantees to support the participant equity in the investment pool.

**REDEVELOPMENT AGENCY OF THE  
CITY OF GRASS VALLEY**  
(A Component Unit of the City of Grass Valley, California)  
**NOTES TO FINANCIAL STATEMENTS  
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**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**E. Receivables**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include taxes and interest.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as interest and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis.

**F. Inventory**

Governmental fund inventories are recorded as expenditures at the time the inventory is purchased. Records are not maintained of inventory and supplies on hand, although these amounts are not considered material.

**G. Loans Receivable**

For the purpose of the fund financial statements, Special Revenue fund expenditures relating to long-term loans receivable are charged to operations upon funding and the loans receivable are recorded. The balance of the long-term receivable includes loans that may be forgiven if certain terms and conditions of the loans are met.

**H. Capital Assets**

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are reported in the government-wide or fund financial statements.

**Government-Wide Statements**

In the government-wide financial statements, property, plant and equipment are accounted for as capital assets. All capital assets are recorded at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

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

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

**Fund Financial Statements**

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

**I. Long-Term Debt**

All long-term debt to be repaid from governmental type resources are reported as liabilities in the government-wide statements. At June 30, 2008, the long-term debt consisted of bonds payable.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures.

**REDEVELOPMENT AGENCY OF THE  
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**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**J. Compensated Absences**

The Agency's policy regarding vacation is to permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is relieved by the City of Grass Valley General fund, consequently no liability has been reflected in these component unit financial statements.

**K. Net Assets/Fund Balances**

**Government-Wide Financial Statements**

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted net assets are available, unrestricted resources are depleted first before the restricted resources are used.

**Fund Financial Statements**

In the governmental fund financial statements, reserves and designations segregate portions of fund balance. Reservations of fund balance are for amounts that are not available or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance are established by action of management and represent tentative plans that are subject to change. The Agency had no designations at June 30, 2008.

The Agency's reserves at June 30, 2008, are comprised of the following:

	<u>General Fund</u>
Reserved for:	
Encumbrances	\$ 11,642
Long term receivable	1,270
Total Reserved	\$ 12,912

A description of reserves follows:

Reserved for Encumbrances - to reflect the outstanding contractual obligations for which goods and services have not been received.

Reserved for Long-term Receivables - to reflect the portion of assets that do not represented available, spendable resources.

**L. Taxes and Assessments**

The Agency is funded primarily by allocated tax increment revenues. Information on property tax levy, collection and maximum rates is contained in the City of Grass Valley financial statements.

**REDEVELOPMENT AGENCY OF THE  
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**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**M. Expenditures/Expenses**

In the government-wide financial statements, expenses are classified by function.

In the fund financial statements, expenditures are classified as follows:

Government Funds- By Character  
Current (further classified by function)  
Debt Service  
Capital Outlay

**N. Interfund Transactions**

Interfund transactions are reflected as either loans, services provided or used, reimbursements or transfers.

Loans reported as receivables and payables are 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 noncurrent portion of interfund loans) as appropriate and are subject to elimination upon consolidation. Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided or used, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when the funds responsible for particular expenditures repay the funds that initially paid for them. Such reimbursements are treated as an adjustment to expenditures; that is, a corresponding increase in expenditures in the reimbursing fund and a corresponding decrease in expenditures in the reimbursed fund. All other interfund transactions are treated as transfers. Transfers between funds are netted as part of the reconciliation to the government-wide presentation.

**P. Estimates**

The preparation of 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 2: DETAILED NOTES**

**A. Cash and Investments**

The Agency follows the practice of pooling all cash and investments with the City of Grass Valley with the exception of separately held cash with fiscal agents. Complete disclosure of City of Grass Valley investment policies can be found in the City's annual audited financial statements.

As of June 30, 2008, the Agency's cash and investments consisted of the following:

Cash:	
Deposits with fiscal agent	\$ 12
Total Cash	12
Investments:	
In City Treasurer's pool	3,800,624
With fiscal agent	413,929
Total Investments	4,214,553
Total Cash and Investments	\$ 4,214,565

**REDEVELOPMENT AGENCY OF THE  
CITY OF GRASS VALLEY**  
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**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**NOTE 2: DETAILED NOTES (CONTINUED)**

**A. Cash and Investments (Continued)**

**Cash**

The California Government Code requires California banks and savings and loan associations to collateralize an Agency's deposits by pledging government securities. The market value of pledged securities must equal at least 110 percent of an Agency's deposits. California law also allows financial institutions to collateralize Agency deposits by pledging first trust deed mortgage notes having a value of 150 percent of an Agency's total deposits. The Agency may waive collateral requirements for deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation.

At year end, the carrying amount of the Agency's cash deposits (including cash with fiscal agent) was \$12 and the bank balance was \$12. Of the bank balance, \$12 was covered by federal deposit insurance.

**Investments**

As of June 30, 2008, the Agency's investments consisted of the following:

	Interest Rate	Maturities			Fair Value	Weighted Average Maturity (Years)
		0-1 year	1-5 years	Over 5 years		
<b>Investments in City Investment Pool</b>	Variable	\$ 3,800,624	\$ -	\$ -	\$ 3,800,624	0.00
<b>Investments Held by Fiscal Agent</b>						
Government agency securities	3.50	109,483	-	-	109,483	.18
Corporate Obligation	6.30	-	-	304,446	304,446	26.44
Total Investments Held by Fiscal Agent		109,483	-	304,446	413,929	26.62
Total Investments		<u>\$ 3,910,107</u>	<u>\$ -</u>	<u>\$ 304,446</u>	<u>\$ 4,214,553</u>	<u>\$ 2.61</u>

**Interest Rate Risk** - Interest rate risk is the risk of loss due to the fair value of an investment falling due to interest rates rising. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. All investments of the Agency except cash and investments with fiscal agent are pooled with the City of Grass Valley investment pool. The Agency does not have a formal investment policy that further limits investment maturities as a means of managing its exposure to fair value losses.

**Credit Risk** - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law and City investment policy limit investments in commercial paper to the rating of A1 by Standards & Poor's or P-1 by Moody's Investors Service. State law also limits investments in corporate bonds to the rating of A by Standards and Poor's or P-1 by Moody's Investors Service. The Agency does not have a formal investment policy that would further limit its investment choices.

**Custodial Credit Risk** - Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Agency will not be able to recover its deposits or collateral securities that are in the possession of an outside party. The Agency follows California Government Code which requires that deposits of more than \$100,000 must be collateralized. The Agency does not have a formal investment policy that would further limit the exposure to custodial credit risk.

**Concentration of Credit Risk** - Concentration of credit risk is the risk of loss attributed to the magnitude of the Agency's investment in a single issuer of securities. When investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. State law restricts the Agency's investments in commercial paper to 40% of its investment pool and to 10% per issuer, corporate bonds and medium term notes to 30% of its investment pool and to 10% per issuer, and banker's acceptances to 15% of its investment pool and to 10% per issuer. The Agency has invested all cash except cash and investments with fiscal agent in the City investment pool which contains a diversification of investments.

**REDEVELOPMENT AGENCY OF THE  
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**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**NOTE 2: DETAILED NOTES (CONTINUED)**

**B. Notes Receivable**

The following is a summary of the notes receivable for the year ended June 30, 2008.

**Redevelopment Housing**

The Redevelopment Agency has made various loans to qualifying participants within the City of Grass Valley as a first time home buyers program. The loans receivable at June 30, 2008, were \$1,270.

**C. Capital Assets**

Capital assets activity for the year ended June 30, 2008, was as follows:

	<u>Balance July 1, 2007</u>	<u>Additions/ Adjustments</u>	<u>Retirements/ Adjustments</u>	<u>Balance June 30, 2008</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 450,705	\$ 429,338	\$ -	\$ 880,043
Total Capital Assets, Not Being Depreciated	<u>450,705</u>	<u>429,338</u>	<u>-</u>	<u>880,043</u>
Governmental Activities Capital Assets	<u>\$ 450,705</u>	<u>\$ 429,338</u>	<u>\$ -</u>	<u>\$ 880,043</u>

**D. Long-Term Liabilities**

The following is a summary of long-term liabilities transactions for the year ended June 30, 2008.

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2008</u>	<u>Amounts Due Within One Year</u>
<b>Governmental Activities</b>					
Tax Allocation Bonds:	\$ 4,250,000	\$ -	\$ 70,000	\$ 4,180,000	\$ 70,000
Total Governmental Activities	<u>\$ 4,250,000</u>	<u>\$ -</u>	<u>\$ 70,000</u>	<u>\$ 4,180,000</u>	<u>\$ 70,000</u>

At June 30, 2008, Tax Allocation Bonds payable consisted of the following:

\$3,185,000 of 2000 Tax Allocation Bonds, dated April 1, 2000, payable in annual installments of \$20,000 to \$300,000, with an interest rate of 6% to 6.125% and maturity on December 1, 2034.	\$ 2,950,000
\$1,470,000 of Association of Bay Area Governments Lease Revenue Bonds, dated January 10, 2002, payable in annual installments of \$35,000 to \$100,000, with an interest rate of 3% to 5% and maturity on December 1, 2025.	<u>1,230,000</u>
Total Tax Allocation Bonds Payable	<u>\$ 4,180,000</u>

The annual aggregate maturities for the years subsequent to June 30, 2008, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 70,000	\$ 245,913	\$ 315,913
2010	75,000	242,575	317,575
2011	80,000	238,931	318,931
2012	85,000	234,706	319,706
2013	90,000	229,981	319,981
2014-2018	500,000	1,072,736	1,572,736
2019-2023	655,000	915,265	1,570,265
2024-2028	860,000	703,635	1,563,635
2029-2033	1,180,000	384,960	1,564,960
2034-2038	585,000	37,920	622,920
Total	<u>\$ 4,180,000</u>	<u>\$ 4,306,622</u>	<u>\$ 8,486,622</u>

**REDEVELOPMENT AGENCY OF THE  
CITY OF GRASS VALLEY**  
(A Component Unit of the City of Grass Valley, California)  
**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**NOTE 2: DETAILED NOTES (CONTINUED)**

**D. Long-Term Liabilities (Continued)**

**Prior Advance Refunding**

On January 10, 2002, the Agency issued \$535,000 and \$1,470,000 in refunding debt to advance refund the outstanding Police Facility Lease and the outstanding 1995 Tax Allocation bonds. The purpose of the refunding was to reduce the total debt service payments. At June 30, 2008, the outstanding Police Facility lease was retired and the outstanding Tax Allocation bonds were \$1,100,000 and are considered defeased.

**NOTE 3: OTHER INFORMATION**

**A. Insurance**

Because of the close relationship between the Agency and the City of Grass Valley, the Agency's liability coverage is provided by the City's insurance policies. Complete information of risk management can be found in the City of Grass Valley's audited financial statements.

**B. Low and Moderate Housing Obligation**

Section 333346 subdivision (c) of the California Health and Safety Code (the Code), requires the Agency project areas to deposit 20 percent of allocated tax increment revenues into a Redevelopment Housing Fund. Activity in this fund for the year ended June 30, 2008, was as follows:

Ending balance June 30, 2007	\$ 614,610
Revenue set aside:	
tax increment x .20	376,473
Interest earned	36,720
Total Available	1,027,803
Less: Expenditure Allocations	( 234,633)
Transfers to City of Grass Valley	( 96,249)
Ending balance June 30, 2008	\$ 696,921

**C. Transfers to City of Grass Valley**

Transfers to City of Grass Valley were made for housing programs and for capital projects. During the year ended June 30, 2008, the following transfers were made:

Redevelopment Housing	\$ 96,249
Redevelopment Projects	19,548
Total Transfers	\$ 115,797

**D. Subsequent Event**

On November 13, 2008, the Agency adopted a resolution authorizing the issuance of \$6,055,000 (estimated) in City of Grass Valley, California Redevelopment Agency Bonds Series 2008. The Agency expects the bond closing to occur on December 18, 2008.

**REDEVELOPMENT AGENCY OF THE  
CITY OF GRASS VALLEY**  
(A Component Unit of the City of Grass Valley, California)  
**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**NOTE 4: NEW ACCOUNTING PRONOUNCEMENTS**

The Governmental Accounting Standards Board (GASB) has released the following new standards:

GASB Statement No. 45, Accounting and Financial Reporting by Employers of Postemployment Benefits Other Than Pensions (OPEB) addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and for certain employers, the extent to which the plan has been funded over time. GASB Statement No. 45 is effective for certain financial statements with fiscal years ending June 30, 2008.

Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations, issued in November 2006. This Statement establishes accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The Statement establishes once any of five specified obligating events occurs, that a government is required to estimate the components of the expected pollution remediation outlays and determine whether the outlays for those components should be recorded as a liability or, if appropriate, capitalized when goods and services are acquired. GASB Statement No. 49 is effective for financial statements for years beginning after December 15, 2007.

Statement No. 50, Pension Disclosures, an amendment of GASB Statement No. 25 and No. 27, enhances the information disclosed in the notes to the financial statements or presented as required supplementary information (RSI). Statement No. 50 is intended to improve the transparency and decision usefulness of reported information about pensions by state and local governmental plans and employers, and conforms to the applicable changes adopted in Statement No. 45. GASB Statement No. 50 is effective for financial statements for years beginning after June 15, 2007.

Statement No. 51, Accounting and Financial Reporting for Intangible Assets requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. GASB Statement No. 51 is effective for financial statements for years beginning after June 15, 2009.

Statement No. 52, Land and Other Real Estate Held as Investments by Endowments improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. GASB Statement No. 52 is effective for financial statements for years beginning after June 15, 2008.

Statement No.53, Accounting and Financial Reporting for Derivative Instruments addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts and futures contracts. GASB Statement No. 53 is effective for financial statements for years beginning after June 15, 2009.

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**(Unaudited)**

**REDEVELOPMENT AGENCY OF THE  
CITY OF GRASS VALLEY, CALIFORNIA**  
(A Component Unit of the City of Grass Valley, California)  
**BUDGETARY COMPARISON SCHEDULE**  
**REDEVELOPMENT HOUSING - MAJOR SPECIAL REVENUE FUND**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b><u>REVENUES</u></b>				
Taxes and assessments	\$ 360,000	\$ 360,000	\$ 376,473	\$ 16,473
Use of money and property	18,000	18,000	36,720	18,720
<b>Total Revenues</b>	<u>378,000</u>	<u>378,000</u>	<u>413,193</u>	<u>35,193</u>
<b><u>EXPENDITURES</u></b>				
Current:				
Community development	237,312	239,853	234,633	5,220
<b>Total Expenditures</b>	<u>237,312</u>	<u>239,853</u>	<u>234,633</u>	<u>5,220</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>140,688</u>	<u>138,147</u>	<u>178,560</u>	<u>40,413</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Transfers in (out) from City of Grass Valley	(100,000)	(96,249)	(96,249)	-
<b>Total Other Financing Sources (Uses)</b>	<u>(100,000)</u>	<u>(96,249)</u>	<u>(96,249)</u>	<u>-</u>
<b>Net Change in Fund Balance</b>	40,688	41,898	82,311	40,413
<b>Fund Balance - Beginning</b>	<u>614,610</u>	<u>614,610</u>	<u>614,610</u>	<u>-</u>
<b>Fund Balance - Ending</b>	<u>\$ 655,298</u>	<u>\$ 656,508</u>	<u>\$ 696,921</u>	<u>\$ 40,413</u>

See the accompanying note to the Required Supplementary Information.

**REDEVELOPMENT AGENCY OF THE  
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**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2008**

**BUDGETARY BASIS OF ACCOUNTING**

The budget for the Agency is adopted with the City of Grass Valley budget. The City of Grass Valley follows these procedures annually in establishing the budgetary data reflected in the financial statements:

- (1) The City Administrator submits to the City Council a proposed draft budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
- (2) The City Council reviews the proposed budget at regularly scheduled meetings, which are open to the public. The Council also conducts a public hearing on the proposed budget to obtain comments from interested persons.
- (3) Prior to July 1, the budget is adopted through the passage of a resolution.
- (4) From the effective date of the budget, which is adopted and controlled at the department level, the amounts stated therein, as proposed expenditures become appropriations to the various City departments. The City Council may amend the budget by motion during the fiscal year. The City Administrator may authorize transfers from one object or purpose to another within the same department.

Formal budgetary integration is employed as a management control device during the year. The Agency presents a comparison of annual budgets to actual results for its major special revenue fund. The amounts reported on the budgetary basis are generally on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

The Agency uses an encumbrance system as an extension of normal budgetary accounting for the general and other governmental funds. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year end are recorded as reservations of fund balance since they do not constitute expenditures or liabilities. Unencumbered appropriation lapse at year-end. Encumbered appropriations are carried forward in the ensuing year's budget.

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**OTHER REPORT**

**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**

To the Governing Board  
Redevelopment Agency of the City of Grass Valley  
City of Grass Valley, California

We have audited the component unit financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Grass Valley (Agency) (a redevelopment agency formed under the laws of California) and a component unit of the City of Grass Valley, California as of and for the year ended June 30, 2008, and have issued our report thereon dated December 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

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

Compliance and Other Matters

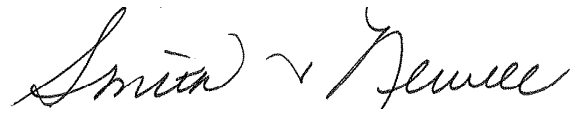
As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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.

We also performed the procedures contained in the publication entitled "Guidelines for Compliance Audits of California Redevelopment Agencies" dated November 1998, promulgated by the California State Controller, Division of Local Government Fiscal Affairs, in connection with a review of the Agency's compliance with laws, regulations, and administrative requirements governing activities of the Agency, as required by the Health and Safety Code of the State of California.

We noted certain other matters that we reported to management of the Agency in the Schedule of Findings and Recommendations.

To the Governing Board  
Redevelopment Agency of the City of Grass Valley  
City of Grass Valley, California

This report is intended solely for the information and use of management, others within the organization, Governing Board, and the State Controller's Office and is not intended and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Smith & Newell". The signature is written in black ink and is positioned above the typed name.

Smith & Newell, CPA's  
Yuba City, California  
December 1, 2008

**REDEVELOPMENT AGENCY OF THE  
CITY OF GRASS VALLEY**  
(A Component Unit of the City of Grass Valley, California)  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

08-FS-01 MINUTES

**Condition**

As of the date of our fieldwork, we noted that minutes for meetings held during the fiscal year and subsequent to year end were not approved by the Agency.

**Cause**

The Grass Valley City Council, which also serves as the Redevelopment Agency Board, has not received, reviewed, or approved meeting minutes in a timely manner.

**Criteria**

Accurate and timely minutes of Agency meetings are required documentation of Agency activity.

**Effect of Condition**

Minutes of Agency meetings were not prepared in a timely manner.

**Recommendation**

We recommend that Agency minutes be prepared in a timely manner.

**Corrective Action Plan**

**Current Agency Meeting Minutes:**

The City Clerk's Office of the City of Grass Valley is actively working to bring all minutes up to date and expects to have this completed by February 28, 2009.

**Future Agency Meeting Minutes:**

The City Clerk's Office will always attempt to include the minutes from an Agency Meeting in the next meeting packet but at the very least will never have more than 60 days (approximately 3 meetings) before Agency minutes are provided for approval. The Agency currently meets twice a month (2<sup>nd</sup> and 4<sup>th</sup>) Tuesdays, but some meetings are cancelled or moved due to conflicts.

Example: The goal of the Clerk's Office is to have minutes at the next meeting. Meeting minutes from June 10<sup>th</sup> would generally be included in the June 24<sup>th</sup> meeting packet but would not be included later than the 1<sup>st</sup> meeting in August packet. Timing is dependent on meeting schedules and Clerk's workload and availability.

**Outcome of Plan:**

Accurate and timely minutes of Agency Meetings will be approved within 60 days of an Agency Meeting.