

**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, 2010**

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**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, 2010**

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# FINANCIAL SECTION

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

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**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, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 24, 2010, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

  
Smith & Newell CPA's  
Yuba City, California  
November 24, 2010

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

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## **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, 2010. 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 an 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 a separate legal agency that is governed by the City Council serving as the Agency's Governing Board. City employees perform all the duties and functions required of the Agency through a cooperative agreement between the City and the Agency.

The Agency's purpose under California law is to eliminate urban blight in the Agency and to promote affordable housing within the Agency and City. It is given certain powers under the law to assist it in that endeavor. The Agency may construct (fund) public improvements, partner with private property owners or other governmental agencies to achieve these purposes. 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 does not assess or levy property taxes; it receives statutorily allowed or negotiated increases in property taxes over amounts received in the prior year before the property in the Agency's project area became subject to redevelopment (the base year). The increase is called property tax increment. Twenty percent of the property tax increment 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 increment it receives.

### **FISCAL 2010 FINANCIAL HIGHLIGHTS**

#### **Agency-wide**

- The Agency's total net assets decreased \$371,201 in fiscal 2010 as compared to the fiscal 2009 increase of \$869,135. The decrease represents a use of assets for projects and State mandated payments.
- At June 30, 2010, the Agency's net assets were \$1,556,370.
- Total Agency revenues were \$2,002,387 including tax increment and interest earnings.

#### **Fund Level:**

- Housing Fund revenues were \$391,914, operating expenses were \$108,431 and net transfers to and from the City were \$20,378 for a net increase in resources of \$303,861 for the fiscal year. Ending fund balance for 2010 was \$1,246,093.
- Actual results compared to budget estimates were \$177,576 better due to \$20,039 in increased revenues over budgeted amounts, \$137,159 in decreased expenditures over appropriations and a transfer in of \$20,378. Revenues were up because of additional tax increment received. Expenditures were down primarily because of a decrease in housing assistance payments for affordable housing.
- Capital Projects Fund revenues were \$1,579,146, operating expenses were \$1,216,972, capital outlay \$251,812 and debt service of \$3,576,804 (included refunding existing debt). Net transfers to the City were \$454,290 and cost of debt refinancing was \$202,619. The Agency also paid \$618,088 to the County for the SERAF Payment required by the State as part of the State budget act under ABX4-26. Capital project transfers included \$283,424 to complete the East Main Street Widening project; \$109,653 for the Upper Slide Ravine project (a multi-year, drainage, sewer, road and water infrastructure project); \$55,344 for the East Main Street / Idaho Maryland Rd Roundabout art work; and 5,868 in support of the annual sidewalk improvement program.
- The outstanding 2000 tax allocation bonds in the amount of \$2,975,000 were refinanced. Debt proceeds of \$3,170,000 were used to pay for the refunding and cost of issuance.
- Capital Project Fund revenues were over budget with greater than anticipated tax increment revenues of \$69,350 and interest income of \$8,965. Operating and administrative expenses were \$149,410 under budget, mostly due to lower expense in outside services (\$131,754).
- Redevelopment 2008 Tax Allocation Bond Fund interest revenues was \$31,327 and expenses were \$91,144. Revenues represent interest income received on the bond proceeds. Expenditures were for a property purchased on Richardson Street for parking purposes.

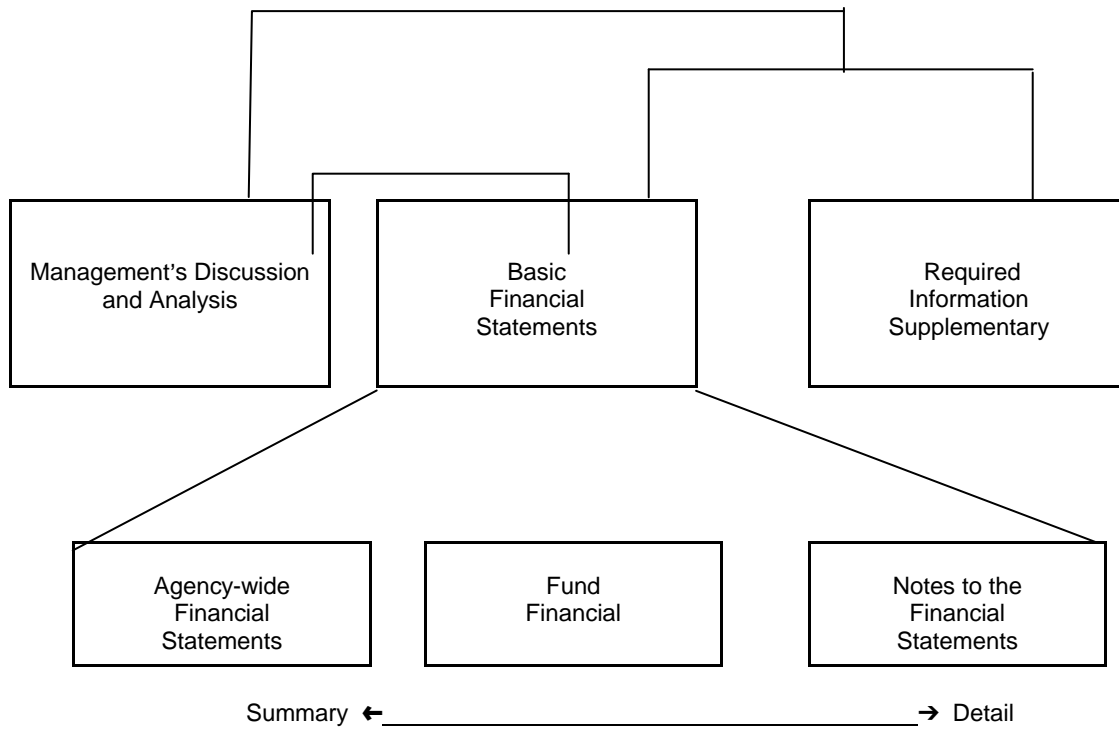
### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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. All 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 of the Agency, owner participation agreements, infrastructure activity in the form of transfers to the City towards projects and agency pass-through payments. 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, all funds are presented.

All 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, 2010, the Agency's total assets of \$11,244,770 consisted of 74% cash and investments, 15% in non-depreciable capital assets and 11% in interest, loans and taxes receivable. The high amount of cash and investments is a result of accumulation of taxes and bond proceeds for proposed infrastructure and other projects to be undertaken by the Agency and for potential property acquisition and redevelopment. Total assets are offset by liabilities of \$9,688,400 consisting of short-term payables and the majority being bonded indebtedness (98%).
- The Agency's net assets at June 30, 2010 were \$1,556,370 as compared to the agency's net assets of \$1,927,571 from June 30, 2009. The decrease was due to use of agency funds for city projects, contractual agreements and the SERAF payment required by the State. Additional capital asset information can be found in the Capital Asset and Debt Administration section of this MD&A.

## **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 Agency's governmental funds reported combined fund balances at June 30, 2010 of \$9,526,536, a decrease from the previous fiscal year of \$780,580. The Housing Fund increased by \$303,861 and the Construction Fund decreased by \$1,024,624 and the 2008 Redevelopment Bond Fund decreased by \$59,817. The decrease represents the use of funds for redevelopment activities and property purchase. The Agency also made a SERAF payment to the County of \$618,088.

### **Revenues**

The Agency's total revenue of \$2,002,387 for the fiscal year ended June 30, 2010 consisted of property tax increment of \$1,933,574 and investment earnings of \$68,813. Revenues were only \$1,419 less than the previous year. Tax increment was up and investment revenues were down.

### **Expenses**

Expenses of the Agency totaled \$5,447,782, which included the refinancing of \$2,975,000 in debt. The Agency's remaining expenses are primarily for debt service, housing program administration, general administration, infrastructure, and agency pass-through payments.

### **Housing Fund Budgetary Highlights**

Actual expenditures for FY2009/10 were \$177,576,159 below final budgeted amounts. This was primarily due to a decrease in housing program assistance payments.

Revenues during the year were \$20,039 above the final budgeted amount with \$24,840 attributable to increased property tax revenues and a (\$4,801) decrease in interest income. An unbudgeted transfer in of \$20,378 from the City was also received which increased fund balance.

Fund balance increased by a total of \$303,861 to a total of \$1,246,093 which includes undesignated amount of \$632,045. A portion of the fund balance is reprogrammed for FY2010/11 for Habitat for Humanity (\$250,000) and for the City's Housing and Rehabilitation programs (\$300,000).

## **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, managed and maintained by the City. 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 as an asset. Value of land owned by the Agency totals \$1,679,342.

The Agency owns five pieces of property as follows:

- 1) Richardson/E. Main Street open space parcel – to be developed as entry way feature into Downtown Grass Valley. A conceptual design is complete.
- 2) Property at 161 ½ S. Auburn – Property to be used in the implementation of S. Auburn Street Master Plan. Property is currently vacant.
- 3) Property at 114 -116 Neal St purchased for parking and entry way feature improvements. Has a vacant commercial building on the site, which is planned to be removed.
- 4) Property at 168 S. Auburn purchased for parking and entry way feature improvements and is adjacent to the Neal street property. Currently used for parking.
- 5) Property at N. Auburn/Richardson St. purchased for, and currently used for parking purposes.

**Long-term Debt**

At June 30, 2009 and 2010 respectively, the Agency had \$10.09 and \$10.285 million in long term debt outstanding. The increase in long term debt was a result of refinancing the 2000 tax allocation bonds with the 2010 tax allocation bonds. 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, D. to the financial statements. As of June 30, 2010, the Agency’s long-term debt consisted of:

**Outstanding Debt**

<b>Governmental Activities Debt:</b>	<b><u>June 30, 2010</u></b>
2010 Redevelopment Agency tax allocation bonds - 3%-5.25% due 12/2034	\$ 3,170,000
2002 ABAG Lease Revenue Bonds - Redevelopment Agency portion - 3%-5% due 12/2025	1,135,000
2008 Redevelopment Agency tax allocation bonds – 4%-7.125% due 12/2038	<u>5,980,000</u>
Total Governmental Activities Debt	<u>\$10,285,000</u>

These bond issues are insured and rated as follows:

2010 Redevelopment Agency Tax Allocation Bonds – insured by Assured Guaranty Municipal (AGM)- Standard and Poor’s rating – A.

2002 ABAG Lease Revenue Bonds - insured by Ambac - Moody’s rating - AAA.

2008 Redevelopment Agency Tax Allocation Bonds – uninsured – Standard and Poor’s rating – A

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 was notified on November 29, 2010 that on or about October 25, 2010 Standard & Poor’s Ratings Services downgraded the rating of Assured Guaranty Municipal (AGM from AAA (negative outlook) to Aa+ (stable). The notice provided AGM’s current rating as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>Last Changed</u>
Moody’s Investors Service	Aa3, Negative Outlook	December 18, 2009
Standard & Poor’s Rating Service	Aa+, Stable	October 25, 2010

The notice of the event was disclosed with the filing of the information with EMMA – Electronic Municipal Market Access as of December 1, 2010.

**Agency Long-Term Receivables**

- 1) The Agency through the Housing Fund has advanced \$600,000 for the rehabilitation of Springhill Garden Apartments where 119 of the 121 units were deed restricted based on income limits.
- 2) The Agency loaned the City \$600,000 to assist with the construction of a roundabout and related street improvements located at the intersection of Idaho Maryland Road and East Main Street. The Agency will receive a portion of future transportation impact fees to repay the loan. The outstanding balance is \$593,056.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGET**

The Agency has experienced strong growth in assessed real property values in recent years. This was a result of new construction and the sale of properties, with many sales of “Pre-Proposition 13” properties. The Agency had consistent assessed valuation growth in the project area averaging 8.12% annually from FY2004/05 through FY2009/10. Taxable values of the Project Area have increased from \$216.5 million in 2004/05 to \$319 million in FY2009/2010. For FY2010/11 the Agency will see a drop in value due to the general national economic downturn and related impacts within the region and Agency to \$298 million. The impact on total tax increment revenues is an estimated decline of \$168,028. The drop in revenue will not impact basic operations or debt payments. The Agency’s budget will be adjusted in the area of potential projects, which rely mostly on reserves and bond proceeds rather than on operating revenues.

For FY2010/11 the Agency will continue with the implementation of the Downtown Strategic plan. This includes the development of parking options and entryway features, upgrade of street furniture, and signage. The Agency will continue to participate with the City in the identification and improvement of key areas for improved ADA access on sidewalks and intersections. The Agency will continue to participate in funding for infrastructure improvements in the Upper Slide Ravine area. The Agency purchased property to provide opportunities to create additional public parking, enhance vehicular and pedestrian circulation and to stimulate future redevelopment. A parking management system is under review. The FY2010/11 budget also allocates a substantial amount of the fund balance and bond proceeds for potential redevelopment projects that are tentatively pending the participation of private property owners or finalization of planning and construction information to proceed forward (\$2,162,000). For FY2010/2011, \$256,000 is reserved in the budget for the second year payment required under ABX4-26.

The Agency's time limit for issuing debt was 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 is proceeding with the analysis and actions to add property to the Agency's boundary which includes approximately 687 acres. The amendment process is anticipated to be completed in FY2010/11. The Agency's Five Year Implementation Plan was updated and adopted for the next five year period of FY2009/10 through FY2013/14.

Funding has also been allocated to continue an Affordable Housing Assistance Program. The intent is to provide housing incentives and/or assistance designed to facilitate development of affordable housing within the Redevelopment areas. 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. Funding is allocated to assist with a planned 16 unit housing project by Habitat for Humanity. As of FY2009/10 the Agency's obligation for affordable housing was in a surplus position for both Very Low and Low/Moderate housing units.

#### **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 Agency's finances and to demonstrate the Agency'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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**BASIC FINANCIAL STATEMENTS**  
Government-Wide Financial Statements

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**REDEVELOPMENT AGENCY OF THE CITY OF GRASS VALLEY**  
(A Component Unit of the City of Grass Valley, California)  
**STATEMENT OF NET ASSETS**  
JUNE 30, 2010

	<b>Total Governmental Activities</b>
<b><u>ASSETS</u></b>	
Cash and investments	\$ 2,881,633
Cash with fiscal agent	5,395,107
Interest receivable	6,272
Taxes receivable	89,360
Advances to City of Grass Valley	593,056
Loans receivable	600,000
Non depreciable capital assets	<u>1,679,342</u>
<b>Total Assets</b>	<b><u>11,244,770</u></b>
<b><u>LIABILITIES</u></b>	
Accounts payable	24,116
Salaries and benefits payable	14,776
Long-term liabilities:	
Due within one year	136,575
Due in more than one year	<u>9,512,933</u>
<b>Total Liabilities</b>	<b><u>9,688,400</u></b>
<b><u>NET ASSETS</u></b>	
Invested in capital assets, net of related debt	1,131,855
Restricted for:	
Grants, taxes, and fees	1,246,093
Unrestricted	<u>(821,578)</u>
<b>Total Net Assets</b>	<b><u>\$ 1,556,370</u></b>

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

**REDEVELOPMENT AGENCY OF THE CITY OF GRASS VALLEY**  
(A Component Unit of the City of Grass Valley, California)  
**STATEMENT OF ACTIVITIES**  
FOR THE YEAR ENDED JUNE 30, 2010

<u>FUNCTIONS/PROGRAMS</u>	Program Revenues			<b>Net (Expense) Revenue and Changes in Net Assets</b>
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Governmental Activities</u>
Governmental activities:				
General government	\$ 1,216,972	\$ -	\$ -	\$ -
Community development	108,431	-	-	-
Interest on long-term debt	614,273	-	-	-
<b>Total Governmental Activities</b>	<b>\$ 1,939,676</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>General revenues:</b>				
Taxes:				
Property taxes				1,933,574
Interest and investment earnings				68,813
<b>Transfers to the City of Grass Valley</b>				<b>(433,912)</b>
<b>Total General Revenues and Transfers</b>				<b>1,568,475</b>
<b>Change in Net Assets</b>				<b>(371,201)</b>
<b>Net Assets - Beginning</b>				<b>1,927,571</b>
<b>Net Assets - Ending</b>				<b>\$ 1,556,370</b>

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

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**BASIC FINANCIAL STATEMENTS**  
Fund Financial Statements

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**REDEVELOPMENT AGENCY OF THE CITY OF GRASS VALLEY**  
(A Component Unit of the City of Grass Valley, California)  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2010**

	<b>Redevelopment Housing</b>	<b>Redevelopment Projects</b>	<b>Redevelopment Bonds 2008</b>	<b>Total</b>
<b><u>ASSETS</u></b>				
Cash and investments	\$ 633,793	\$ 2,247,840	\$ -	\$ 2,881,633
Cash with fiscal agent	-	863,878	4,531,229	5,395,107
Interest receivable	-	-	6,272	6,272
Taxes receivable	17,872	71,488	-	89,360
Due from other funds	-	618	-	618
Advances to City of Grass Valley	-	593,056	-	593,056
Loans receivable	600,000	-	-	600,000
	<b>Total Assets</b>	<b>\$ 3,776,880</b>	<b>\$ 4,537,501</b>	<b>\$ 9,566,046</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b><u>LIABILITIES</u></b>				
Accounts payable	\$ 1,743	\$ 22,373	\$ -	\$ 24,116
Salaries and benefits payable	3,829	10,947	-	14,776
Due to other funds	-	-	618	618
	<b>Total Liabilities</b>	<b>33,320</b>	<b>618</b>	<b>39,510</b>
<b><u>FUND BALANCES</u></b>				
Fund balance				
Reserved for:				
Encumbrances	14,048	136,583	-	150,631
Long-term receivables	600,000	593,056	-	1,193,056
Unreserved, reported in:				
Special revenue funds				
Undesignated	632,045	-	-	632,045
Capital project funds				
Designated	-	3,013,921	4,536,883	7,550,804
	<b>Total Fund Balances</b>	<b>3,743,560</b>	<b>4,536,883</b>	<b>9,526,536</b>
	<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,776,880</b>	<b>\$ 4,537,501</b>	<b>\$ 9,566,046</b>

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

**REDEVELOPMENT AGENCY OF THE CITY OF GRASS VALLEY**  
 (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, 2010

<b>Total Fund Balance - Total Governmental Funds</b>	<b>\$ 9,526,536</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.	1,679,342
Certain liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.	
2002 Tax allocation bonds	(1,135,000)
2008 Tax allocation bonds, net of unamortized bond discount of \$188,919 and unamortized bond issuance costs of \$185,150	(5,618,400)
2010 Tax allocation bonds, net of unamortized bond discount of \$42,273, unamortized bond issuance costs of \$202,619, and unamortized premium paid on refunding of \$29,000.	(2,896,108)
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 1,556,370</u></b>

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

**REDEVELOPMENT AGENCY OF THE CITY OF GRASS VALLEY**  
(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, 2010**

	<b>Redevelopment Housing</b>	<b>Redevelopment Projects</b>	<b>Redevelopment Bonds 2008</b>	<b>Total</b>
<b><u>REVENUES</u></b>				
Taxes and assessments	\$ 386,715	\$ 1,546,859	\$ -	\$ 1,933,574
Use of money and property	5,199	32,287	31,327	68,813
<b>Total Revenues</b>	391,914	1,579,146	31,327	2,002,387
<b><u>EXPENDITURES</u></b>				
Current:				
General government	-	1,216,972	-	1,216,972
Community development	108,431	-	-	108,431
Debt service:				
Principal	-	2,975,000	-	2,975,000
Interest and other charges	-	601,804	-	601,804
Bond issue cost	-	202,619	-	202,619
Capital outlay	-	251,812	91,144	342,956
<b>Total Expenditures</b>	108,431	5,248,207	91,144	5,447,782
<b>Excess of Revenues Over (Under) Expenditures</b>	283,483	(3,669,061)	(59,817)	(3,445,395)
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Transfers in (out) from City of Grass Valley	20,378	(454,290)	-	(433,912)
Refunding bonds issued	-	3,170,000	-	3,170,000
Discount on tax allocation bond	-	(42,273)	-	(42,273)
Premium paid on refunding	-	(29,000)	-	(29,000)
<b>Total Other Financing Sources (Uses)</b>	20,378	2,644,437	-	2,664,815
<b>Net Change in Fund Balances</b>	303,861	(1,024,624)	(59,817)	(780,580)
<b>Fund Balances - Beginning</b>	942,232	4,768,184	4,596,700	10,307,116
<b>Fund Balances - Ending</b>	\$ 1,246,093	\$ 3,743,560	\$ 4,536,883	\$ 9,526,536

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

**REDEVELOPMENT AGENCY OF THE CITY OF GRASS VALLEY**  
(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, 2010**

**Net Change in Fund Balances - Total Governmental Funds** \$ (780,580)

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 342,956

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 2,975,000

Proceeds from issuance of debt, net of bond discount of \$42,273, cost of issuance of \$202,619, and premium paid on refunding of \$29,000. (2,896,108)

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 the governmental funds.

Amortization of bond discount (6,297)

Amortization of bond issuance costs (6,172)

**Change in Net Assets of Governmental Activities** \$ (371,201)

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

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**BASIC FINANCIAL STATEMENTS**  
Notes to Basic Financial Statements

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**REDEVELOPMENT AGENCY OF THE CITY OF GRASS VALLEY**  
(A Component Unit of the City of Grass Valley, California)  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**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 governmental fund 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 only the financial activities of the Agency. Eliminations have been made to minimize the double counting of internal activities. These statements report the governmental activities of the Agency, which are normally supported by taxes and inter-governmental revenues. The Agency had no business-type activities at June 30, 2010.

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, 2) operating grants and contributions, and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**Fund Financial Statements**

Fund financial statements of the Agency 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. The Funds of the Agency are organized into the governmental category. 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.

**REDEVELOPMENT AGENCY OF THE CITY OF GRASS VALLEY**  
(A Component Unit of the City of Grass Valley, California)  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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

**B. Basis of Presentation (Continued)**

**Fund Financial Statements (Continued)**

- The Redevelopment Bonds 2008 fund is a capital projects fund used to account for the proceeds and expenditures of the 2008 Tax Allocation Bond issuance.

**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 governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

**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.

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 each quarter based on the participants average month end cash balance in relation to the total pool balance. 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, 2010, the Grass Valley City Council has not entered into any legally binding guarantees to support the value of the participant equity in the investment pool.

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.

Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the City's financial statements. The City of Grass Valley's financial statements may be obtained by contacting the City of Grass Valley Finance Department, 125 East Main Street, Grass Valley, CA 95945.

**REDEVELOPMENT AGENCY OF THE CITY OF GRASS VALLEY**  
(A Component Unit of the City of Grass Valley, California)  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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

**E. Receivables**

In the government-wide financial 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. Receivables recorded in the financial statements are not net of any allowance for doubtful accounts. Any doubtful accounts at June 30, 2010, were not considered material and, therefore, were not recorded.

In the governmental fund financial statements, material receivables 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. 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. These services provide information on the net cost of each government function and therefore are not estimated in the process of preparing the government-wide statement of activities.

Reimbursements occur when the funds responsible for particular expenditures or expenses repay the funds that initially paid for them. Such reimbursements are treated as an adjustment to expenditures or expenses; that is, a corresponding increase in expenditures or expenses in the reimbursing fund and a corresponding decrease in expenditures or expenses 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.

See Note 2 for details of interfund transactions, including receivables and payables at year end.

**G. 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.

**H. 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 with a reserve in fund balance for a long-term receivable.

**I. 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 Financial Statements**

In the government-wide financial statements, property, plant and equipment are accounted for as capital assets. Capital assets are recorded at historical, or estimated historical cost. Contributed capital assets which are recorded at their estimated fair market value at the date of donation.

**REDEVELOPMENT AGENCY OF THE CITY OF GRASS VALLEY**  
(A Component Unit of the City of Grass Valley, California)  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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

**I. Capital Assets (Continued)**

**Government-Wide Financial Statements (Continued)**

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. At June 30, 2010, the only capital asset owned by the Agency was land which is not subject to depreciation.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

**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 at the time of acquisition.

**J. Long-Term Debt**

All long-term debt to be repaid from governmental type resources are reported as liabilities in the government-wide financial statements. At June 30, 2010, 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.

**K. 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.

**L. 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. These principally include restrictions for capital projects and other special revenue fund purposes.
- 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.

**REDEVELOPMENT AGENCY OF THE CITY OF GRASS VALLEY**  
(A Component Unit of the City of Grass Valley, California)  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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

**L. Net Assets/Fund Balances (Continued)**

**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 of fund balance at June 30, 2010.

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 represent available, spendable resources.

**M. 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.

**N. 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

**O. 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 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 and investments 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, 2010, the Agency's cash and investments consisted of the following:

Cash:		
Deposits with fiscal agent	\$	759,961
Total Cash		759,961
Investments:		
In City Treasurer's pool		2,881,633
With fiscal agent		4,635,146
Total Investments		7,516,779
Total Cash and Investments	\$	8,276,740

**REDEVELOPMENT AGENCY OF THE CITY OF GRASS VALLEY**  
(A Component Unit of the City of Grass Valley, California)  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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

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

**Cash**

At year end, the carrying amount of the Agency's cash deposits was \$759,961 and the bank balance was \$759,961.

Custodial Credit Risk For Deposits - 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. Government Code requires that deposits in excess of the \$250,000 must be collateralized at 105 percent to 150 percent of the value of the deposit to guarantee the safety of the public funds. The first \$250,000 of the Agency's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Deposits more than the \$250,000 insured amount are collateralized. The Agency does not have a formal investment policy that would further limit its deposits.

**Investments**

As of June 30, 2010, 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	\$ 2,881,633	\$ -	\$ -	\$ 2,881,633	0.00
<b>Investments Held by Fiscal Agent</b>						
Government agency securities	-	103,917	-	-	103,917	.00
Local Agency Investment fund (LAIF)	Variable	4,531,229	-	-	4,531,229	.00
Total Investments Held by Fiscal Agent		4,635,146	-	-	4,635,146	.00
Total Investments		\$ 7,516,779	\$ -	\$ -	\$ 7,516,779	\$ .00

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 or better by Standards & Poor's or P-1 or better by Moodys' Investors Service; and corporate bonds to the rating of A or better by both Standards and Poor's and Moody's Investors Service. No limits are placed on U.S. government agency securities and U.S. Treasuries. 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 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 agents in the City investment pool which contains a diversification of investments.

**REDEVELOPMENT AGENCY OF THE CITY OF GRASS VALLEY**  
(A Component Unit of the City of Grass Valley, California)  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED JUNE 30, 2010

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

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

**Investments (Continued)**

Investment in Local Agency Investment Fund - The Redevelopment Agency of the City of Grass Valley is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. At June 30, 2010, the Agency's investment position in the State of California Local Agency Investment Fund (LAIF) was \$4,531,229, which approximates fair value and is the same as the value of the pool shares. The total amount invested by all public agencies in LAIF on that day was \$69,555,776,591. Of that amount, 94.58% is invested in non-derivative financial products and 5.42% in structured notes and asset-backed securities. The value of the pool shares in LAIF is determined on an amortized cost basis, which approximates fair value. The Local Investment Advisory Board, which consists of five members designated by the State statutes, has oversight responsibility for LAIF.

**B. Notes Receivable**

The following is a summary of the notes receivable for the year ended June 30, 2010.

**Redevelopment Housing**

The Agency has made loans to qualifying participants within the City of Grass Valley to provide housing to low and moderate income participants. At June 30, 2010, loans receivable consisted of the following:

Springhill Garden Apartments, LLC loan dated September 23, 2008, payable in annual installments commencing in 2011, with an interest rate of 3% and maturity in 30 years.

Total Loans	<u>\$ 600,000</u>
-------------	-------------------

**C. Capital Assets**

Capital assets activity for the year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010
Capital Assets, Not Being Depreciated:				
Land	\$ 1,336,386	\$ 342,956	\$ -	\$ 1,679,342
Total Capital Assets, Not Being Depreciated	1,336,386	342,956	-	1,679,342
Total Capital Assets	\$ 1,336,386	\$ 342,956	\$ -	\$ 1,679,342

**D. Long-Term Liabilities**

The following is a summary of all long-term liabilities transactions for the year ended June 30, 2010.

Type of Indebtedness	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010	Amounts Due Within One Year
Tax Allocation Bonds:	\$ 10,090,000	\$ 3,170,000	\$ 2,975,000	\$ 10,285,000	\$ 160,000
Less: bond discount	( 188,919)	( 77,143)	6,297	( 259,765)	( 9,383)
Less: bond issue coss	( 185,150)	( 167,749)	6,172	( 346,727)	( 12,882)
Less: premium paid on refunding	-	( 29,000)	-	( 29,000)	( 1,160)
Total Long Term Liabilities	\$ 9,715,931	\$ 2,896,108	\$ 2,962,531	\$ 9,649,508	\$ 136,575

**REDEVELOPMENT AGENCY OF THE CITY OF GRASS VALLEY**  
(A Component Unit of the City of Grass Valley, California)  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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

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

At June 30, 2010, Tax Allocation Bonds payable consisted of the following:

\$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. The bond proceeds were used to refund the 1995 Tax Allocation Bonds, which were used to purchase Grass Valley Memorial Park Facilities which are owned by the City of Grass Valley.	\$ 1,135,000
\$5,980,000 of 2008 Tax Allocation Bonds, dated December 1, 2008, payable in annual installments of \$55,000 to \$660,000, with an interest rate of 4.00% to 7.125% and maturity on December 1, 2038. The bond proceeds will be used to finance redevelopment activities. Of the balance \$547,487 had been used for the acquisition of capital assets.	5,980,000
\$3,170,000 of 2010 Tax Allocation Bonds, dated April 14, 2010, payable in annual installments of \$60,000 to \$300,000, with an interest rate of 3.00% to 5.25% and maturity on December 1, 2034. The bond proceeds were used to refund the 2000 Tax Allocation Bonds.	<u>3,170,000</u>
Total Tax Allocation Bonds Payable	<u><u>\$ 10,285,000</u></u>

The annual aggregate maturities for the years subsequent to June 30, 2010, are as follows:

Year Ended June 30	Principal	Interest	Total
2011	\$ 105,000	\$ 540,376	\$ 645,376
2012	155,000	597,763	752,763
2013	215,000	590,913	805,913
2014	220,000	583,738	803,738
2015	210,000	574,631	784,631
2016-2020	1,315,000	2,700,044	4,015,044
2021-2025	1,725,000	2,301,981	4,026,981
2026-2030	1,950,000	1,798,037	3,748,037
2031-2035	2,005,000	1,235,809	3,240,809
2036-2040	<u>2,385,000</u>	<u>354,645</u>	<u>2,739,645</u>
Total	<u><u>\$ 10,285,000</u></u>	<u><u>\$11,277,937</u></u>	<u><u>\$ 21,562,937</u></u>

**E. Current Refunding**

On April 13, 2010, the Redevelopment Agency of the City of Grass Valley issued \$3,170,000 of tax allocation bonds with an interest rate of 3.00% to 5.25% to refund prior tax allocation bonds with interest rates ranging from 5.00% to 6.40% and a par value of \$3,185,000. The prior tax allocation bonds matured annually on December 1 between 2010 and 2034 and were callable on June 1, 2010. The net proceeds from issuance of the tax allocation bonds were used to retire the prior tax allocation bonds on May 17, 2010.

As a result of refunding, the Redevelopment Agency of the City of Grass Valley reduced its total debt service requirements by \$215,136, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$167,265.

**F. 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, 2010, the outstanding Police Facility lease was retired and the outstanding Tax Allocation bonds were \$1,060,000 and are considered defeased.

**REDEVELOPMENT AGENCY OF THE CITY OF GRASS VALLEY**  
(A Component Unit of the City of Grass Valley, California)  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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

**G. Interfund Transactions**

**Due To/From Other Funds**

During the course of operations, transactions occur between funds to account for goods received or services rendered. These receivables and payables are classified as due from or due to other funds. In addition, when funds overdraw their share of pooled cash, the receivables and payables are classified as due from or due to other funds. The following are due to and due from balances as of June 30, 2010:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Redevelopment Projects	\$ 618	\$ -
Redevelopment Bonds 2008	<u>-</u>	<u>618</u>
Total	<u>\$ 618</u>	<u>\$ 618</u>

**NOTE 3: EMPLOYEE BENEFITS**

**Employee's Retirement Plan**

The Agency employees are considered to be City employees for retirement purposes. Required disclosure information regarding employee's retirement plan can be found in the City's audited financial statements.

**Post-Employment Benefits Other than Pensions**

The Agency employees are considered to be City employees for retirement purposes. Required disclosure information regarding post-employment benefits can be found in the City's audited financial statements.

**NOTE 4: RISK MANAGEMENT**

The Agency is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disaster.

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 on risk management can be found in the City of Grass Valley's audited financial statements.

**NOTE 5: RELATED PARTY TRANSACTIONS**

The Agency has related party transactions with the City of Grass Valley. Following is a summary of receivables and transfers as of June 30, 2010.

**A. Advances to the City of Grass Valley**

Advances to the City of Grass Valley were made for capital projects. At June 30, 2010, the Redevelopment Projects fund had an advance receivable plus accrued interest from the City of \$593,056.

**B. 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, 2010, the following transfers were made:

Redevelopment Projects	\$ 454,290
Total Transfers	<u>\$ 454,290</u>

**REDEVELOPMENT AGENCY OF THE CITY OF GRASS VALLEY**  
(A Component Unit of the City of Grass Valley, California)  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 6: OTHER INFORMATION**

**A. Subsequent Events**

Payment of scheduled principal of and interest on the 2010 Tax Allocation Refunding Bonds is insured by Assured Guaranty Municipal Corp. (Formerly known as Financial Security Assurance Inc.) ("AGM").

The Issuer has been advised that, on or about October 25, 2010, Standard & Poor's Ratings Services downgraded the rating of AGM from AAA (negative outlook to AA+ (stable).

AGM's current ratings are as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>Last Changed</u>
Moody's investors Service	Aa3, Negative Outlook	December 18, 2009
Standard & Poor's Ratings Service	AA+, Stable	October 25, 2010

Management has evaluated events subsequent to June 30, 2010 through November 24, 2010, the date on which the financial statements were available for issuance. Management has determined no other subsequent events requiring disclosure have occurred.

**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, 2010, was a follows:

Ending balance June 30, 2009	\$ 942,232
Revenue set aside:	
tax increment x .20	386,715
Interest earned	5,199
Transfers from City of Grass Valley	<u>20,378</u>
Total Available	412,292
Less: Expenditure Allocations	( <u>108,431</u> )
Ending balance June 30, 2010	<u>\$ 1,246,093</u>

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

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**REDEVELOPMENT AGENCY OF THE CITY OF GRASS VALLEY**  
(A Component Unit of the City of Grass Valley, California)  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**REDEVELOPMENT HOUSING - MAJOR SPECIAL REVENUE FUND**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<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	\$ 361,875	\$ 361,875	\$ 386,715	\$ 24,840
Use of money and property	10,000	10,000	5,199	(4,801)
<b>Total Revenues</b>	<u>371,875</u>	<u>371,875</u>	<u>391,914</u>	<u>20,039</u>
<b><u>EXPENDITURES</u></b>				
Current:				
Community development	242,981	245,590	108,431	137,159
<b>Total Expenditures</b>	<u>242,981</u>	<u>245,590</u>	<u>108,431</u>	<u>137,159</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>128,894</u>	<u>126,285</u>	<u>283,483</u>	<u>157,198</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Transfers in (out) from City of Grass Valley	-	-	20,378	20,378
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>-</u>	<u>20,378</u>	<u>20,378</u>
<b>Net Change in Fund Balance</b>	128,894	126,285	303,861	177,576
<b>Fund Balance - Beginning</b>	<u>942,232</u>	<u>942,232</u>	<u>942,232</u>	<u>-</u>
<b>Fund Balance - Ending</b>	<u>\$ 1,071,126</u>	<u>\$ 1,068,517</u>	<u>\$ 1,246,093</u>	<u>\$ 177,576</u>

See the accompanying note to the Required Supplementary Information.

**REDEVELOPMENT AGENCY OF THE CITY OF GRASS VALLEY**  
(A Component Unit of the City of Grass Valley, California)  
**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**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 AND SCHEDULES**

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

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

We have audited the 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, 2010, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated November 24, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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. The results of our tests disclosed instances of noncompliance that are required to be reported under Guidelines for Compliance Audits of California Redevelopment Agencies and which are described in the accompanying Schedule of Findings and Recommendations as items 10-RDA-01 and 10-RDA-02.

The Agency's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Recommendations. We did not audit the Agency's responses, and accordingly, we express no opinion on them.

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, Governing Board, others within the organization, 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 printed text of the firm's name.

Smith & Newell, CPA's  
Yuba City, California  
November 24, 2010

**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, 2010**

**10-RDA-01 FIVE-YEAR IMPLEMENTATION PLAN**

**Condition**

During our audit we noted that the Agency did not have a current adopted five-year implementation plan.

**Cause**

The Agency did not complete and adopt a five-year implementation plan prior to the expiration of the prior plan on December 31, 2009.

**Criteria**

The Health and Safety Code requires that each Redevelopment Agency produce and adopt an implementation plan for each project area every five years.

**Effect of Condition**

The Agency is not in compliance with the Health and Safety Code.

**Recommendation**

We recommend that the Agency develop and maintain a current adopted five-year implementation plan.

**Corrective Action Plan**

At the City Council meeting on October 26, 2010, Resolution 2010-72RDA adopted the Five-Year Implementation Plan for fiscal years 2009-10 through 2013-14.

**10-RDA-02 BLIGHT PROGRESS AND PROPERTY REPORTS**

**Condition**

During our audit we noted that the Redevelopment Agency had not completed a blight progress report or a property report.

**Cause**

The Agency did not complete an annual report which included the actions and expenditures made in the previous fiscal year to alleviate blight conditions and did not complete an annual report describing properties owned by the Agency and those acquired in the previous fiscal year.

**Criteria**

Health and Safety Code Section 33080.4 requires that a blight progress report specifying actions and expenditures made to alleviate blight and a property report describing properties owned and those acquired in the previous fiscal year be filed annually.

**Effect of Condition**

The Agency is not in compliance with Health and Safety Code Section 33080.4.

**Recommendation**

We recommend that the Agency review Health and Safety Code Section 33080.4 to ensure that the required blight progress and property reports are filed annually.

**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, 2010**

**10-RDA-02 BLIGHT PROGRESS AND PROPERTY REPORTS (CONTINUED)**

**Corrective Action Plan**

While our State Controller's Report and Housing and Community Development Report for 2008-09 were filed with the proper state agencies, they were not filed with the Agency's legislative body, the City Council. These reports include the information on blight progress and property held by the agency. On the meeting scheduled for December 14, 2010, the 2008-09 reports will be filed.

**REDEVELOPMENT AGENCY OF THE CITY OF GRASS VALLEY**  
(A Component Unit of the City of Grass Valley, California)  
**STATUS OF PRIOR YEAR RECOMMENDATIONS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

<u>Audit Reference</u>	<u>Status of Prior Year Recommendations</u>
	NONE

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