

**CRESCENT CITY REDEVELOPMENT AGENCY
BASIC COMPONENT UNIT FINANCIAL STATEMENTS
JUNE 30, 2010**

INTRODUCTORY SECTION

C O N T E N T S

FINANCIAL SECTION

Report of Independent Auditor 1

BASIC FINANCIAL STATEMENTS

Statement of Net Assets 2
Statement of Activities 3

FUND FINANCIAL STATEMENTS

Balance Sheet - Governmental Funds 4
Reconciliation of the Governmental Funds - Balance Sheet
with the Governmental Activities Statement of Net Assets 5
Statement of Revenues, Expenditures and Changes in Fund
Balances - Governmental Funds 6
Reconciliation of the Net Change in Fund Balance - Total
Governmental Funds with the Statement of Activities 7
Notes to the Basic Financial Statements 8

SUPPLEMENTARY INFORMATION

Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund (Unaudited) 16

Independent Auditor's 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 17

Schedule Of Findings And Questioned Costs 19

Summary Schedule Of Prior Audit Findings 20

FINANCIAL SECTION

Donald R Reynolds

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Directors
Crescent City Redevelopment Agency
Crescent City, California

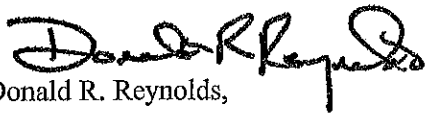
I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Crescent City Redevelopment Agency, Crescent City, California as of June 30, 2010, and for the year then ended, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Crescent City Redevelopment Agency, Crescent City, California's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Crescent City Redevelopment Agency, Crescent City California as of June 30, 2010 and the respective changes in financial position and cash flows, where applicable, 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, I have also issued my report dated November 15, 2010 on my consideration of the Agency's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management has elected to omit the Management's Discussion and Analysis which is supplementary information required by accounting principles generally accepted in the United States of America.



Donald R. Reynolds,
Certified Public Accountant
November 15, 2010

1438 Oregon Street, P.O. Box 994508 Redding, CA 96099-4508 (530) 246-2834 fax (530) 244-0331

CRESCENT CITY REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2010

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and investments	\$ 1,104,204
Restricted cash and investments with fiscal agent	-
Receivables (net)	1,416
Due from other governments	182,720
Prepaid items	-
Inventory	-
Notes receivable	402,386
Internal balances	-
Capital assets net of accumulated depreciation	<u>526,202</u>
Total assets	<u>2,216,928</u>
<u>LIABILITIES</u>	
Accounts payable	311,899
Accrued expenses	-
Deposits and deferred revenues	-
Compensated absences	-
Long term liabilities:	
Due within one year	1,483,092
Due in more than one year	-
Total liabilities	<u>1,794,991</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	526,202
Restricted for:	
Capital projects and community development	962,958
Debt service	402,386
Unrestricted	<u>(1,469,609)</u>
Total net assets	<u>\$ 421,937</u>

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

CRESCENT CITY REDEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Function/Program activities Governmental Activities	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$ -	\$ -	\$ -	-
Human services and recreation	525	-	-	(525)
Public works	791,974	-	-	(791,974)
Interest on long-term debt	-	-	-	-
Total Governmental Activities	792,499	-	-	(792,499)
Taxes:				
Property taxes and In Lieu Fees				1,106,069
Rental income				7,980
Investment Earnings				20,730
Transfers				(86,945)
Total General revenues and transfers				1,047,834
Change in Net Assets				
Net Assets - Beginning				255,335
Prior period adjustments				166,602
Net Assets - Beginning restated				-
Net Assets - Ending				421,937

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

**CRESCENT CITY REDEVELOPMENT AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	<u>RDA Area #1</u>	<u>RDA Area #2</u>	<u>RDA Set-Aside</u>	<u>Totals Governmental Funds</u>
<u>ASSETS</u>				
Cash and investments	\$ 39,977	\$ 132,425	\$ 931,802	\$ 1,104,204
Accounts receivable:				
Consumers and others	-	713	703	1,416
County/State government	42,885	109,382	-	152,267
Due from other funds	-	-	30,453	30,453
Notes receivable	-	402,386	-	402,386
Total assets	<u>\$ 82,862</u>	<u>\$ 644,906</u>	<u>\$ 962,958</u>	<u>\$ 1,690,726</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 94,883	\$ 217,016	\$ -	\$ 311,899
Due to other funds	527,010	956,082	-	1,483,092
Total liabilities	<u>621,893</u>	<u>1,173,098</u>	<u>-</u>	<u>1,794,991</u>
Fund Balances:				
Reserved for				
RDA Set-Aside projects	-	-	962,958	962,958
Notes and loans receivable	-	402,386	-	402,386
Unreserved	<u>(539,031)</u>	<u>(930,578)</u>	<u>-</u>	<u>(1,469,609)</u>
Total fund balances	<u>(539,031)</u>	<u>(528,192)</u>	<u>962,958</u>	<u>(104,265)</u>
Total liabilities and fund balances	<u>\$ 82,862</u>	<u>\$ 644,906</u>	<u>\$ 962,958</u>	<u>\$ 1,690,726</u>

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

**CRESCENT CITY REDEVELOPMENT AGENCY
RECONCILIATION OF THE
GOVERNMENTAL FUNDS - BALANCE SHEET
WITH THE GOVERNMENTAL ACTIVITIES
STATEMENT OF NET ASSETS
JUNE 30, 2010**

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	(104,265)
--	----	-----------

Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS

Capital Assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.		526,202
--	--	---------

LONG TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

Accrued interest payable		-
1991 Public Financing Authority Revenue and Tax Allocation bonds		-
Non-current portion of compensated absences		-
		-

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>421,937</u>
---------------------------------------	----	----------------

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

**CRESCENT CITY REDEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010**

	RDA Area #1	RDA Area #2	RDA Set-Aside	Totals Governmental Funds
<u>Revenues:</u>				
Taxes	\$ 255,017	\$ 851,052	\$ -	\$ 1,106,069
Use of money and property:				
Interest	-	17,329	3,401	20,730
Rental Income	7,980	-	-	7,980
Other revenue	-	-	-	-
Total revenues	<u>262,997</u>	<u>868,381</u>	<u>3,401</u>	<u>1,134,779</u>
<u>Expenditures:</u>				
Current:				
Human services and recreation	-	-	525	525
Public works	128,254	330,117	306,871	765,242
Administrative overhead allocation	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>128,254</u>	<u>330,117</u>	<u>307,396</u>	<u>765,767</u>
Excess (deficiency) of revenues over (under) expenditures	<u>134,743</u>	<u>538,264</u>	<u>(303,995)</u>	<u>369,012</u>
<u>Other Financing Sources (uses):</u>				
Transfers in	-	-	245,306	245,306
Transfers out	<u>(145,684)</u>	<u>(186,567)</u>	<u>-</u>	<u>(332,251)</u>
Total other financing sources (uses)	<u>(145,684)</u>	<u>(186,567)</u>	<u>245,306</u>	<u>(86,945)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(10,941)</u>	<u>351,697</u>	<u>(58,689)</u>	<u>282,067</u>
Fund balances, beginning of period	<u>(528,090)</u>	<u>(879,889)</u>	<u>1,021,647</u>	<u>(386,332)</u>
Prior period adjustments	-	-	-	-
Fund balances, beginning of period restated	<u>(528,090)</u>	<u>(879,889)</u>	<u>1,021,647</u>	<u>(386,332)</u>
Fund balances, end of period	<u>\$ (539,031)</u>	<u>\$ (528,192)</u>	<u>\$ 962,958</u>	<u>\$ (104,265)</u>

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

**CRESCENT CITY REDEVELOPMENT AGENCY
RECONCILIATION OF THE
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
WITH THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 282,067
---	-------------------

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

The capital outlay expenditures are therefore added back to fund balance	-
--	---

Depreciation expense is deducted from the fund balance	(26,729)
--	----------

LONG TERM DEBT PROCEEDS AND PAYMENT

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities

Repayment of debt principle is added back to fund balance	-
---	---

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in the governmental funds (net change):

Interest payable on long-term debt	-
------------------------------------	---

Long-term compensated absences	-
--------------------------------	---

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 255,338</u>
--	--------------------------

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

CRESCENT CITY REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Crescent City Redevelopment Agency (the RDA) conform to U.S. generally accepted accounting principles as applicable to governments. The following is a summary of significant accounting policies:

A. Reporting Entity

The Crescent City Redevelopment Agency Area No. 1 (RDA #1) was established on May 25, 1964 under the California Community Redevelopment Law (Health and Safety Code Section 33000 et. seq.) The Crescent City Redevelopment Agency Area No. 2 (RDA #2) was established July 7, 1986, at which time RDA #1 was reactivated. The RDA was formed to aid in the elimination and prevention of blight within its project areas through the (1) construction or modification of streets, utilities, curbs, sidewalks and other public improvements; (2) financing of the construction or rehabilitation of residential or commercial structures to increase both the economic or industrial base of the City of Crescent City and the number of jobs within the city; and (3) development of vacant land by present owners or by the RDA.

The Board of Directors of the City of Crescent City has, by ordinance No. 435, declared itself to be members of the RDA. Therefore, the RDA is considered, for financial reporting purposes, a component unit of the City of Crescent City, California. These RDA financial statements are accounted for as a component unit in the City of Crescent City's (the City's) financial statements, pursuant to Governmental Accounting Standards Board Statement No. 14.

B. Description of Funds

The accounts of the RDA are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The minimum number of funds is maintained consistent with legal and managerial expectations.

C. Government-wide Financial Statements

The RDA's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities for the RDA accompanied by a total column. The RDA does not have any business-type activities; therefore, only governmental activities are reported.

(Continued on the following page)

CRESCENT CITY REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Government-Wide Financial Statements (concluded)

These basic financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the RDA's assets and liabilities, including capital assets and long-term liabilities, if any, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the RDA in three categories: (1) charges for services, (2) operating grants and contribution and (3) capital grants and contributions.

Certain eliminations have been made as prescribed by Governmental Accounting Standards Board No. 34, Basic Financial Statements-and Management's Discussion and Analysis for State and Local Governments (GASB No. 34) in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between RDA activities and the City, which are presented as internal balances and eliminated in the City's total primary government column.

D. Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The RDA has presented all of its funds as major funds and does not have any differences in reporting net assets.

The major governmental funds of the RDA are:

- Capital Project Funds (Crescent City Improvement & Development Project Areas) — This fund is used to account for the general operations of the Crescent City Improvement & Development Project Areas, including the payment of principal and interest on long-term debt obligations.
- Special Revenue Fund (Low & Moderate Income Housing Set-Aside Fund) — This fund is used to account for the 20 percent tax increment revenue set-aside monies required by law to be used only for low and moderate-income housing. This fund is intended to

(Continued on the following page)

**CRESCENT CITY REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Governmental Fund Financial Statements (concluded)

be used by the RDA for improving the community's supply of low and moderate income housing.

All governmental funds are accounted for on a spending or a "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included in the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after fiscal year end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the RDA, are incremental property taxes, intergovernmental revenues, other taxes and investment earnings. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The reconciliations of the fund financial statements to the government-wide financial statements are provided to explain the differences created by the integrated approach of GASB No. 34.

E. Governmental Fund Types

The governmental fund financial statements include the following fund types:

General Fund — The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds — The Special Revenue Fund (Low and Moderate Income Housing Set- Aside) is used to account for the set-aside requirements for the increment within the Reinvestment Agency. The California Health and Safety Code requires the RDA project areas to deposit 20% of allocated incremental property tax revenues into a Low and Moderate Income Housing Fund. This money is restricted for the purpose of increasing or improving the community's supply of low and moderate income housing.

(Continued on the following page)

**CRESCENT CITY REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the RDA's policy is to apply restricted net assets first.

G. Budgets and Budgetary Accounting

Budget amounts are reported as originally adopted and as further amended by the Board of Directors. Budgets are adopted for the governmental funds on a basis consistent with U.S. generally accepted accounting principles.

H. Capital Assets

The RDA's assets are capitalized at historical costs or estimated historical cost. RDA policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contribution of capital assets are recorded at fair market value on the date donated.

Depreciation of capital assets is charged as an expense each year and the total amount of depreciation taken over the years, accumulated depreciation, is reported on the Statement of Net Assets as a reduction in the book value of capital assets. Depreciation is calculated using the straight line method over the useful life of the asset. Buildings are depreciated over a useful life of 50 years and equipment over a 3-year life. Depreciation expense for the year was \$26,729.

I. Compensated Absences

The RDA utilizes City's employees and therefore liabilities for vacation and sick leave are not reported by the RDA.

J. Net Assets

Government-wide Net Assets consist of the following:

Restricted net assets — This amount is restricted by external creditors, grantors, contributors or laws or regulations of other governments.

Unrestricted net assets — This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets".

(Continued on the following page)

**CRESCENT CITY REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Net Assets (Concluded)

Governmental Fund Balance consists of the following:

Reservations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws that require a portion of the fund balance to be segregated or identify the portion of the fund not available for future expenditures.

K. Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

L. Budgets and Budgetary Accounting

The RDA's budget is prepared annually in conjunction with the budget of the City. The members of the RDA are also Board of Directors members. The Board of Directors adheres to the following procedures in establishing the budgeting data reflected in the financial statements.

On or before the regular Board of Directors meeting in May, the City manager shall make an estimate of the financial needs of the City and the RDA and file a copy with the Board of Directors and clerk. The proposed budget includes proposed expenditures for all funds and the means of financing them, along with historical data on prior and current expenditures. At least one public hearing is conducted to obtain taxpayer comment and the budget is normally adopted prior to June 30, by resolution.

Budgets for the RDA's three Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) and presented accordingly in the financial statements.

Appropriations lapse at fiscal year end, except for those amounts which are carried over as encumbrances for items or services ordered but not yet received. These amounts are shown as "Fund balance reserved for encumbrances" in the RDA's component unit financial statements. The Board of Directors may authorize supplemental appropriations during the year by budget modification resolution. The final, amended budgets are presented in the

(Continued on the following page)

**CRESCENT CITY REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Budgets and Budgetary Accounting (Continued)

financial statements. Total expenditure appropriations (including transfers) adopted in the 2009-2010 budget were \$1,088,779, including budget revisions increases (decreases) made during the fiscal year.

M. Equity in Pooled Cash and Investments

Cash resources of the individual funds are combined to form a pool of cash and investments to maximize interest earnings potential. Investments in the pool primarily consist of Local Agency Investment Fund of the State of California, savings and governmental securities recorded at cost, which is lower than market value at June 30, 2010.

N. Property Taxes

The County of Del Norte bills and collects property taxes for all eligible county property and remits to the RDA that portion that relates to increment assessed valuation of property located within RDA areas, less a collection fee. The amounts stated as revenues on the Combined Statement of Revenues, Expenditures and Changes in Fund Balances are gross amounts. Distribution of tax increment apportionments pass through to other taxing agencies pursuant to agreements. Property taxes attach as an enforceable lien on March 1, are levied on July 1, and are due and payable in two equal installments by the following December 10 and April 10. All unpaid taxes become delinquent the following day. Article XIII A of the California Constitution (Proposition 13) limits the ad valorem tax rate to one percent of the assessed property valuation. Proposition 13 further limits the annual increase in assessed valuation to two percent. Gross RDA property tax increments are recognized as revenue when they are susceptible to accrual.

O. Interfund Charges

The City allocates to several departments and funds, including the RDA, a percentage of the salaries and wages and related costs of personnel who perform general and administrative services for such departments and funds but are paid through the City's General Fund. During the year ended June 30, 2010, the City allocated \$5,099 to the RDA for such services. Certain other services related to equipment rental, repairs and maintenance performed by the Internal Service Funds are billed to the appropriate fund and departments at the time the services are performed. During the year ended June 30, 2010, the City allocated \$-0- to the RDA for such Internal Service Fund services.

(Continued on the following page)

**CRESCENT CITY REDEVELOPMENT AGENCY
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2010**

NOTE 2 - DUE TO OTHER CITY FUNDS

The Water Fund of the City loaned RDA #2 \$1,584,206 for a term of two years. The note bears interest at the State Treasurer's Local Agency Investment Fund (LAIF) rate.

The Water Fund of the City loaned RDA #1 \$257,050 for a term of one year. The note bears interest at the LAIF rate.

NOTE 3 - LOANS RECEIVABLE - OTHER

This is a construction loan for materials to build a commercial building within the redevelopment area. The loan balance on June 30, 2010 was \$187,234. The loan bears 4.25% simple annual interest. The loan is secured by the underlying property and is subordinate to a \$600,000 loan from another government agency and an \$800,000 loan from a financial institution. In addition the City has two additional loans for Motel improvements in the current amounts of \$189,143 and \$26,009. The notes bear interest at 3% and 5.75% respectively.

NOTE 4 - CAPITAL ASSETS

**Summary of Capital Asset Changes
 Fiscal Year Ending June 30, 2010**

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Land (Not depreciated)	\$ 200,000	\$ -	\$ -	\$ -	\$ 200,000
Buildings	602,344	-	-	-	602,344
Equipment	30,901	-	-	-	30,901
Net Capital Assets	833,245	-	-	-	833,245
Accumulated depreciation	(280,311)	(26,732)	-	-	(307,043)
Total Capital Assets	\$ 552,934	\$ (26,732)	\$ -	\$ -	\$ 526,202

NOTE 5 - FUND DEFICIT

The fund balance deficit for RDA Area #1 of \$528,090 at June 30, 2010, arose from RDA financing of public works improvements, commercial and residential building rehabilitation and blight reduction expenditures. Future tax increment revenues are expected to reduce and eventually eliminate the deficit.

(Continued on the following page)

**CRESCENT CITY REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 6 - CASH AND INVESTMENTS

Cash and investments at June 30, 2010 consisted of the following:

City pooled investments	<u>\$ 1,104,204</u>
-------------------------	---------------------

Interest earned on pooled deposits and investments is allocated to the various funds based upon average quarterly balances. Interest earned by all debt service fund investments is credited directly to the respective fund. The RDA's deposits are stated at fair market value and are not subject to categorization. See the City's basic financial statements for the disclosures related to cash and investments and the related custodial risk categorization.

Pooled demand deposits

The California Government Code requires California banks and savings and loans to secure a local agency's deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of the agency's deposits. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes at least equal to 150% of an agency's deposits. The RDA may waive collateral requirements for deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Governmental Code and the FDA's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of money market accounts.

Crescent City Redevelopment Agency
 Combining Statements of Revenues, Expenditures, and Changes in Fund Balances -
 Budget and Actual
 For the year ended June 30, 2010

	RDA Area # 1				RDA Area # 2				RDA Set-Aside				
	Budget	Final Budget	Actual	Variance with	Budget	Final Budget	Actual	Variance with	Budget	Final Budget	Actual	Variance with	
				Final Budget				Final Budget				Final Budget	
Revenues:													
Taxes	\$ 223,000	\$ 223,000	\$ 255,017	\$ 32,017	\$ 535,000	\$ 535,000	\$ 851,052	\$ 316,052	\$ -	\$ -	\$ -	\$ -	\$ -
Use of money and property:													
Interest	2,400	2,400	-	(2,400)	20,000	20,000	17,329	(2,671)	1,000	1,000	3,401	2,401	2,401
Rental income	52,900	52,900	7,980	(44,920)	10,000	10,000	-	(10,000)	-	-	-	-	-
Total revenues	278,300	278,300	262,997	(15,303)	565,000	565,000	868,381	303,381	1,000	1,000	3,401	2,401	2,401
Expenditures													
Current:													
Human services and recreation	-	-	-	-	-	-	-	-	285,000	285,000	525	284,475	284,475
Public works and streets	262,700	262,700	128,254	134,446	530,100	530,100	330,117	199,983	-	-	-	-	-
Debt service:													
Principal	24,000	24,000	-	24,000	9,000	9,000	-	9,000	-	-	-	-	-
Interest expense	286,700	286,700	128,254	158,446	539,100	539,100	330,117	208,983	285,000	285,000	525	284,475	284,475
Total Expenditures	(8,400)	(8,400)	134,743	(173,749)	25,900	25,900	538,264	94,398	(284,000)	(284,000)	2,876	(282,074)	(282,074)
Excess (Deficiency) of Revenues Over Expenditures													
Other Financing Sources (Uses):													
Transfers in	-	-	(145,684)	145,684	-	-	(186,567)	186,567	-	-	245,306	245,306	245,306
Transfers out	-	-	-	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	(145,684)	145,684	-	-	(186,567)	186,567	-	-	245,306	245,306	245,306
Excess (Deficiency) of revenues and other sources over expenditures and other uses	\$ (8,400)	\$ (8,400)	(10,941)	(28,065)	25,900	25,900	351,697	280,965	(284,000)	(284,000)	248,182	(36,768)	(36,768)
Fund Balances, beginning of period			(528,090)				(879,889)						1,021,647
Prior period adjustment			(48,466)				(153,420)						201,888
Fund balance, beginning of period restated			(576,556)				(1,033,309)						1,223,535
Fund Balances, end of period			(587,497)				(681,612)						\$ 1,471,717

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

Donald R Reynolds

Certified Public Accountant

INDEPENDENT AUDITOR'S 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

Honorable Board of Directors
Crescent City Redevelopment Agency
Crescent City, California

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Crescent City Redevelopment Agency, as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements and have issued my report thereon dated November 15, 2010. I conducted my 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 my audit, I considered the Crescent City Redevelopment Agency's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting.

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 deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report, financial data reliably in accordance with generally accepted accounting principles such that there is more than a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

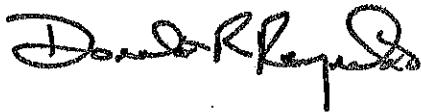
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies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

1438 Oregon Street, P.O. Box 994508 Redding, CA 96099-4508 (530) 246-2834 fax (530) 244-0331

Compliance

As part of obtaining reasonable assurance about whether the Crescent City Redevelopment Agency's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of noncompliance that I have reported to management of the Crescent City Redevelopment Agency in a separate letter dated November 15, 2010.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Donald R. Reynolds
Certified Public Accountant
November 15, 2010

CRESCENT CITY REDEVELOPMENT AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Finding 2010-1

No new findings

Federal Award Findings and Questioned Costs

None reported

CRESCENT CITY REDEVELOPMENT AGENCY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2010

Status of Prior Year Audit Findings

Audit Reference

Number

Finding 2006-2 repeated as 2007-2 and 2008-2

Condition:

Health and welfare benefits provided to Board of Directors Members may be potentially out of compliance with related laws and regulations.

Effect:

Noncompliance with related laws and regulations could result in fines, penalties and additional liabilities to the City.

Cause:

The City did not have its health and welfare benefits provided to Council Members monitored periodically by the appropriate legal counsel or an organization specializing in municipal health and welfare benefit plans.

Recommendation:

The prior auditor recommended the City have all health and welfare benefit plans monitored periodically by the appropriate legal counsel or an organization that specializes in managing health and welfare benefit plans for municipalities.

Managements Response:

The City has corrected this problem by consulting legal counsel and investing money within appropriate governing laws of the State of California.

Current Status

The City continues to determine the legal status of these accounts and is awaiting the response of legal council regarding the issue.