

**LAKE COUNTY
REDEVELOPMENT AGENCY**
(A Component Unit of the
County of Lake, California)



**FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED
JUNE 30, 2009**

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LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, California)
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2009

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FINANCIAL SECTION

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

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INDEPENDENT AUDITOR'S REPORT

To the Governing Board
Lake County Redevelopment Agency
Lakeport, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Lake County Redevelopment Agency (Agency) (a redevelopment agency formed under the laws of the State of California) and a component unit of the County of Lake, California, as of and for the year ended June 30, 2009, 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 component unit financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the 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, 2009, 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, 2009, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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



Smith & Newell CPA's
Yuba City, California
November 24, 2009

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

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Management's Discussion and Analysis

As a component unit of the County of Lake (County), Fiscal Year 2008/2009 is the seventh year that the Lake County Redevelopment Agency (Agency) is required to issue financial statements in the format prescribed by the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). GASB 34 requires the Agency to provide this overview of its financial activities for the fiscal year and should be read in conjunction with the Agency's financial statements, which follow this section.

The Purpose of the Agency

The Agency is a component unit of the County of Lake. It is managed by the County and the County Board of Supervisors serves as the Agency's Board of Directors. County employees perform all management and fiscal functions required of the Agency through a cooperative agreement between the County and the Agency.

The Agency's purpose under California law is to eliminate urban blight within the boundaries of the established Northshore Project Area. The following excerpt from the Lake County Redevelopment Agency 2008-2009 Annual Report further explains the role of the Redevelopment Agency and how it is funded:

Community redevelopment is most effectively accomplished by forming a partnership of public and private enterprise. Public funds are used to lay the foundation and provide the preconditions which are necessary for private enterprises to be interested and capable of investing their dollars and manpower in blighted areas.

Local public funds are, in essence, used as "seed money." The seed money is made available by State law through a process called 'tax increment financing.' On the date a redevelopment plan is adopted the property within the boundaries of the plan has a certain total property tax value – the 'Base Value'. As the total assessed valuation increases above the 'Base Value', most of the revenues generated by the increased values go to the redevelopment agency except for the required pass-through payments to other public entities. These funds are called "tax increment revenue."

When redevelopment activities are successful, the property values within as well as around the redevelopment area will increase. For example, the changed image of the blighted areas and an improved economic base will increase the marketability and value of property in the area. Property that currently lacks market demand because of the deteriorating conditions will become marketable as these conditions are reduced or removed. Increased market demand will then lead to the sale of properties or new construction within a redevelopment project area thus increasing the assessed values. The revenues received by the Redevelopment Agency are from the increase in assessed value-- not an increase in tax rates.

Fiscal Year 2008 Financial Highlights

Agency-wide

- The Agency's total net assets increased \$2,151,861 in fiscal year 2009.
- At June 30, 2009 the Agency's net assets were \$5,616,792.
- Total Agency net assets increased 62%.

**Lake County Redevelopment Agency
Net Assets as of June 30**

	Governmental Activities		Total Dollar Change
	2008	2009	
Assets:			
Current and other assets	\$ 3,823,705	\$ 4,254,453	\$ 430,748
Capital assets	4,380,408	5,986,782	1,606,374
Total assets	8,204,113	10,241,235	2,037,122
Liabilities:			
Current and other liabilities	3,226,351	4,609,870	1,383,519
Long-term liabilities	1,512,831	14,573	(1,498,258)
Total liabilities	4,739,182	4,624,443	(114,739)
Net Assets:			
Invested in capital assets, net of related debt	2,880,408	5,986,782	3,106,374
Restricted for capital projects	597,354		(597,354)
Unrestricted net assets	(12,831)	(369,990)	(357,159)
Total net assets	\$ 3,464,931	\$ 5,616,792	\$ 2,151,861

Fund Level

- Northshore Capital Projects Fund revenues were \$1,583,820, expenses of \$2,987,575. Net decrease in resources of \$1,403,755 for fiscal year 2009.
- Low/Mod Fund revenues were \$649,799. Expenses of \$198,815. Net increase in resources of \$450,984 for fiscal year 2009.

Overview of the Financial Statements

This annual financial report consists of Management's Discussion and Analysis (this section), the *Basic Financial Statements*, *Government Wide* and *Fund Financial Statements*, *Notes to Basic Financial Statements* along with *Required Supplementary Information*.

Government Wide Financial Statements

- Provide both long-term and short-term information about the Agency's overall financial status.
- Report information about the Agency as a whole using the economic resources measurement focus and accrual basis of accounting, similar to those used by private-sector companies.
- Use the *Statement of Net Assets* and *Statement of Activities* to display how the Agency is doing by —
 - Showing *Total Net Assets*. An overall indicator of the Agency's financial health.
 - Showing *Expenses* and *Program Revenues* and *General Revenues* of the Agency for all governmental activities. Detailing activities of the Agency as a whole.

Fund Financial Statements

- Focus on the individual parts of the Agency's government. Reporting the Agency's operation in more detail than *Government-wide Statements*.
- Provide detailed information about the Agency's two most significant funds, called major funds. A concept and determination as prescribed and applied per GASB Statement 34.
- Display these two governmental funds on the modified accrual basis. This means 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.

Both statements include notes to explain financial statement information and provide more detailed data.

Analysis of the Agency as Whole — Governmental Wide Financial Statements

At June 30, 2009, the Agency's total assets of \$10,241,235 consisted of cash and investments, interest and loans receivable, advances and capital assets (net). Total assets are offset by liabilities of \$4,624,443 consisting of \$4,074,319 in advances from the County, short-term payables of \$70,671, long-term payables of \$14,573, and unearned revenue of \$464,880.

The Agency's net assets at June 30, 2008 of \$5,616,792 are an increase of \$2,151,861 from the previous fiscal year. This increase is due to the increasing investment in capital assets of the Agency.

Lake County Redevelopment Agency Changes in Net Assets as of June 30

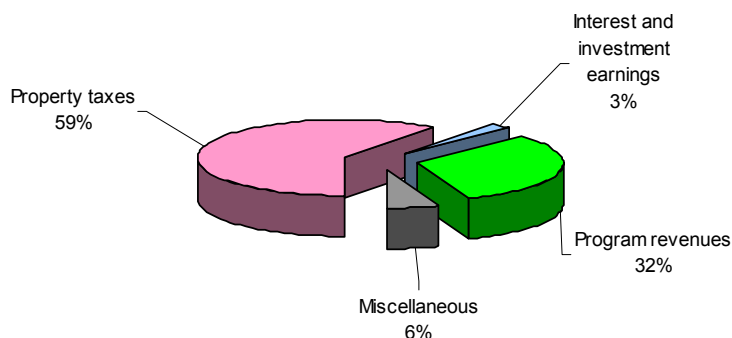
	Governmental Activities		Total Dollar Change
	2008	2009	
Revenues			
Program Revenues:			
Charges for Services	\$ 8,051	\$ 7,603	\$ (448)
Operating grants and contributions	368	476	\$ 108
Capital grants and contributions	1,000	1,582,868	\$ 1,581,868
General Revenues:			
Property taxes	1,914,394	1,957,463	\$ 43,069
Interest and investment earnings	156,121	82,771	\$ (73,350)
Gain (loss) on sale of capital assets	-	(562,989)	\$ (562,989)
Other Revenue	338	185,306	\$ 184,968
Total revenues	2,080,272	3,253,498	1,173,226
Expenses			
Community development	699,800	960,158	\$ 260,358
Interest on long-term debt	108,731	141,479	\$ 32,748
Total expenses	808,531	1,101,637	(293,106)
Change in net assets	1,271,741	2,151,861	\$ 880,120
Net assets - July 1	2,193,190	3,464,931	\$ 1,271,741
Net assets - June 30	<u>\$ 3,464,931</u>	<u>\$ 5,616,792</u>	<u>\$ 2,151,861</u>

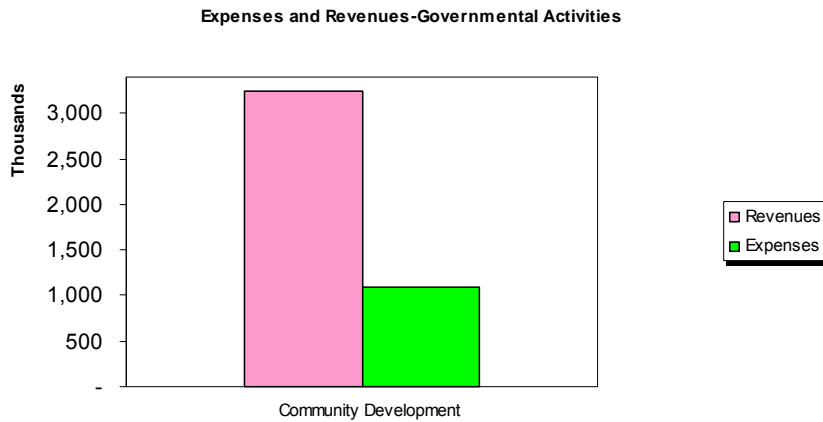
Governmental Activities

Revenues by Source-Governmental Activities

Revenues

The Agency's total revenue of \$3,253,498 consisted of program revenues of \$1,027,958, property tax increment of \$1,957,463, interest earnings of \$82,771 and miscellaneous revenues of 185,306. This was the sixth year the Agency received property tax increment. Revenue increased 56% compared to the previous fiscal year.





Expenses

Expenses of the Agency totaled \$1,101,637. Agency’s expenses are primarily for purchase of capital assets (mostly land), contractual services related to area improvement along with the customary administration expenses related to management of the Agency.

Analysis of the Fund Financial Statements

The Agency uses fund accounting to assure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on the two active funds of the Agency. The operating fund and the low/mod fund.

These two governmental funds provide information on near-term inflows, outflows and balances of spendable resources. The Agency’s governmental funds reported combined fund balance at June 30, 2009 of \$355,417 (deficit). A decrease in fund balance of \$952,771 over the previous fiscal year.

Highlights

Achievements over the past year include the following:

- **Upper Lake Main Street** – Reconstruction work on Upper Lake Main Street began in summer 2009. The project, which includes new sidewalks, decorative streetlights, streetscape, entrance arch and road resurfacing, is slated for completion in January 2010.
- **Holiday Harbor** – The Agency is holding the Holiday Harbor marina site during an interim period while a developer for the site can be found. Several hotel developers were contacted about the site. Additional developer attraction efforts will continue over the next fiscal year.
- **3rd Avenue Plaza** – Plans and bid documents for the development of a lake-front plaza were revised. The bids for the construction of the project will take place in December 2009.
- **Lucerne Harbor Village** – The Agency funded the remodeling of four cabins that have been developed into a small-business arts incubator on property next to the Lucerne Harbor Park. The project has been successful in promoting the arts and increasing the number of tourist dollars spent in Lucerne.
- **Lucerne Creek Park** – The Agency is supporting the Public Services Department in preserving this open space park that protects the natural beauty of the creek area. A rock barrier was put into place to prevent vehicles from parking in the park.
- **Clearlake Oaks Plaza** – Construction was completed on the Clearlake Oaks Plaza in the spring of 2009. The community plaza is used for gatherings and events and has helped strengthen downtown Clearlake Oaks.
- **Clearlake Oaks Sidewalks** – The Agency received an additional \$800,000 in grant funds to complete a Safe Routes to School sidewalk project along Highway 20. Engineering designs will be completed in the next fiscal year.
- **Façade Improvement Program**- The Agency has continued its Façade Improvement Program which partners with local businesses to increase their curb appeal.

Affordable Housing Projects

- **Eskaton Clearlake Oaks Manor** – A 23 unit low-income senior housing project was completed in

Clearlake Oaks. The units were open for occupancy in August 2009.

- **Affordable Housing Project in Nice** - Continued working with a developer, Rural Communities Housing Development Corporation (RCHDC), to develop this 50 unit project on Collier Avenue in Nice.
- **Housing Rehabilitation Loan Program** – Continued providing funding for housing rehabilitation loans.

Capital Asset and Debt Administration

Capital Assets & Infrastructure

The Agency acquired \$1,606,374 more of capital assets for future development. This additional amount, along with the previous years' acquisitions, brings the total capital assets of the Agency to \$5,986,782. More detailed information regarding Capital Assets can be found on page 19 of the notes to the financial statements.

**County of Lake
Capital Assets as of June 30 (Net of Depreciation)**

	Governmental Activities		Total
	2008	2009	Dollar Change
Land	\$ 3,284,382	\$ 2,818,661	\$ (465,721)
Construction in progress	\$ 15,333	\$ 276,088	\$ 260,755
Bldg & Imp	\$ 1,080,693	\$ 2,497,798	\$ 1,417,105
Infrastructure		\$ 394,235	\$ 394,235
Totals	<u>4,380,408</u>	<u>5,986,782</u>	

Long-term Debt

On March 3, 2009 the Agency received a loan from the County for \$1,415,955. The loan was made to payoff the outstanding balance of the owner-financed loan incurred for the purchase of the Holiday Harbor marina. The term on the advance is 10 years with an interest rate of 3.5%. Additional details are presented in Note 3. E.

As of June 30, 2009 the Agency owed a total of \$4,074,319 in principal and interest for eight loans from the County. The principal amount and date of each loan are as follows: \$195,000 in May 2000; \$200,000 in January 2001; \$200,000 in February 2002; \$400,000 in September 2004; \$250,000 in August 2005; \$970,000 in March 2007; \$500,000 in November 2007, and \$1,415,955 in March 2009. Additional details are presented in Note 3. E.

Economic Factors and Next Year's Budget

The Northshore Project Area has felt the affects of the nation-wide recession. The amount of tax increment received by the Agency has leveled off significantly over the past two years. The amount of tax increment estimated for FY 2009/10 is expected to increase by 1.56% from FY 2008/09.

As of June 30, 2009 the Agency's cash and investments were all invested in the County of Lake's Treasury pool. The fair value of some investments in this pool has declined since the June 30th value listed in these financial statements. Any decrease in fair value will be reflected as a reduction in investment earnings as realized. The amount of this decrease is not expected to exceed investment earnings in any period.

Contacting the Agency's Financial Management

This financial report is designed to provide the citizens, taxpayers, investors and creditors of the County of Lake with a general overview of the Agency's finances and demonstrate the Agency's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the County of Lake, Auditor-Controller.

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BASIC FINANCIAL STATEMENTS
Government-Wide Financial Statements

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LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, California)
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Total Governmental Activities
<u>ASSETS</u>	
Cash and investments	\$ 3,771,523
Interest receivable	9,011
Advances to County of Lake	9,039
Loans receivable	464,880
Capital assets:	
Non-depreciable assets	3,094,749
Depreciable assets, net	2,892,033
Total capital assets	<u>5,986,782</u>
Total Assets	<u>10,241,235</u>
<u>LIABILITIES</u>	
Accounts payable	53,635
Salaries and benefits payable	17,036
Unearned revenue	464,880
Advance from County of Lake	4,074,319
Long-term liabilities:	
Due within one year	150
Due in more than one year	14,423
Total Liabilities	<u>4,624,443</u>
<u>NET ASSETS</u>	
Invested in capital assets	5,986,782
Unrestricted	<u>(369,990)</u>
Total Net Assets	<u>\$ 5,616,792</u>

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

LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, California)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental activities:					
Community development	\$ 960,158	\$ 7,603	\$ 476	\$ 1,582,868	\$ 630,789
Interest on long-term debt	141,479	-	-	-	(141,479)
Total Governmental Activities	\$ 1,101,637	\$ 7,603	\$ 476	\$ 1,582,868	489,310
General Revenues:					
Taxes:					
Property taxes					1,957,463
Interest and investment earnings					82,771
Miscellaneous					185,306
Gain (loss) on sale of capital assets					(562,989)
Total General Revenues					1,662,551
Change in Net Assets					2,151,861
Net Assets - Beginning					3,464,931
Net Assets - Ending					\$ 5,616,792

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

BASIC FINANCIAL STATEMENTS
Fund Financial Statements

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LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, California)
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	RDA Northshore	RDA Low/Mod	Total
<u>ASSETS</u>			
Cash and investments	\$ 2,685,984	\$ 1,085,539	\$ 3,771,523
Interest receivable	9,011	-	9,011
Advances to County of Lake	-	9,039	9,039
Loans receivable	33,700	431,180	464,880
Total Assets	\$ 2,728,695	\$ 1,525,758	\$ 4,254,453
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts payable	\$ 53,635	\$ -	\$ 53,635
Salaries and benefits payable	17,036	-	17,036
Unearned revenue	33,700	431,180	464,880
Advance from County of Lake	4,074,319	-	4,074,319
Total Liabilities	4,178,690	431,180	4,609,870
<u>FUND BALANCES</u>			
Reserved for:			
Encumbrances	1,469,101	873,000	2,342,101
Long-term receivable	-	9,039	9,039
Unreserved, reported in:			
Capital projects funds			
Undesignated	(2,919,096)	212,539	(2,706,557)
Total Fund Balances	(1,449,995)	1,094,578	(355,417)
Total Liabilities and Fund Balances	\$ 2,728,695	\$ 1,525,758	\$ 4,254,453

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

LAKE COUNTY REDEVELOPMENT AGENCY
 (A Component Unit of the County of Lake, California)
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCES
TO THE GOVERNMENT-WIDE STATEMENT OF
NET ASSETS - GOVERNMENTAL ACTIVITIES
 JUNE 30, 2009

Total Fund Balance - Total Governmental Funds	\$ (355,417)
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.	5,986,782
Certain liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds. Compensated absences	<u>(14,573)</u>
Net Assets of Governmental Activities	<u><u>\$ 5,616,792</u></u>

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

LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, California)
**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES**
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	RDA Northshore	RDA Low/Mod	Total
<u>REVENUES</u>			
Taxes and assessments	\$ 1,457,340	\$ 500,123	\$ 1,957,463
Fines and forfeitures	5,702	1,901	7,603
Use of money and property	80,115	2,656	82,771
Intergovernmental revenues	357	119	476
Other revenues	40,306	145,000	185,306
Total Revenues	1,583,820	649,799	2,233,619
<u>EXPENDITURES</u>			
Current :			
Salaries and benefits	187,936	-	187,936
Services and supplies	550,051	198,815	748,866
Debt service:			
Principal	1,500,000	-	1,500,000
Interest and other charges	141,479	-	141,479
Capital outlay	608,109	-	608,109
Total Expenditures	2,987,575	198,815	3,186,390
Net Change in Fund Balances	(1,403,755)	450,984	(952,771)
Fund Balances - Beginning	(46,240)	643,594	597,354
Fund Balances - Ending	\$ (1,449,995)	\$ 1,094,578	\$ (355,417)

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

LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, 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, 2009**

Net Change in Fund Balances - Total Governmental Funds \$ (952,771)

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	608,109
Depreciation expense	(21,614)
Donated capital assets	1,582,868

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the cost of the capital assets disposed. There were no significant proceeds.

(562,989)

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	1,500,000
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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.

Change in compensated absences	(1,742)
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Change in Net Assets of Governmental Activities \$ 2,151,861

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

BASIC FINANCIAL STATEMENTS
Notes to Basic Financial Statements

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LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, California)
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

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

A. Reporting Entity

The Lake County Redevelopment Agency was organized December 2, 1999, 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 financial statements included in this report are intended to present the financial position and results of operations of only the Agency. They are not intended to present the financial position or results of operations of the County of Lake taken as a whole.

The Agency is considered to be a component unit of the County of Lake. These entities are legally separate from each other. However, the County 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 purpose 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 Lake County Redevelopment Agency is presented as a blended component unit within the County of Lake'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, 2009.

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. 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 RDA Northshore Fund is a capital projects fund used to account for monies for redevelopment activities.
- The RDA Low/Mod Fund is a capital projects fund used to account for all property tax increment specifically levied for low and moderate redevelopment housing.

LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, California)
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

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

C. Basis of Accounting and Measurement Focus

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Agency gives (or receives) value without directly receiving (or giving) equal value in exchange, include property tax, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. The Agency considers revenues reported in the governmental funds to be available if they are collected within forty-five 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. General 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 all cash and investments with the County of Lake. The Treasurer invests on behalf of most funds of the County and external participants in accordance with the California State Government Code and the County's investment policy. State statutes authorize the Agency and the County 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 the amortized cost basis. Amortized premiums and accreted discounts, accrued interest, and realized gains and losses, net of expenses, are apportioned to pool participants every quarter based on the participants average daily cash balance at quarter end in relation to the total pool investments. This method differs from the fair value method used to value investments in these financial statements. In these financial statements, the fair value of the Agency's investments in the pool was based on unaudited quoted market values as provided by the County Treasurer. The pool has not entered into any legally binding guarantees to support the participant equity in the investment pool.

The County has established a treasury oversight committee to monitor and review the management of public funds maintained in the investment pool in accordance with Article 6 Section 27131 of the California Government Code. The oversight committee and the Board of Supervisors review and approve the investment policy annually. The County Treasurer prepares and submits a comprehensive investment report to the members of the oversight committee and the investment pool participants every month. The report covers the type of investments in the pool, maturity dates, par value, actual cost and fair value.

The Board of Supervisors review and approve the investment policy annually. The County Treasurer prepares and submits a comprehensive investment report to the Board of Supervisors every month. The report covers the type of investments in the pool, maturity dates, par value, actual cost and fair value.

Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the County's financial statements. The County of Lake's financial statements may be obtained by contacting the County of Lake Auditor-Controller's Office at 255 North Forbes Street, Lakeport, CA 95453.

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 interest.

LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, California)
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

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

E. Receivables (Continued)

In the governmental fund financial statements, material receivables in governmental funds include revenue accruals such as interest and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 45 days since they would be considered both measurable and available.

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.

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 3 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, Capital Projects fund expenditures relating to long-term loans receivable are charged to operations upon funding and the loans receivable are recorded. The balance of the long-term receivable includes loans that may be forgiven if certain terms and conditions of the loans are met.

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, equipment and infrastructure are accounted for as capital assets. Capital assets are defined as assets with a cost of more than \$5,000 and an estimated useful life of more than two years. Such assets are recorded at historical or estimated historical cost. Contributed capital assets are recorded at estimated fair market value at the date of donation.

LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, California)
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

**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. The range of estimated useful lives by type of asset is as follows:

<u>Depreciable Asset</u>	<u>Estimated Lives</u>
Equipment	3-25 years
Structures and improvements	5-50 years
Infrastructure	20-75 years

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. Unearned Revenue

Unearned revenue is recorded for assets recognized in connection with a transaction before the earnings process is complete, those assets are offset by a corresponding liability for unearned revenue. In addition, loans receivable for which repayment is deferred or for which the balance may be forgiven if certain terms and conditions of the loans are met have also been offset by unearned revenue.

K. 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, 2009, the long-term debt consisted of advances from the County of Lake and accrued compensated absences.

Long-term debt for governmental funds is generally not reported as a liability in the fund financial statements, however, since the Agency is a component unit of the County of Lake, the advances from the County of Lake are reflected in the fund financial statements.

L. 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 recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements the expenditures related to those obligations are recognized when they mature. The Agency includes its share of social security and medicare taxes payable on behalf of the employees in the accrual for compensated absences.

LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, California)
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

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

M. Net Assets/Fund Balance

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.
- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

Fund Financial Statements

In the governmental fund financial statements, reserves and designations segregate portions of fund balance. Reservations of fund balance are for amounts that are not available or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance are established by action of management and represent tentative plans that are subject to change. At June 30, 2009, the Agency had no designations of fund balance.

As of June 30, 2009, reservations of fund balance included:

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

Long-term Receivable - to reflect the amount due from other funds that are long-term in nature. Such amounts do not represent available spendable resources.

N. 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 County of Lake financial statements.

O. Expenditures/Expenses

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

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

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

P. Estimates

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

LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, California)
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Deficit Fund Balance/Net Assets

The RDA Northshore fund had a fund balance deficit of \$1,449,995, which is expected to be eliminated in future years through tax increment revenue.

NOTE 3: DETAILED NOTES

A. Cash and Investments

The Agency follows the practice of pooling all cash and investments with the County of Lake. Complete disclosure of County of Lake investment policies can be found in the County annual audited financial statements.

As of June 30, 2009, the Agency's cash and investments consisted of the following:

Investments:	
In County Treasurer's pool	\$ 3,771,523
Total Cash and Investments	<u>\$ 3,771,523</u>

Cash

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 Federal Deposit Insurance Corporation coverage must be collateralized at 105 percent to 150 percent of the value of the deposit to guarantee the safety of the public funds. The Agency does not have a formal investment policy that further limits its deposits.

At year end, the Agency had no deposits outside the Lake County Treasury.

Investments

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 are pooled with the County of Lake 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 County 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 Investor's 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. The Agency has invested all cash in the County investment pool which contains a diversification of investments.

LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, California)
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 3: DETAILED NOTES (CONTINUED)

B. Loans Receivable

The Agency has made various loans to qualifying participants within the County of Lake to provide housing for low and moderate participants. At June 30, 2009, loans receivable consisted of the following:

Owner/Occupied Rehab loan dated 11/22/2005, with a simple interest rate of 2% and all principal and interest deferred for fifteen years.	\$ 6,774
RCHDC "forgivable" loan dated April 7, 2005, with maturity in 55 years, and payable only upon default of the terms wherein the loan amount (or a designated portion thereof) plus deferred simple interest of 2% will be immediately payable.	250,000
Eskaton Clearlake Oaks "forgivable" loan dated September 23, 2008, with a maturity in 55 years, and payable only upon default of the terms wherein the loan amount (or a designated portion thereof) plus deferred simple interest will be immediately payable.	49,406
Rural Communities Housing Development Corporation "forgivable" loan dated June 2, 2009, with a maturity in 55 years, and payable only upon default of the terms wherein the loan amount (or a designated portion thereof) plus deferred simple interest of 2% will be immediately payable.	125,000
Lucerne Alpine Seniors, Inc. "forgivable" loan dated December 28, 2008, with a maturity in 20 years, and payable only upon default of the terms wherein the loan amount (or a designated portion thereof) plus deferred simple interest of 3% will be immediately payable.	<u>33,700</u>
Total Loans	<u>\$ 464,880</u>

C. Capital Assets

Capital assets activity for the year ended June 30, 2009, was as follows:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments/ Transfers</u>	<u>Balance June 30, 2009</u>
Capital Assets, Not Being Depreciated:					
Land	\$ 3,284,382	\$ 78,104	(\$ 562,989)	\$ 19,164	\$ 2,818,661
Construction in progress	<u>15,333</u>	<u>271,254</u>	<u>-</u>	<u>(10,499)</u>	<u>276,088</u>
Total Capital Assets, Not Being Depreciated:	<u>3,299,715</u>	<u>349,358</u>	<u>(562,989)</u>	<u>8,665</u>	<u>3,094,749</u>
Capital Assets, Being Depreciated:					
Buildings and improvements	1,080,693	263,138	-	1,175,581	2,519,412
Infrastructure	<u>-</u>	<u>42,506</u>	<u>-</u>	<u>351,729</u>	<u>394,235</u>
Total Capital Assets, Being Depreciated	<u>1,080,693</u>	<u>305,644</u>	<u>-</u>	<u>1,527,310</u>	<u>2,913,647</u>
Less Accumulated Depreciation For:					
Buildings and improvements	-	(21,614)	-	-	(21,614)
Infrastructure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Accumulated Depreciation	<u>-</u>	<u>(21,614)</u>	<u>-</u>	<u>-</u>	<u>(21,614)</u>
Total Capital Assets, Being Depreciated, Net	<u>1,080,693</u>	<u>284,030</u>	<u>-</u>	<u>1,527,310</u>	<u>2,892,033</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,380,408</u>	<u>\$ 633,388</u>	<u>(\$ 562,989)</u>	<u>\$ 1,535,975</u>	<u>\$ 5,986,782</u>

Depreciation expense of \$21,614 was charged to governmental activities.

LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, California)
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 3: DETAILED NOTES (CONTINUED)

D. Long-Term Liabilities

The following is a summary of all long-term liabilities transactions for the year ended June 30, 2009:

<u>Type of Indebtedness</u>	<u>Balance July 1, 2008</u>	<u>Additions/ Adjustments</u>	<u>Retirements/ Adjustments</u>	<u>Balance June 30, 2009</u>	<u>Amounts Due Within One Year</u>
Loans	\$ 1,500,000	\$ -	\$ 1,500,000	\$ -	\$ -
Compensated Absences (Note 1L)	<u>12,831</u>	<u>12,523</u>	<u>10,781</u>	<u>14,573</u>	<u>150</u>
Total Long-Term Liabilities	<u>\$ 1,512,831</u>	<u>\$ 12,523</u>	<u>\$ 1,510,781</u>	<u>\$ 14,573</u>	<u>\$ 150</u>

E. Advance Payable

On May 9, 2000, the County of Lake approved a loan to the Redevelopment Agency for \$195,000. The term of the advance is 10 years with a variable interest rate based on the County Treasury earnings, adjusted quarterly. Repayment is to be made in two installments. The first installment is to be a minimum of \$100,000, due no later than June 30, 2007, and the balance is due June 30, 2010. The first installment of \$100,000 was paid March 14, 2007. The balance at June 30, 2009, including accrued interest was \$108,738.

On January 23, 2001, the County of Lake approved a loan to the Redevelopment Agency for an additional \$200,000. The term of the advance is 10 years with a variable interest rate based on the County Treasury earnings, adjusted quarterly. Repayment is to be made in two installments. The first installment is to be a minimum of \$100,000, due no later than June 30, 2008, and the balance is due June 30, 2011. The first installment of \$100,000 was paid February 22, 2008. The balance at June 30, 2009, including accrued interest, was \$109,451.

On February 5, 2002, the County of Lake approved a loan to the Redevelopment Agency for an additional \$200,000. The term of the advance is 10 years with a variable interest rate based on the County Treasury earnings, adjusted quarterly. Repayment is to be made in two installments. The first installment is to be a minimum of \$100,000, due no later than June 30, 2009, and the balance shall be due and payable no later than June 30, 2012. The first installment of \$100,000 was paid March 10, 2009. The balance at June 30, 2009, including accrued interest, was \$102,923.

On September 7, 2004, the County of Lake approved a loan to the Redevelopment Agency for an additional \$400,000. The term of the advance is 10 years with a variable interest rate based on the County Treasury earnings, adjusted quarterly. Repayment is to be made in two installments. The first installment is to be a minimum of \$200,000 due no later than June 30, 2012, and the balance shall be due and payable no later than June 30, 2014. The balance at June 30, 2009, including accrued interest, was \$468,032.

On August 23, 2005, the County of Lake approved a loan to the Redevelopment Agency for an additional \$250,000. The term of the advance is 10 years with a variable interest rate based on the County Treasury earnings, adjusted quarterly. Repayment is to be made in two installments. The first installment is to be a minimum of \$125,000 due no later than June 30, 2013 and the balance shall be due and payable no later than June 30, 2015. The balance at June 30, 2009, including accrued interest, was \$287,612.

On March 20, 2007, the County of Lake approved a loan to the Redevelopment Agency for an additional \$970,000. The term of the advance is 10 years with a variable interest rate based on the County Treasury earnings, adjusted quarterly. Repayment is to be made in two installments. The first installment is to be a minimum of \$125,000 due no later than June 30, 2015 and the balance shall be due and payable no later than June 30, 2017. The balance at June 30, 2009, including accrued interest, was \$1,046,653.

On November 6, 2007, the County of Lake approved a loan to the Redevelopment Agency for an additional \$500,000. The term of the advance is 10 years with a variable interest rate based on the County Treasury earnings, adjusted quarterly. Repayment is to be made in two installments. The first installment is to be a minimum of \$125,000, due no later than June 30, 2010 and the balance shall be due and payable no later than June 30, 2018. The balance at June 30, 2009, including accrued interest, was \$520,562.

LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, California)
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 3: DETAILED NOTES (CONTINUED)

E. Advance Payable (Continued)

On March 3, 2009, the County of Lake approved a loan to the Redevelopment Agency for an additional \$1,415,955. The term on the advance is 10 years with an interest rate of 3.5%. Repayment is to be made in annual installments of \$170,256 beginning April 1, 2010 and maturing on April 1, 2019. The advance was used to payoff the outstanding balance of the owner financed loan incurred for the purchase of the Holiday Harbor Marina. The balance at June 30, 2009, including accrued interest was \$1,430,348.

NOTE 4: OTHER INFORMATION

A. Employee's Retirement Plan

The Agency is a component unit of the County of Lake and as such the Agency employee's are covered under the retirement plan of the County of Lake. Required disclosure information regarding employee's retirement plan can be found in the County's audited financial statements.

B. Post-Employment Benefits Other Than Pension

The Agency is a component unit of the County of Lake and as such the Agency employee's are covered under the post employment benefit plan of the County of Lake. Required disclosure information regarding post employment benefits can be found in the County's audited financial statements.

C. Insurance

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

D. 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, 2009, was as follows:

Ending balance June 30, 2008	\$ 643,594
Revenue set aside:	
tax increment x .20	500,123
Interest earned	2,656
Intergovernmental revenues	119
Fines and forfeitures	1,901
Other revenues	<u>145,000</u>
Total Available	649,799
Less:	
Expenditure Allocations	<u>(198,815)</u>
Ending balance June 30, 2009	<u>\$ 1,094,578</u>

E. Construction Commitments

The Agency has signed agreements to construct various capital improvement jobs subsequent to June 30, 2009. The balance owed on these commitments at June 30, 2009, was approximately \$1,440,946.

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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
County of Lake Redevelopment Agency
Lakeport, California

We have audited the financial statements of the governmental activities and each major fund of the Lake County Redevelopment Agency (Agency)(a redevelopment agency formed under the laws of the State of California) and a component unit of the County of Lake, California as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated November 24, 2009. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations to be significant deficiencies in internal control over financial reporting. (09-RDA-01)

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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.

To the Governing Board
Lake County Redevelopment Agency
Lakeport, California

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 an instance of noncompliance that is required to be reported under Guidelines for Compliance Audits of California Redevelopment Agencies and which is described in the accompanying Schedule of Findings and Recommendations as item 09-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.

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, appearing to read "Smith & Newell", is written in black ink.

Smith & Newell, CPA's
Yuba City, California
November 24, 2009

LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, California)
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

09-RDA-01 LOANS RECEIVABLE/UNEARNED REVENUE (Financial Reporting: Significant Deficiency)

Condition

During our audit we noted that loans receivable and unearned revenue had not been reconciled to supporting documentation and the balance had not been adjusted to actual.

Cause

The \$145,000 loan to Eskaton Senior Housing was paid off during the year, but was shown as a receivable at June 30, 2009 on the Agency's general ledger. In addition, three new loans were made during the year and the receivable and related unearned revenue were not reflected on the Agency's general ledger.

Criteria

The primary accounting records of the Agency should accurately reflect all loans receivable and unearned revenue.

Effect of Condition

Loans receivable and unearned revenues were misstated and required adjustment.

Recommendation

We recommend that all loan receivable and unearned revenue balances be reviewed for accuracy and that all balances be reconciled to supporting documentation.

Corrective Action Plan

Processes have been put in place to review loans receivable and unearned revenue periodically throughout the year, as well as annually by both Agency staff and the Auditor-Controller's Office. We expect to eliminate this condition and be in full compliance in the upcoming fiscal year.

09-RDA-02 BLIGHT PROGRESS REPORT (Compliance Requirement)

Condition

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

Cause

The Agency did not include actions and expenditures made in the previous fiscal year to alleviate blight in the annual report.

Criteria

Health and Safety Code Section 33080.4 requires that a blight progress report specifying actions and expenditures made to alleviate blight 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 report is filed.

LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, California)
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

09-RDA-02 BLIGHT PROGRESS REPORT (Compliance Requirement)

Corrective Action Plan

Agency staff had been under the assumption that the RDA's annual report included sufficient information to fulfill these requirements. In light of the audit recommendations, we will add clarifying information to our future annual report in order to ensure full compliance with this requirement.

LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, California)
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Audit Reference

Status of Prior Year Recommendations

NONE

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