

**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, 2010**

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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, 2010

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FINANCIAL SECTION

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated November 19, 2010, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Agency's management did not prepare the Management's Discussion and Analysis that is supplementary information required by Government Accounting Standards Board Statement No. 34. In accordance with accounting principles generally accepted in the United States, the omission has no impact on the basic financial statements described in the table of contents, but may impact the user's understanding of those financial statements.



Smith & Newell CPA's
Yuba City, California
November 19, 2010

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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, 2010

	<u>Total Governmental Activities</u>
<u>ASSETS</u>	
Cash and investments	\$ 1,575,324
Accounts receivable	247,564
Loans receivable	596,668
Capital assets:	
Non-depreciable	5,817,337
Depreciable, net	2,839,986
Total capital assets	<u>8,657,323</u>
Total Assets	<u>11,076,879</u>
<u>LIABILITIES</u>	
Accounts payable	2,818
Salaries and benefits payable	10,430
Unearned revenue	596,668
Advance from County of Lake	3,821,994
Long-term liabilities:	
Due within one year	678
Due in more than one year	9,690
Total Liabilities	<u>4,442,278</u>
<u>NET ASSETS</u>	
Invested in capital assets	8,657,323
Unrestricted	<u>(2,022,722)</u>
Total Net Assets	<u>\$ 6,634,601</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, 2010

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
Governmental activities:	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total	
Expenses	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Community development	\$ 689,193	\$ 10,876	\$ 324	\$ 487,843	\$ (190,150)
Interest on long-term debt	66,262	-	-	-	(66,262)
Total Governmental Activities	\$ 755,455	\$ 10,876	\$ 324	\$ 487,843	(256,412)
General Revenues:					
Taxes:					
Property taxes					1,162,668
Interest and investment earnings					109,191
Miscellaneous					2,362
Total General Revenues					1,274,221
					Change in Net Assets 1,017,809
					Net Assets - Beginning 5,616,792
					Net Assets - Ending \$ 6,634,601

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, 2010

	RDA Northshore	RDA Low/Mod	Total
<u>ASSETS</u>			
Cash and investments	\$ 603,064	\$ 972,260	\$ 1,575,324
Accounts receivable	94,217	-	94,217
Advances to other funds	-	471,000	471,000
Loans receivable	33,700	562,968	596,668
Total Assets	\$ 730,981	\$ 2,006,228	\$ 2,737,209
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts payable	\$ 2,818	\$ -	\$ 2,818
Salaries and benefits payable	10,430	-	10,430
Unearned revenue	33,700	562,968	596,668
Advance from other funds	471,000	-	471,000
Advance from County of Lake	3,821,994	-	3,821,994
Total Liabilities	4,339,942	562,968	4,902,910
<u>FUND BALANCES</u>			
Reserved for:			
Encumbrances	42,286	-	42,286
Long-term receivables	-	471,000	471,000
Unreserved, reported in:			
Capital projects funds			
Undesignated	(3,651,247)	972,260	(2,678,987)
Total Fund Balances	(3,608,961)	1,443,260	(2,165,701)
Total Liabilities and Fund Balances	\$ 730,981	\$ 2,006,228	\$ 2,737,209

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, 2010

Total Fund Balance - Total Governmental Funds	\$ (2,165,701)
 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.	8,657,323
Other long term assets are not available to pay for current period expenditures and therefore, are not reported in the funds or are reported as deferred in the governmental funds.	
Accounts receivable	153,347
Certain liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.	
Compensated absences	<u>(10,368)</u>
Net Assets of Governmental Activities	<u>\$ 6,634,601</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, 2010

	RDA Northshore	RDA Low/Mod	Total
<u>REVENUES</u>			
Taxes and assessments	\$ 664,174	\$ 498,494	\$ 1,162,668
Fines and forfeitures	8,157	2,719	10,876
Use of money and property	90,726	18,465	109,191
Intergovernmental revenues	316,617	81	316,698
Other revenues	2,362	-	2,362
Total Revenues	1,082,036	519,759	1,601,795
<u>EXPENDITURES</u>			
Current :			
Salaries and benefits	155,573	-	155,573
Services and supplies	312,417	171,077	483,494
Debt service:			
Interest and other charges	66,262	-	66,262
Capital outlay	2,706,750	-	2,706,750
Total Expenditures	3,241,002	171,077	3,412,079
Net Change in Fund Balances	(2,158,966)	348,682	(1,810,284)
Fund Balances - Beginning	(1,449,995)	1,094,578	(355,417)
Fund Balances - Ending	\$ (3,608,961)	\$ 1,443,260	\$ (2,165,701)

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, 2010**

Net Change in Fund Balances - Total Governmental Funds **\$ (1,810,284)**

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	2,706,750
Depreciation expense	(54,331)
Donated capital assets	18,122

Some revenues reported in the statement of activities will not be collected for several months after the Agency's year end and do not provide current financial resources and therefore are not reported as revenues in the governmental funds.

Change in accounts receivable	153,347
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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	4,205
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Change in Net Assets of Governmental Activities **\$ 1,017,809**

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, 2010

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 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 governmental fund 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, 2010.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Agency's governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods and services offered by the program, 2) operating grants and contributions and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

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

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

The Agency reports the following major governmental funds:

- The 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, 2010

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

D. Cash and Investments

The Agency pools 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 each 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 provided or obtained any legally binding guarantees to support the value of 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.

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

LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, California)
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

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

E. Receivables (Continued)

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

F. Interfund Transactions

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

Loans reported as receivables and payables are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans) as appropriate and are subject to elimination upon consolidation. Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided or used, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. These services provide information on the net cost of each government function and therefore are not eliminated in the process of preparing the government-wide statement of activities.

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

All other interfund transactions are treated as transfers. Transfers between funds are netted as part of the reconciliation to the government-wide presentation.

See Note 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, equipment and infrastructure (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, 2010

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

I. Capital Assets (Continued)

Government-Wide Financial Statements (Continued)

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. 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, 2010, the long-term debt consisted of accrued compensated absences.

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

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 financial 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, 2010

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, 2010, the Agency had no designations of fund balance.

As of June 30, 2010, 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 portion of assets that 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 basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, California)
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Deficit Fund Balance/Net Assets

The RDA Northshore fund had a fund balance deficit of \$3,608,961, which is expected to be eliminated in future years through tax increment revenue.

B. Implementation of Governmental Accounting Standards Board Statements

GASB Statement No. 51

GASB has issued Statement No. 51, Accounting and Financial Reporting for Intangible Assets. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce prior inconsistencies in accounting for these assets. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The Agency has evaluated the requirements of GASB 51 and has determined that it does not hold any intangible assets which would require restatement in the financial statements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

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

Investments:	
In County Treasurer's pool	\$ 1,575,324
Total Cash and Investments	<u>\$ 1,575,324</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 \$250,000 must be collateralized at 105 percent to 150 percent of the value of the deposit to guarantee the safety of the public funds. The first \$250,000 of the Agency's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Deposits more than the \$250,000 insured amount are collateralized. The Agency does not have a formal investment policy that would further limit its deposits.

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 Moody's 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.

LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, California)
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

NOTE 3: DETAILED NOTES (CONTINUED)

A. Cash and Investments (Continued)

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.

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, 2010, 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.	256,788
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>\$ 596,668</u>

C. Capital Assets

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

	Balance July 1, 2009	Additions	Retirements	Adjustments/ Transfers	Balance June 30, 2010
Capital Assets, Not Being Depreciated:					
Land	\$ 2,818,661	\$ 470,017	\$ -	\$ -	\$ 3,288,672
Construction in progress	<u>276,088</u>	<u>2,254,861</u>	-	(2,284)	<u>2,528,665</u>
Total Capital Assets, Not Being Depreciated:	<u>3,094,749</u>	<u>2,724,872</u>	-	(2,284)	<u>5,817,337</u>
Capital Assets, Being Depreciated:					
Buildings and improvements	2,519,412	-	-	2,284	2,521,696
Infrastructure	<u>394,235</u>	-	-	-	<u>394,235</u>
Total Capital Assets, Being Depreciated	<u>2,913,647</u>	-	-	2,284	<u>2,915,931</u>
Less Accumulated Depreciation For:					
Buildings and improvements	(21,614)	(50,389)	-	-	(72,003)
Infrastructure	-	<u>(3,942)</u>	-	-	<u>(3,942)</u>
Total Accumulated Depreciation	<u>(21,614)</u>	<u>(54,331)</u>	-	-	<u>(75,945)</u>
Total Capital Assets, Being Depreciated, Net	<u>2,892,033</u>	<u>(54,331)</u>	-	2,284	<u>2,839,986</u>
Governmental-Activities Capital Assets, Net	<u>\$ 5,986,782</u>	<u>\$ 2,670,541</u>	\$ -	\$ -	<u>\$ 8,657,323</u>

Depreciation expense of \$54,331 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, 2010

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, 2010:

<u>Type of Indebtedness</u>	<u>Balance July 1, 2009</u>	<u>Additions/ Adjustments</u>	<u>Retirements/ Adjustments</u>	<u>Balance June 30, 2010</u>	<u>Amounts Due Within One Year</u>
Compensated Absences (Note 1L)	\$ 14,573	\$ 3,320	\$ 7,525	\$ 10,368	\$ 678
Total Long-Term Liabilities	<u>\$ 14,573</u>	<u>\$ 3,320</u>	<u>\$ 7,525</u>	<u>\$ 10,368</u>	<u>\$ 678</u>

E. Interfund Transactions

Advances To/From Other Funds

Advances to/from other funds are non-current interfund loans and are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. The following are advances to/from other funds as of June 30, 2010:

	<u>Advances To Other Funds</u>	<u>Advances From Other Funds</u>
RDA Northshore	\$ -	\$ 471,000
RDA Low/Mod	471,000	-
Total	<u>\$ 471,000</u>	<u>\$ 471,000</u>

NOTE 4: EMPLOYEE BENEFITS

A. Employee's Retirement Plan

The Agency is a component unit of the County of Lake and as such the Agency's employees 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. Other Post-Employment Benefits (OPEB)

The Agency is a component unit of the County of Lake and as such the Agency's employees 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.

NOTE 5: RISK MANAGEMENT

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

Because of the close relationship between the Agency and the 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.

NOTE 6: RELATED PARTY TRANSACTIONS

The Agency has related party transactions with the County of Lake. Following is a summary of the advances payable as of June 30, 2010:

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, 2010, including accrued interest, was \$110,276.

LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, California)
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

NOTE 6: RELATED PARTY TRANSACTIONS (CONTINUED)

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, 2010, including accrued interest, was \$103,697.

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, 2010, including accrued interest, was \$471,560.

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, 2010, including accrued interest, was \$289,780.

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, 2010, including accrued interest, was \$1,054,542.

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 first installment of \$125,000, was paid April 28, 2010. The balance at June 30, 2010, including accrued interest, was \$375,664.

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, 2010, including accrued interest was \$1,306,560.

On February 1, 2010, the County of Lake approved a loan to the Redevelopment Agency for \$109,592. 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 \$60,000, due no later than June 30, 2016, and the balance is due June 30, 2019. The balance at June 30, 2010, including accrued interest was \$109,915.

NOTE 7: OTHER INFORMATION

A. Construction Commitments

The Agency has signed agreements to construct various capital improvement jobs subsequent to June 30, 2010. The balance owed on these commitments at June 30, 2010, was approximately \$10,320.

B. Subsequent Events

On September 21, 2010, the Agency approved the purchase of real property consisting of land and a building for \$1,350,000. In connection with the property purchase, the Agency approved a loan from the County of Lake to fund the property purchase.

Management has evaluated events subsequent to June 30, 2010 through November 19, 2010, the date on which the financial statements were available for issuance. Management has determined no other subsequent events requiring disclosure have occurred.

LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, California)
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

NOTE 7: OTHER INFORMATION (CONTINUED)

C. Low and Moderate Housing Obligation

Section 333346 subdivision (c) of the California Health and Safety Code (the Code), requires the Agency project areas to deposit 20 percent of allocated tax increment revenues into a Redevelopment Housing Fund. Activity in this fund for the year ended June 30, 2010, was as follows:

Ending balance June 30, 2009	\$ 1,094,578
Revenue set aside:	
tax increment x .20	498,494
Interest earned	18,465
Intergovernmental revenues	81
Fines and forfeitures	<u>2,719</u>
Total Available	519,759
Less:	
Expenditure Allocations	<u>(171,077)</u>
Ending balance June 30, 2010	<u>\$ 1,443,260</u>

OTHER REPORT AND SCHEDULE

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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, 2010, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated November 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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


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

Compliance and Other Matters

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

We also performed the procedures contained in the publication entitled "Guidelines for Compliance Audits of California Redevelopment Agencies" dated November 1998, promulgated by the California State Controller, Division of Local Government Fiscal Affairs, in connection with a review of the Agency's compliance with laws, regulations, and administrative requirements governing activities of the Agency, as required by the Health and Safety Code of the State of California. The results of our tests disclosed no instances of noncompliance that are required to be reported under Guidelines for Compliance Audits of California Redevelopment Agencies.

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.


Smith & Newell, CPA's
Yuba City, California
November 19, 2010

LAKE COUNTY REDEVELOPMENT AGENCY
(A Component Unit of the County of Lake, California)
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

<u>Audit Reference</u>	<u>Status of Prior Year Recommendations</u>
09-RDA-01	<p>LOANS RECEIVABLE/UNEARNED REVENUE</p> <p>Recommendation</p> <p>We recommend that all loan receivable and unearned revenue balances be reviewed for accuracy and that all balances be reconciled to supporting documentation.</p> <p>Status</p> <p>Implemented</p>
09-RDA-02	<p>BLIGHT PROGRESS REPORT</p> <p>Recommendation</p> <p>We recommend that the Agency review Health and Safety Code Section 33080.4 to ensure that the required blight progress report is filed.</p> <p>Status</p> <p>Implemented</p>