

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

**COMPONENT UNIT  
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**LAKE COUNTY REDEVELOPMENT AGENCY  
COMPONENT UNIT FINANCIAL REPORT**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the  
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 component unit of the County of Lake, California, as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Agency. 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 basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic 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, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2011, on our consideration of the Agency's internal control over financial reporting and 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. This 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.

To the Board of Directors of the  
Lake County Redevelopment Agency  
Lakeport, California

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the agency's basic financial statements. The accompanying information identified in the table of contents as individual fund schedules are presented for purposes of additional analysis and is not a required part of the basic financial statements. The individual fund schedules have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

*Gallina LLP*

Roseville, California  
December 12, 2011

## Management's Discussion and Analysis

As a component unit of the County of Lake (County), Fiscal Year 2010/2011 is the ninth 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 2010-2011 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 2011 Financial Highlights

#### Agency-wide

- The Agency's total net assets increased \$21,848 in fiscal year 2011.
- At June 30, 2011 the Agency's net assets were \$6,656,449.
- Total Agency net assets increased by approximately .3%.

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

	Governmental Activities		Total Dollar Change
	2010	2011	
<b>Assets:</b>			
Current and other assets	\$ 2,419,556	\$ 2,756,895	\$ 337,339
Capital assets	8,657,323	10,086,756	1,429,433
Total assets	11,076,879	12,843,651	1,766,772
<b>Liabilities:</b>			
Current and other liabilities	610,594	920,618	310,024
Long-term liabilities	3,831,684	4,906,584	1,074,900
Total liabilities	4,442,278	5,827,202	1,384,924
<b>Net Assets:</b>			
Invested in capital assets, net	8,657,323	10,161,500	1,504,177
Restricted for capital projects	1,443,260	1,769,111	325,851
Unrestricted net assets	(3,465,982)	(5,274,162)	(1,808,180)
Total net assets	\$ 6,634,601	\$ 6,656,449	\$ 21,848

Data from Statement of Net Assets

**Fund Level**

- Northshore Capital Projects Fund revenues were \$2,159,101, expenses of \$3,733,197. Net decrease in resources of \$1,574,096 for fiscal year 2011.
- Low/Mod Fund revenues were \$497,144. Expenses of \$171,293. Net increase in resources of \$325,851 for fiscal year 2011.

**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

- o Focus on the individual parts of the Agency's government. Reporting the Agency's operation in more detail than *Government-wide Statements*.
- o 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.
- o 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 — Government Wide Financial Statements**

At June 30, 2011, the Agency's total assets of \$12,483,651 consisted of cash and investments, interest and loans receivable, advances and capital assets (net). Total assets are offset by liabilities of \$5,827,202 consisting of \$4,890,901 in advances from the County, short-term payables of \$206,371, long-term payables of \$16,361, and unearned revenue of \$713,569.

The Agency's net assets at June 30, 2011 of \$6,656,449 are an increase of \$21,848 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
	2010	2011	Change
<u>Revenues</u>			
Program Revenues:			
Charges for Services	\$ 10,876	\$ 78,610	\$ 67,734
Operating grants and contributions	324	-	(324)
Capital grants and contributions	487,843	34,202	(453,641)
General Revenues:			
Property taxes	2,425,967	2,410,588	(15,379)
Interest and investment earnings	109,191	12,644	(96,547)
Other Revenue	2,362	-	(2,362)
Total revenues	<u>3,036,563</u>	<u>2,536,044</u>	<u>(500,519)</u>
<u>Expenses</u>			
Community development	689,193	1,765,846	1,076,653
Pass-through payments	498,494	486,871	(11,623)
Supplementatl Education Revenue			
Augmentation Funds	764,805	157,460	(607,345)
Interest on long-term debt	66,262	104,019	37,757
Total expenses	<u>2,018,754</u>	<u>2,514,196</u>	<u>(495,442)</u>
Change in net assets	1,017,809	21,848	(995,961)
Net assets - July 1	5,616,792	6,634,601	1,017,809
Net assets - June 30	<u><u>\$ 6,634,601</u></u>	<u><u>\$ 6,656,449</u></u>	<u><u>\$ 21,848</u></u>

Note: Prior year balances have been restated for comparison purposes

## **Governmental Activities**

### **Revenues**

The Agency's total revenue of \$2,536,044, consisted of program revenues of \$112,812, property tax increment of \$2,410,588, and interest earnings of \$12,644. This was the eighth year the Agency received property tax increment. Revenue decreased 16% compared to the previous fiscal year.

### **Expenses**

Expenses of the Agency totaled \$2,514,196. The Agency's most significant expenses were for pass through payments to other taxing entities, State mandated payments to support schools, property acquisition, contractual services related to area improvement along with the customary administration expenses related to management of the Agency and project administration. State law requires redevelopment agencies to have debt in order to continue receiving tax increment revenues.

## **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 and combined fund balance at June 30, 2011 of \$3,413,946 (deficit). A decrease in fund balance of \$1,248,245 over the previous fiscal year.

## **Highlights**

On January 10, 2011, the Governor called for the elimination of redevelopment agencies, statewide, as of July 1, 2011, and urgency legislation prohibiting agencies from creating new contracts or obligations. This uncertainty impacted the Lake County Redevelopment Agency's activities and progress in the 2011 fiscal year. Unlike many other redevelopment agencies in California, the Lake County Redevelopment Agency did not incur new debt after the Governor's announcement of intent to eliminate redevelopment, nor did the Agency attempt to transfer its assets to the County of Lake. This demonstrates the Agency's commitment to operate in a fiscally responsible manner, in full compliance with the both the letter and spirit of the law.

In June of 2011 legislation impacting redevelopment agencies was passed and signed by the Governor: AB x1 26 suspending all new redevelopment activities and incurrence of indebtedness, dissolving redevelopment agencies and creating successor agencies effective October 1, 2011; and AB x1 27 allowing an Agency to avoid dissolution by opting into an alternative voluntary redevelopment program and paying annual contributions to local school and special districts. This legislation is currently being challenged as unconstitutional in the California Supreme Court. A ruling by the Supreme Court is anticipated by mid January, 2012.

Despite the State's threats to eliminate redevelopment, the Northshore Project Area has continued to develop and improve this year, with both public and private projects. The community of Clearlake Oaks continues to add amenities for locals and travelers alike. Past accomplishments include acquisition of Clarks Island, Nylander Park, The Plaza, water tank mural, Town Clock, Nylander Park banners and restrooms, new Visitor Information Center located next to the Park, Eskaton Clearlake Oaks Manor's senior housing facility, and Caltrans safe routes to school sidewalk project, which is still in progress. This year work continued on cleaning up Clarks Island and installing floating islands, signs and natural buildings. The foot bridge to the island was repaired and a covered bridge was added to create an attractive entry. These improvements have increased community pride and have attracted significant private investments in the downtown corridor of this community.

The Upper Lake Main Street project was completed last year and included an archway entrance into downtown, under-grounding utilities, new paving, sidewalks, Town Clock, decorative street lights, hitching posts, bulbouts and landscaping. Local businesses have taken advantage of the Agency's façade improvement program and this local community center is becoming an attractive place for small businesses.

Continued improvements are being made to the Agency's Holiday Harbor Marina property in Nice. A commercial tenant with a small retail shop and boat rentals continues seasonal operations at the marina, new signs were installed, the apartment and shop buildings were painted, and additional dock repairs, seawall repair, landscaping and property cleanup were done. A contract was awarded to Mogavero Notestine Associates to develop a master plan to be used to attract developers to the development opportunity available on the Holiday Harbor site. The Agency plans to hire a new on-site caretaker in 2012 which will greatly assist in the day-to-day management of this property.

The Agency was able to purchase the historic Lucerne Hotel in September 2010, and made significant progress in renovating the property and seeking a private partner for long-term development and use of this community asset. This project became the Agency's most significant project in the 2011 fiscal year and is considered a critical element to the Agency's success in achieving future blight elimination and economic development in Lucerne as well as all of the Northshore Project Area. The historic building was painted, re-roofed and new gutters were installed. Windows, doors, waterlines and the swimming pool were repaired and major cleaning, tree trimming and other landscaping improvements, such as removal of the chain link fencing, were completed. Public restrooms were constructed and demonstration rooms were renovated and furnished. Substantial renovations continued through June 30, 2011. An Education Task Force committee was formed to discuss facility uses and local educational institutions were notified that this facility was available for their use. In June the Redevelopment Agency issued an RFP for proposals to use the facility for educational purposes and 187 were sent to four year colleges throughout the State of California. Proposals were received and a top-tier college based in Southern California was subsequently selected to partner with the Agency for future development of this facility.

Other projects in Lucerne include the completion of the park portion of the 3<sup>rd</sup> Avenue Plaza, façade improvements to several local businesses, including the Lucerne Health Food Store, 21 paper subdivision parcels were accepted, and efforts continued to assist and support the artists at Harbor Village Artists galleries. Consistent with the goals for developing 13<sup>th</sup> Avenue, Agency staff worked with a private developer who began construction of a commercial building near Hwy. 20 which will eventually be partially occupied by the Lake County Mental Health Department.

### **Affordable Housing Projects**

The Agency has two programs in connection with preserving, improving and increasing the community's supply of low- and moderate-income housing; (1) an owner occupied rehabilitation program; and (2) a new housing construction program.

#### **Eskaton Clearlake Oaks Manor**

Under the new housing construction program, the Agency entered into a Disposition and Development Agreement with Eskaton Clearlake Oaks Manor. In exchange for the parcel located at 75 Lake Street, Clearlake Oaks, and some off-site improvement costs, Eskaton Clearlake Oaks Manor agreed to construct, maintain and manage a 23 unit senior affordable housing complex. This complex opened in August 2009 and provides 22 units for very low income seniors and one manager unit. The Agency's investment to date in the project is \$640,991. The First Amendment to Disposition and Development Agreement dated September 23, 2008, provided an additional \$75,000 in Agency funding for offsite improvements. The sum of \$49,406 was expended in FY 08/09, and \$4,904 was spent in FY 10/11. The balance of \$20,690 was disencumbered as of 6/30/11.

#### 50 Unit multi-family: 6853 Collier Avenue, Nice

The original Owner Participation Agreement, dated March 7, 2005, with the Rural Communities Housing Development Corporation (RCHDC), provided \$250,000 of Agency funds to help construct a mixed income project of 50 units of housing located at 6853 Collier Avenue, Nice. On June 2, 2009, the Owner Participation Agreement was amended to provide an additional \$998,000, for a total of \$1,248,000. As of June 30, 2011, a total of \$618,785 has been disbursed to RCHDC. Due to the challenges in obtaining financing, the project has been divided into two phases: Phase I will provide 21 units for very low income households, 10 units for low income, and 1 unit not income restricted. Phase II will provide the remaining 18 units. Plans for Phase I have been approved and building permits have been issued. In order to become more competitive in obtaining grant funding for the project, development responsibilities were assigned to Pacific West Companies on August 24, 2010. The HOME application submitted August 2010 was not awarded. Therefore, development responsibilities have reverted to RCHDC.

### **Capital Asset and Debt Administration**

#### **Capital Assets & Infrastructure**

The Agency's capital asset acquisitions for future development increased by \$1,429,433. This additional amount, along with the previous years' acquisitions, brings the total net capital assets of the Agency to \$10,086,756. More detailed information regarding Capital Assets can be found on page 24 of the notes to the financial statements.

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

	Governmental Activities		Total
	2010	2011	Dollar Change
Land	\$ 3,288,672	\$ 3,504,819	\$ 216,147
Construction in progress	2,528,665	72,722	(2,455,943)
Bldg & Imp	2,521,696	6,340,578	3,818,882
Infrastructure	394,235	425,781	31,546
Less Accumulated Depreciation	(75,945)	(257,144)	(181,199)
Totals	<u>\$ 8,657,323</u>	<u>\$ 10,086,756</u>	<u>\$ 1,429,433</u>

Data from Notes to Financial Statements

#### **Long-term Debt**

On September 21, 2010, the Agency received a loan from the County for \$1,350,000, which financed acquisition of the Lucerne Hotel. The term on the loan is 10 years with an interest rate of 4%. Additional details are presented in Note 6.

As of June 30, 2009 the Agency owed a total of \$4,890,901 in principal and interest for seven loans from the County. The principal amount and date of each loan are as follows: \$400,000 in September 2004; \$250,000 in August 2005; \$970,000 in March 2007; \$500,000 in November 2007, \$1,415,955 in March 2009, \$109,592 in February of 2010 and \$1,350,000 in September of 2010. Additional details are presented in Note 6.

The Agency has no debt to entities other than the County of Lake. Due to the low interest rates charged by the County and the avoidance of other fees that would have been incurred if financing had been sought and obtained from other private or public lenders, the total cost of servicing the Agency's debt has been kept to a minimum, which has helped to strengthen the Agency's financial condition.

### **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. Although the amount of tax increment estimated for FY 2011/12 is expected to decrease by approximately 3% from FY 2010/11, it will still represent over 75% growth in assessed values since the base year. This reflects a very significant growth during the short period of time the Agency has existed.

As of June 30, 2011 the Agency's cash and investments were all invested in the County of Lake's Treasury pool.

### **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 or County Administrative Office.

## **BASIC FINANCIAL STATEMENTS**

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

Statement of Net Assets  
 June 30, 2011

	<u>Governmental Activities</u>
<b><u>ASSETS</u></b>	
Cash and investments in County Treasury	\$ 1,572,429
Cash with fiscal agents	74,744
Receivables	36,153
Loans receivable	713,569
Capital assets:	
Non-depreciable	3,577,541
Depreciable, net	<u>6,509,215</u>
Total Assets	<u><u>\$ 12,483,651</u></u>
<b><u>LIABILITIES AND NET ASSETS</u></b>	
Liabilities:	
Accounts payable	\$ 114,462
Rention payable	74,744
Salaries and benefits payable	17,165
Unearned revenue	713,569
Due to the County of Lake	4,890,901
Long-term liabilities:	
Due within one year	678
Due in more than one year	<u>15,683</u>
Total Liabilities	<u>5,827,202</u>
Net Assets:	
Invested in capital assets	10,161,500
Restricted for Low/Mod Income Housing	1,769,111
Unrestricted	<u>(5,274,162)</u>
Total Net Assets	<u>6,656,449</u>
Total Liabilities and Net Assets	<u><u>\$ 12,483,651</u></u>

The accompanying notes are integral part of these financial statements.

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

Statement of Activities  
For the Year Ended June 30, 2011

	Governmental Activities
Community Development and Planning:	
Project administration	\$ 624,815
Pass-through payments	486,871
Supplemental Educational Revenue	
Augmentation Funds (SERAF)	157,460
Property tax administration fee	--
Grants, loans and project costs	164,565
Property transfers	795,267
Depreciation expense	181,199
Interest expense	104,019
	2,514,196
<b>TOTAL PROGRAM EXPENSES</b>	<b>2,514,196</b>
Program Revenues:	
Charges for services	78,610
Capital grants	34,202
	112,812
<b>TOTAL PROGRAM REVENUES</b>	<b>112,812</b>
<b>NET (EXPENSE) REVENUE</b>	<b>(2,401,384)</b>
General Revenues:	
Property tax increment	2,410,588
Investment earnings	12,644
	2,423,232
<b>TOTAL GENERAL REVENUES</b>	<b>2,423,232</b>
<b>CHANGE IN NET ASSETS</b>	<b>21,848</b>
Net Assets, Beginning of Year	6,634,601
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 6,656,449</b>

The accompanying notes are integral part of these financial statements.

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

Balance Sheet  
 Governmental Funds  
 June 30, 2011

	RDA Northshore	RDA Low/Mod	Total
<b><u>ASSETS</u></b>			
Cash and investments in County Treasury	\$ 264,050	\$ 1,308,379	\$ 1,572,429
Cash with fiscal agents	74,744	--	74,744
Receivables	36,153	--	36,153
Advances to other funds	--	471,000	471,000
Loans receivable	33,700	679,869	713,569
Total Assets	<u>\$ 408,647</u>	<u>\$ 2,459,248</u>	<u>\$ 2,867,895</u>
<b><u>LIABILITIES</u></b>			
Accounts Payable	\$ 104,194	\$ 10,268	\$ 114,462
Retentions payable	74,744	--	74,744
Salaries and benefits payable	17,165	--	17,165
Unearned revenue	33,700	679,869	713,569
Advance from other funds	471,000	--	471,000
Due to County of Lake	4,890,901	--	4,890,901
Total Liabilities	<u>5,591,704</u>	<u>690,137</u>	<u>6,281,841</u>
<b><u>FUND BALANCES</u></b>			
Nonspendable	--	471,000	471,000
Restricted for Low/Mod income housing	--	1,298,111	1,298,111
Unassigned	(5,183,057)	--	(5,183,057)
Total Fund Balances	<u>(5,183,057)</u>	<u>1,769,111</u>	<u>(3,413,946)</u>
Total Liabilities and Fund Balances	<u>\$ 408,647</u>	<u>\$ 2,459,248</u>	<u>\$ 2,867,895</u>

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Fund balances - total governmental funds	\$ (3,413,946)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	10,086,756
Certain liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.	
Compensated absences	(16,361)
Net assets of governmental activities	<u>\$ 6,656,449</u>

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

**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, 2011

	RDA Northshore	RDA Low/Mod	Total
<b>REVENUES</b>			
Property tax increment	\$ 1,923,717	\$ 486,871	\$ 2,410,588
Fines and forfeitures	7,875	2,625	10,500
Use of money and property	64,645	7,634	72,279
Intergovernmental revenues	154,389	14	154,403
Other revenues	8,475	--	8,475
	<u>2,159,101</u>	<u>497,144</u>	<u>2,656,245</u>
<b>EXPENDITURES</b>			
Current - Community Development and Planning			
Project administration	564,429	54,393	618,822
Pass-through payments	486,871	--	486,871
Supplemental Educational Revenue			
Augmentation Funds (SERAF)	157,460	--	157,460
Property tax administration fee	--	--	--
Grants, loans and project costs	--	116,900	116,900
Debt service:			
Interest and other charges	104,019	--	104,019
Capital outlay	2,420,418	--	2,420,418
	<u>3,733,197</u>	<u>171,293</u>	<u>3,904,490</u>
<b>NET CHANGE IN FUND BALANCE</b>	(1,574,096)	325,851	(1,248,245)
Fund Balance, Beginning of Year	<u>(3,608,961)</u>	<u>1,443,260</u>	<u>(2,165,701)</u>
<b>FUND BALANCE, END OF YEAR</b>	<u><u>\$ (5,183,057)</u></u>	<u><u>\$ 1,769,111</u></u>	<u><u>\$ (3,413,946)</u></u>

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

**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, 2011

Net change to fund balance - total governmental funds	\$ (1,248,245)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay 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.	
Capitalized expenditures are added back	2,372,753
Donated capital assets	33,146
Transfer of capital assets to the County of Lake	(795,267)
Less current year depreciation	(181,199)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(153,347)
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 governmental funds.	
Change in compensated absences	<u>(5,993)</u>
Change in net assets of governmental activities	<u><u>\$ 21,848</u></u>

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

## **NOTES TO THE FINANCIAL STATEMENTS**

# LAKE COUNTY REDEVELOPMENT AGENCY

## Notes to Component Unit Financial Statements For the Year Ended June 30, 2011

### Note 1: **Summary of Significant Accounting Policies**

The financial statements of the Lake County Redevelopment Agency have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies are described below.

#### A. **The Reporting Entity**

The Lake County Redevelopment Agency (the Agency) was organized and the County of Lake (County) Board of Supervisors was declared to be the Board of Directors of the Agency on December 2, 1999, under the provisions of the Community Redevelopment Law (California Health and Safety Code). Also on December 2, 1999, the first redevelopment plan (the Northshore Redevelopment Project area) was approved with amendments made on May 25, 2000, and August 24, 2000.

The Agency was established with the powers, duties and obligations to implement and further redevelopment, rehabilitation and revitalization of the area within the Northshore Redevelopment Project area.

Under GASB Statement No. 14, *The Financial Reporting Entity*, the Agency is a blended component unit of the County of Lake because County elected officials have a continuing full or partial oversight responsibility and accountability for fiscal matters of the Agency. As such, the Agency is an integral part of the County and, accordingly, the accompanying financial statements are included as a component unit of the basic financial statements of the County.

#### B. **Basis of Presentation**

##### *Government-Wide Financial Statements*

The statement of net assets and statement of activities display information about the primary government (the Agency). These statements include the non-fiduciary financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. *Governmental activities*, which are normally supported by regional appropriations, intergovernmental revenues and grants, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. At June 30, 2011, the Agency had no business-type activities.

# LAKE COUNTY REDEVELOPMENT AGENCY

Notes to Component Unit Financial Statements  
For the Year Ended June 30, 2011

Note 1: **Summary of Significant Accounting Policies** (continued)

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

*Government-Wide Financial Statements* (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are specifically associated with a program or function. Program revenues include 1) charges to users who purchase, use, or directly benefit from goods, services, or privileges offered by the Agency's programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Tax increment and other items not properly included among program revenues are reported instead as general revenues.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments for services where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the Agency's funds and between the Agency's funds and other County funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions.

*Fund Financial Statements*

The fund financial statements provide information about the Agency's funds. Separate financial statements are provided for the governmental funds of the Agency. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The Agency reports the following major governmental funds:

The *RDA Northshore* fund is a capital projects fund used to account for all financial resources except those required to be accounted for in other specialized funds.

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.

The Agency has no proprietary or fiduciary funds.

# LAKE COUNTY REDEVELOPMENT AGENCY

Notes to Component Unit Financial Statements  
For the Year Ended June 30, 2011

Note 1: **Summary of Significant Accounting Policies** (continued)

## C. Measurement Focus and Basis of Accounting

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 when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the Agency gives (or receives) value without directly receiving (or giving) equal value in exchange, include property tax increment, grants and contributions. Property tax increment is recognized as revenues in the year for which they are levied and apportioned to the Agency's accounts by the County of Lake. Grants, contributions and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within forty-five days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures related to certain claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt are reported as other financing sources.

Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the Agency receives resources before it has a legal claim to them as when grant monies are received prior to incurring qualifying expenditures. The Agency also follows industry practice of deferring recognition of governmental fund type revenues disbursed as long-term loans receivable until they are collected.

## D. Cash and Investments

The Agency pools all cash and investments with the County of Lake. The County 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.

# LAKE COUNTY REDEVELOPMENT AGENCY

Notes to Component Unit Financial Statements  
For the Year Ended June 30, 2011

Note 1: **Summary of Significant Accounting Policies** (continued)

## D. Cash and Investments (continued)

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 participant's average daily cash balance at quarter end in relation to the total pool investments. The pool has not provided or obtained any legally binding guarantees to support the value of participant equity in the investment pool.

The County's investment pool is not registered with the Securities and Exchange Commission as an investment company. 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 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 funds maintained by the County are either secured by federal depository insurance or are collateralized. Required disclosure information on categorization of investments and other deposit and investment risk disclosures can be found in the County's comprehensive annual financial report and may be obtained by contacting the Auditor-Controller's office at 255 North Forbes Street, Lakeport, CA 95453.

Government Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosure*, requires additional disclosures about a government's deposits and investments risks that include credit risk, custodial risk, concentration risk and interest rate risk. The Agency adheres to the County's investment policy for addressing specific types of risk.

Required risk disclosures for the Agency's investment in the County of Lake Investment Pool at June 30, 2011, were as follows:

Credit risk	Not rated
Custodial risk	Not applicable
Concentration of credit risk	Not applicable
Interest rate risk	402 days

# LAKE COUNTY REDEVELOPMENT AGENCY

Notes to Component Unit Financial Statements  
For the Year Ended June 30, 2011

Note 1: **Summary of Significant Accounting Policies** (continued)

## E. **Property Tax Increment**

Incremental property tax revenues represent excess taxes levied in the redevelopment project area over that amount levied in the base year (the inception year of redevelopment project area) property tax assessment along with a provision for inflation.

All property taxes are levied and collected by the County of Lake and paid upon collection to the various taxing entities including the Agency. Secured property taxes are due in two installments on November 1 and February 1 and become delinquent, if unpaid, on December 10 and April 10, respectively. The lien date for secured and unsecured property taxes is January 1 of the preceding fiscal year. Property tax revenues include only property taxes resulting from increased assessed values within the boundaries of the Agency and are recognized in the fiscal year for which the taxes have been levied and apportioned to the Agency's accounts by the County of Lake.

## F. **Receivables**

The Agency's receivables consist mostly of grants that management has determined to be fully collectible. Accordingly, no allowance for doubtful accounts has been made.

## G. **Loans Receivable**

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

## H. **Capital Assets**

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The Agency defines capital assets as assets with an initial individual cost of \$5,000 for equipment and \$25,000 for structures and improvements, and an estimated useful life in excess of one year. Capital assets used in operations are depreciated using the straight-line method over the estimated useful lives in the government-wide statements.

The estimated useful lives are as follows:

Equipment	5-25 years
Structures and improvements	10-50 years
Infrastructure	40-100 years

# LAKE COUNTY REDEVELOPMENT AGENCY

## Notes to Component Unit Financial Statements For the Year Ended June 30, 2011

### Note 1: **Summary of Significant Accounting Policies** (continued)

#### H. **Capital Assets** (continued)

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.

#### I. **Interfund Transactions**

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

Loans are reported as receivables and payables and are subject to elimination upon consolidation and 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). Advances between funds, as reported in the fund financial statements, are offset by a fund balance account in applicable governmental funds to indicate that they are not available for appropriation and are not in spendable form.

Services provide 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.

## LAKE COUNTY REDEVELOPMENT AGENCY

### Notes to Component Unit Financial Statements For the Year Ended June 30, 2011

Note 1: **Summary of Significant Accounting Policies** (continued)

#### J. **Compensated Absences**

The Agency's policy 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 is estimated based on historical trends. In the fund statements, the related expenditures are recognized when they mature. The Agency's share of social security and medicare taxes payable on behalf of employees is included in compensated absences.

#### K. **Net Assets – Government-Wide Financial Statements**

Net assets represent the difference between assets and liabilities. Net assets are displayed in three components:

*Invested in capital assets, net of related debt* – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any outstanding borrowing used for the acquisition, construction, or improvement of those assets.

*Restricted net assets* – Consists of net assets with constraints placed on use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

*Unrestricted net assets* – Consists of 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, restricted resources are depleted first before unrestricted resources are used.

#### L. **Fund Balances – Fund Financial Statements**

Beginning with the fiscal year 2011, the Agency implemented Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

*Nonspendable fund balance* – amounts that cannot be spent because they are either not spendable in form or legally or contractually required to remain intact.

# LAKE COUNTY REDEVELOPMENT AGENCY

Notes to Component Unit Financial Statements  
For the Year Ended June 30, 2011

Note 1: **Summary of Significant Accounting Policies** (continued)

## L. Fund Balances – Fund Financial Statements (continued)

*Restricted fund balance* – amounts with constraints placed on their use by those external to the Agency, including creditors, grantors, contributors or laws and regulations of other governments. It also includes constraints imposed by law through constitutional provisions or enabling legislation.

*Committed fund balance* – amounts that can only be used for specific purposes determined by formal action of the Agency’s highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

*Assigned fund balance* – amounts that are constrained by the Agency’s intent to be used for specific purposes. The intent can be established at either the highest level of decision making or by a body or an official designed for that purpose.

*Unassigned fund balance* – the residual classification that includes amounts not contained in the other classifications.

The Agency’s board establishes, modifies or rescinds fund balance commitments and assignments by passage of a resolution. When restricted and unrestricted resources are available for use, it is the Agency’s policy to use restricted resources first, followed by the unrestricted resources that are committed, assigned and unassigned, in this order as they are needed.

## M. Estimates

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

## N. New Accounting Pronouncements – GASB Statement No. 54

For the fiscal year ended June 30, 2011, the Agency implemented Government Accounting Standards Board Statement No. 54 (GASB 54), “Fund Balance Reporting and Governmental Fund Type Definitions.” The requirements of this statement are effective for financial statement periods beginning after June 15, 2010.

# LAKE COUNTY REDEVELOPMENT AGENCY

## Notes to Component Unit Financial Statements For the Year Ended June 30, 2011

### Note 1: Summary of Significant Accounting Policies (continued)

#### N. New Accounting Pronouncements (continued)

GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications are described in the Fund Balance section of this footnote.

GASB 54 also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The definitions of the General Fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are also clarified by the provisions in this statement.

### Note 2: Loans Receivable

The Agency has made various loans to qualifying participants within the County of Lake to provide housing for low and moderate income participants. At June 30, 2011, 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 3/7/2005, 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 9/23/2008, 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 will be immediately payable.	54,310
Rural Communities Housing Development Corporation "forgivable" loan dated 6/2/2009, 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.	368,785
Lucerne Alpine Seniors, Inc. "forgivable" loan dated 12/28/2008, with 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 Receivable	<u>\$ 713,569</u>

**LAKE COUNTY REDEVELOPMENT AGENCY**

Notes to Component Unit Financial Statements  
For the Year Ended June 30, 2011

Note 3: **Capital Assets**

Capital asset activity for the year ended June 30, 2011 was as follows:

	Balance July 1, 2010	Additions	Transfers & Adjustments	Balance June 30, 2011
Capital Assets, Not Being Depreciated:				
Land	\$ 3,288,672	\$ 33,146	\$ 183,001	\$ 3,504,819
Construction in progress	2,528,665	210,887	(2,666,830)	72,722
Total Capital Assets, Not Being Depreciated	<u>5,817,337</u>	<u>244,033</u>	<u>(2,483,829)</u>	<u>3,577,541</u>
Capital Assets, Being Depreciated:				
Structures & improvements	2,521,696	2,161,866	1,657,016	6,340,578
Infrastructure	394,235	--	31,546	425,781
Total Capital Assets, Being Depreciated	<u>2,915,931</u>	<u>2,161,866</u>	<u>1,688,562</u>	<u>6,766,359</u>
Less Accumulated Depreciation for:				
Structures & improvements	(72,003)	(177,257)	--	(249,260)
Infrastructure	(3,942)	(3,942)	--	(7,884)
Total Accumulated Depreciation	<u>(75,945)</u>	<u>(181,199)</u>	<u>--</u>	<u>(257,144)</u>
Total Capital Assets, Being Depreciated, Net	<u>2,839,986</u>	<u>1,980,667</u>	<u>1,688,562</u>	<u>6,509,215</u>
Government Activities Capital Assets, Net	<u>\$ 8,657,323</u>	<u>\$ 2,224,700</u>	<u>\$ (795,267)</u>	<u>\$ 10,086,756</u>

Depreciation expense was charged to governmental functions as follows:

Community Development and Planning	<u>\$ 181,199</u>
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Note 4: **Long-Term Debt**

The following is a summary of long-term liabilities transactions for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Amount Due Within One Year
Compensated Absences	<u>\$ 10,368</u>	<u>\$ 14,740</u>	<u>\$ 8,747</u>	<u>\$ 16,361</u>	<u>\$ 678</u>

**LAKE COUNTY REDEVELOPMENT AGENCY**

Notes to Component Unit Financial Statements  
For the Year Ended June 30, 2011

Note 5: **Interfund Transactions**

Advances To/From Other Funds

Advances to/from other funds are non-current interfund loans. The following are advances to/from other funds as of June 30, 2011:

Advances From	Advances To	Amount
RDA Northshore	RDA Low/Mod	\$ 471,000

Note 6: **Advances from the County of Lake**

The following are advances from the County Lake as of June 30, 2011:

Date	Repayment Terms	Interest Rate	Original Amount	Current Balance
09/07/2004	Repayment to be in two installments of \$200,000, due by 6/30/2012 and 6/30/2014	Variable, based on County Treasury earnings, adjusted	\$ 400,000	\$ 475,139
08/23/2005	Repayment to be in two installments of \$125,000, due by 6/30/2013 and 6/30/2015	Variable, based on County Treasury earnings, adjusted	\$ 250,000	\$ 291,979
03/20/2007	Repayment to be in two installments of \$125,000 due by 6/30/2015 and the remainder due by 6/30/2017	Variable, based on County Treasury earnings, adjusted quarterly.	\$ 970,000	\$ 1,062,545
11/06/2007	Repayment to be in two installments of \$125,000 due by 6/30/2010 and the remainder due by 6/30/2018	Variable, based on County Treasury earnings, adjusted quarterly.	\$ 500,000	\$ 378,515

**LAKE COUNTY REDEVELOPMENT AGENCY**

Notes to Component Unit Financial Statements  
For the Year Ended June 30, 2011

Note 6: **Advances from the County of Lake** (continued)

<u>Date</u>	<u>Repayment Terms</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Current Balance</u>
03/09/2009	Repayment to be in annual installments beginning on 4/1/2010, maturing on 4/1/2019	Annual interest rate of 3.5%	\$1,415,955	\$1,180,548
02/01/2010	Repayment to be in two installments of \$60,000 due by 6/30/2016 and the remainder due by 6/30/2019	Variable, based on County Treasury earnings, adjusted quarterly.	\$ 109,592	\$ 110,749
09/21/2010	Repayment to be in annual installments beginning on 12/15/2011, maturing on	Annual interest rate of 4.0%	\$1,350,000	\$1,391,426
			<u>\$4,995,547</u>	<u>\$4,890,901</u>

A schedule of changes in advances from the County of Lake, including accrued interest, is as follows:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2011</u>
Advances Payable:				
Principal	\$ 3,599,849	\$1,350,000	\$ 324,922	\$ 4,624,927
Accrued interest	222,145	104,019	60,190	265,974
	<u>\$ 3,821,994</u>	<u>\$1,454,019</u>	<u>\$ 385,112</u>	<u>\$ 4,890,901</u>

# LAKE COUNTY REDEVELOPMENT AGENCY

## Notes to Component Unit Financial Statements For the Year Ended June 30, 2011

### Note 7: **Restricted Net Assets**

Restricted net assets are net assets whose use is subject to constraints that are either (1) externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation. At June 30, 2011, the Agency had \$1,769,111 restricted for low or moderately low income housing, which is restricted by enabling legislation.

### Note 8: **Employee Benefits**

The Agency is a component unit of the County of Lake and as such the Agency's employees are covered under the retirement plan and the post employment benefit plan (OPEB) of the County of Lake. Lake County's annual net OPEB cost for the fiscal year ended June 30, 2011, is \$1,741,242 of which the Agency's share is \$4,439. Required disclosure information regarding these plans can be found in the County's audited financial statements.

### Note 9: **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 disasters. The Agency is included within the terms of the County's insurance coverage. Complete information on risk management can be found in the County of Lake's audited financial statements.

### Note 10: **Change in Presentation**

In these financial statements, certain current year amounts as described below have been reclassified and presented different than presented in prior year reports. There is no impact to the change in fund balance / net assets in the 2010 financial statements. These amounts include:

- Pass-thru payments to outside agencies: the current year financial statements report these payments as expenditures. In prior years, these amounts were netted against gross tax increment revenues.
- Supplemental Educational Revenue Augmentation Funds (SERAF): the current year financial statements report these payments as expenditures. In prior years, these amounts were netted against gross tax increment revenues.

## LAKE COUNTY REDEVELOPMENT AGENCY

### Notes to Component Unit Financial Statements For the Year Ended June 30, 2011

Note 11: **Subsequent Event**

On June 28, 2011, the California Legislature adopted Assembly Bill X1 26 (Dissolution Act) and Assembly Bill X1 27 (Voluntary Program Act) which taken together are known as the Redevelopment Restructuring Act. The Dissolution Act provides for the elimination of redevelopment agencies by appointing successor agencies to direct the orderly distribution of a redevelopment agency's assets and liabilities. The Voluntary Program Act provides a voluntary alternative for local governments to continue redevelopment activities by the enactment of an ordinance agreeing to comply with the program requirements and agreeing to make certain annual "Community Remittance" payments into a special fund established for the benefit of other governments. The Agency's "Community Remittance" payment is estimated to be \$1,035,867 for fiscal year 2011-12 and in future years it is estimated at \$243,573.

The Redevelopment Restructuring Act requires the Agency and its sponsoring government (the County) to take several legislative actions to implement the various provisions of each assembly bill. On September 27, 2011, the County's Board of Supervisors enacted an ordinance to comply with the provisions of the Voluntary Program Act, including the remittance of the payments described above as "Community Remittances."

The California Redevelopment Association along with others has filed suit challenging the constitutionality of Assembly Bill X1 26 (Dissolution Act) and Assembly Bill X1 27 (Voluntary Program Act). In August 2011, the Court agreed to hear the case on an expedited basis so that a decision could be reached before January 15, 2012, when the first payments under the Voluntary Program Act are due. Until a decision is reached, the California Supreme Court has issued a partial stay of AB X1 26 and AB X1 27, delaying the effectiveness of the statute.

**SUPPLEMENTARY INFORMATION**

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

Schedule of Revenues, Expenditures and  
 Changes in Fund Balances - Budget and Actual  
 RDA Northshore  
 For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget
<b>REVENUES</b>				
Property tax increment	\$ 1,194,800	\$ 1,200,340	\$ 1,279,386	\$ 79,046
Fines and forfeitures	8,285	8,285	7,875	(410)
Use of money and property	66,620	63,620	64,645	1,025
Intergovernmental revenues	247,844	154,348	154,389	41
Other revenues	6,838	8,438	8,475	37
<b>TOTAL REVENUES</b>	<u>1,524,387</u>	<u>1,435,031</u>	<u>1,514,770</u>	<u>79,739</u>
<b>EXPENDITURES</b>				
Current - Community Dev. and Planning				
Project administration	587,532	544,332	564,429	(20,097)
Grants, loans and project costs	8,000	--	--	--
Debt service	400,257	385,257	385,111	146
Capital outlay	2,461,760	2,539,475	2,420,418	119,057
<b>TOTAL EXPENDITURES</b>	<u>3,457,549</u>	<u>3,469,064</u>	<u>3,369,958</u>	<u>99,106</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(1,933,162)	(2,034,033)	(1,855,188)	178,845
<b>OTHER FINANCING SOURCES (USES)</b>				
Advances from other funds	1,350,000	1,350,000	1,350,000	--
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (583,162)</u>	<u>\$ (684,033)</u>	<u>(505,188)</u>	<u>\$ 178,845</u>
Fund balance, beginning of year			(3,608,961)	
GAAP Adjustments:				
Principal payments on advances			281,092	
Issuance of new advances			(1,350,000)	
Fund balance, end of year			<u>\$ (5,183,057)</u>	

continued

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

Schedule of Revenues, Expenditures and  
 Changes in Fund Balances - Budget and Actual (continued)  
 RDA Northshore  
 For the Year Ended June 30, 2011

Explanation of differences between budgetary Inflows and GAAP revenues:

Actual amounts (budgetary basis) of revenues from the budgetary comparison schedule	\$ 1,514,770
Differences - budget to GAAP:	
Certain amounts offsetting budgetary revenues were reported as expenditures for financial reporting purposes. This includes pass-through payments, the Supplemental Educational Revenue Augmentation Funds payment and the property tax administration fee	697,268
<hr/>	
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 2,212,038</u></u>

Explanation of differences between budgetary outflows and GAAP expenditures:

Actual amounts (budgetary basis) of expenditures from the budgetary comparison schedule	\$ 3,369,958
Differences - budget to GAAP:	
Principal repayments on advances from the County's General Fund are not considered expenditures for financial reporting purposes	(281,092)
Certain amounts offsetting budgetary revenues were reported as expenditures for financial reporting purposes. This includes pass-through payments, the Supplemental Educational Revenue Augmentation Funds payment and the property tax administration fee	697,268
<hr/>	
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 3,786,134</u></u>

Explanation of differences between budgetary inflows and GAAP other financing resources:

Actual amounts (budgetary basis) of other financing sources and uses from the budgetary comparison schedule	\$ 1,350,000
Differences - budget to GAAP:	
Advances from the County's General Fund are not considered other financing sources for financial reporting purposes	(1,350,000)
<hr/>	
Total other financing sources and uses as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ --</u></u>

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

Schedule of Revenues, Expenditures and  
 Changes in Fund Balances - Budget and Actual  
 RDA Low/Moderate  
 For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property tax increment	\$ 451,933	\$ 451,933	\$ 486,871	\$ 34,938
Fines and forfeitures	--	--	2,625	2,625
Use of money and property	7,080	7,080	7,634	554
Intergovernmental revenues	--	--	14	14
	<u>459,013</u>	<u>459,013</u>	<u>497,144</u>	<u>38,131</u>
<b>EXPENDITURES</b>				
Current - Community Development and Planning				
Project administration	94,656	94,656	54,393	40,263
Grants, loans and project costs	513,867	513,867	116,900	396,967
Capital outlay	815,000	815,000	--	815,000
	<u>1,423,523</u>	<u>1,423,523</u>	<u>171,293</u>	<u>1,252,230</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u><u>\$ (964,510)</u></u>	<u><u>\$ (964,510)</u></u>	325,851	<u><u>\$ 1,290,361</u></u>
Fund balance, beginning of year			<u>1,443,260</u>	
Fund balance, end of year			<u><u>\$ 1,769,111</u></u>	

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

Note to the Supplementary Schedules  
For the Year Ended June 30, 2011

**BUDGETS AND BUDGETARY ACCOUNTING POLICIES**

In accordance with the provisions of Sections 29000 and 29143, inclusive, of the California Government Code and other statutory provisions, commonly known as the County Budget Act, the Agency, as a component unit of the County of Lake, prepares a budget for each fiscal year. Budgeted expenditures are enacted into law through the passage of an Appropriation Resolution. This resolution mandates the maximum authorized expenditures for the fiscal year and cannot be exceeded except by subsequent amendments to the budget by the Agency's governing board.

The Agency follows these procedures annually in establishing the budgetary data reflected in the financial statements:

- The County Administrative Officer submits to the Board of Supervisors a recommended budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
- The recommended budget is approved by the governing board prior to July 1st.
- An advertised public hearing is conducted on the recommended budget to obtain comments from interested persons.
- Prior to October 2, the budget is adopted through the passage of a resolution.

From the effective date of the budget, which is adopted and controlled at the department level, the amounts stated therein, as proposed expenditures become appropriations to the various departments. The governing board may amend the budget by motion during the fiscal year. The County Administrative Officer may authorize transfers from one object or purpose to another within the same department. Formal budgetary integration is employed as a management control device during the year.

The amounts reported on the budgetary basis are generally on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), except that advances on loans from the County of Lake are reported as revenues and repayments of principal and interest are reported as expenditures in the year paid.

## **OTHER REPORTS**



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

To the Board of Directors of  
The Lake County 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 component unit of the County of Lake, California, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 12, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lake County Redevelopment 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*.

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

*Gallina LLP*

Roseville, California  
December 12, 2011



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH THE STATUTES, RULES, AND REGULATIONS OVER CALIFORNIA REDEVELOPMENT AGENCIES**

To the Board of Directors of  
The Lake County Redevelopment Agency  
Lakeport, California

We have audited Lake County Redevelopment Agency's (Agency) compliance with the laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies, 2011*, issued by the State Controller applicable to the Agency's financial statements of the governmental activities and each major fund, as of and for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Guidelines for Compliance Audits of California Redevelopment Agencies, 2011*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. Those standards and the *Guidelines for Compliance Audits of California Redevelopment Agencies* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Agency occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements. In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable to the Agency for the year end June 30, 2011.

### Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Agency's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance.

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

*Gallina LLP*

Roseville, California  
December 12, 2011