

**REDEVELOPMENT AGENCY OF THE  
COUNTY OF LAKE  
(A COMPONENT UNIT OF THE  
COUNTY OF LAKE, CALIFORNIA)**



**FINANCIAL STATEMENTS  
TOGETHER WITH  
INDEPENDENT AUDITORS' REPORTS  
FOR THE YEAR ENDED  
JUNE 30, 2008**

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**COUNTY OF LAKE  
REDEVELOPMENT AGENCY  
(A Component Unit of the County of Lake, California)  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2008**

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# FINANCIAL SECTION

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

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**INDEPENDENT AUDITOR'S REPORT**

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

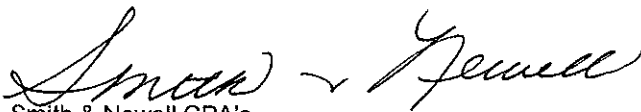
We have audited the accompanying financial statements of the governmental activities and each major fund of the County of Lake Redevelopment Agency (Agency) (a redevelopment agency formed under the laws of the State of California) and a component unit of the County of Lake, California, as of and for the year ended June 30, 2008, as listed in the table of contents. These component unit financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the component unit 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, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 24, 2008, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

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



Smith & Newell CPA's  
Yuba City, California  
November 24, 2008

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

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## Management's Discussion and Analysis

As a component unit of the County of Lake (County), Fiscal Year 2007/2008 is the sixth 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 2007-2008 Annual Report further explains the role of the Redevelopment Agency and how it is funded:

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

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

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

### Fiscal Year 2008 Financial Highlights

#### Agency-wide

- The Agency's total net assets increased \$1,271,741 in fiscal year 2008.
- At June 30, 2008 the Agency's net assets were \$3,464,931.
- Total Agency net assets increased 58%.

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

	Governmental Activities		Total Dollar Change
	2007	2008	
<b>Assets:</b>			
Current and other assets	\$ 3,807,315	\$ 3,823,705	\$ 16,390
Capital assets	946,929	4,380,408	3,433,479
<b>Total assets</b>	<b>4,754,244</b>	<b>8,204,113</b>	<b>3,449,869</b>
<b>Liabilities:</b>			
Current and other liabilities	290,391	3,226,351	2,935,960
Long-term liabilities	2,270,663	1,512,831	(757,832)
<b>Total liabilities</b>	<b>2,561,054</b>	<b>4,739,182</b>	<b>2,178,128</b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	946,929	2,880,408	1,933,479
Restricted for capital projects	1258989	597,354	(661,635)
Unrestricted net assets	(12,728)	(12,831)	(103)
<b>Total net assets</b>	<b>\$ 2,193,190</b>	<b>\$ 3,464,931</b>	<b>\$ 1,271,741</b>

**Fund Level**

- Northshore Capital Projects Fund revenues were \$1,568,964, expenses of \$3,644,516. Net decrease in resources of \$2,075,552 for fiscal year 2008.
- Low/Mod Fund revenues were \$510,308. Expenses of \$596,391. Net decrease in resources of \$86,083 for fiscal year 2008.

**Overview of the Financial Statements**

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

**Government Wide Financial Statements**

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

**Fund Financial Statements**

- Focus on the individual parts of the Agency's government. Reporting the Agency's operation in more detail than *Government-wide Statements*.
- Provide detailed information about the Agency's two most significant funds, called major funds. A concept and determination as prescribed and applied per GASB Statement 34.
- Display these two governmental funds on the modified accrual basis. This means only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

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

## Analysis of the Agency as Whole — Governmental Wide Financial Statements

At June 30, 2008, the Agency's total assets of \$3,464,931 consisted of cash and investments and capital assets (net). This amount is a result of loans to the Agency by the County and proceeds of property tax increment. Total assets are offset by liabilities of \$4,739,182 consisting of \$2,726,666 in advances from the County, short-term payables of \$97,911, long-term payables of \$1,512,831, and unearned revenue of \$401,774.

The Agency's net assets at June 30, 2008 of \$3,464,931 are an increase of \$1,271,741 from the previous fiscal year.

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

	Governmental Activities		Total Dollar Change
	2007	2008	
<b>Revenues</b>			
Program Revenues:			
Charges for Services		\$ 8,051	\$ 8,051
Operating grants and contributions	1,136	368	\$ (768)
Capital grants and contributions	-	1,000	\$ 1,000
General Revenues:			
Property taxes	1,661,379	1,914,394	\$ 253,015
Interest and investment earnings	104,976	156,121	\$ 51,145
Other Revenue	-	338	\$ 338
Total revenues	1,767,491	2,080,272	312,781
<b>Expenses</b>			
Community development	583,729	699,800	\$ 116,071
Interest on long-term debt	105,722	108,731	\$ 3,009
Total expenses	689,451	808,531	(119,080)
Change in net assets	1,078,040	1,271,741	\$ 193,701
Net assets - July 1	1,115,150	2,193,190	\$ 1,078,040
Net assets - June 30	\$ 2,193,190	\$ 3,464,931	\$ 1,271,741

## Governmental Activities

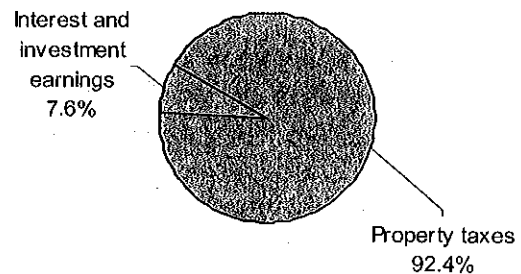
### Revenues

The Agency's total revenue of \$2,080,272 consisted of program revenues of \$9,419, property tax increment of \$1,914,394, and interest earnings of \$156,121. This was the fifth year the Agency received property tax increment. Revenue increased 18% compared to the previous fiscal year.

### Expenses

Expenses of the Agency totaled \$808,531. Agency's expenses are primarily for purchase of capital assets (mostly land), contractual services related to area improvement along with customary administration expenses related to management of the Agency.

### Revenues by Source-Governmental Activities



## Expenses and Program Revenues-Governmental Activities



### 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 a combined fund balance at June 30, 2008 of \$597,354. A decrease in fund balance of \$661,635 over the previous fiscal year.

### Highlights

Achievements over the past year include the following:

- **Upper Lake Main Street** - Project bidding documents prepared and utility under-grounding begun for Main Street reconstruction to include new sidewalks, decorative street lights, streetscape and entrance arch.
- **Holiday Harbor** – Purchased the property and sent out a request for qualifications for development of the property.
- **Lucerne Promenade** – Achieved significant progress in developing the **3rd Avenue Plaza** component of the Promenade by acquiring a parcel with a blighted three-story structure lying between two County-owned parcels. The structure was demolished in October 2007. Contracts were awarded for engineering and design of the **3rd Avenue Plaza**.
- **Lucerne Harbor Village** - Funded the remodeling of four cabins that have been developed into a small-business arts incubator on property next to the Lucerne Harbor Park. Opened for business Summer 2008.
- **Lucerne Creek Park** – Supporting the Public Services Department in preserving this open space park that protects the natural beauty of the creek area.
- **Clearlake Oaks Plaza** – Awarded the project bid for the construction of a community plaza for gatherings and events to help strengthen downtown Clearlake Oaks.
- **Nylander Park** – Provided funding assistance to the Public Services Department to construct a community park in the heart of Clearlake Oaks. Park opened in the Spring of 2008.
- **Clark's Island, Clearlake Oaks** – Purchased blighted island and relocated residents. Cleared island of trailers and debris. Will be developed into a community park and possibly a marina.
- **Clearlake Oaks Sidewalks** - Worked with Caltrans to plan for future construction of sidewalks along Highway 20 in Clearlake Oaks.
- **Façade Improvement Program**- Implemented an expanded program to work with local business owners to beautify their business properties.

### **Affordable Housing Projects**

- **Eskaton Clearlake Oaks Manor** – Purchased a more suitable location for this development and entered into a Disposition and Development Agreement for this 23 unit low-income senior housing project.
- **Affordable Housing Project in Nice** - Continued working with the developer, Rural Communities Housing Development Corporation (RCHDC), to develop this 50 unit project on Collier Avenue.
- **Housing Re-habilitation Loan Program** – Continued providing funding for housing rehabilitation loans.

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

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

The Agency acquired \$3,433,479 more of capital assets for future development. This additional amount, along with the previous years' acquisitions, brings the total capital assets of the Agency to \$4,380,408. More detailed information regarding Capital Assets can be found on page 19 of the notes to the financial statements.

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

	Governmental Activities		Total Dollar
	2007	2008	Change
Land	\$ 926,985	\$ 3,284,382	\$ 2,357,397
Construction in progress		\$ 15,333	\$ 15,333
Bldg & Imp	\$ 19,944	\$ 1,080,693	\$ 1,060,749
Totals	946,929	4,380,408	

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

The Agency entered into a loan with Joan S. Bartz on June 12, 2008 for the purchase of property known as "Holiday Harbor". The purchase price of this property was \$2,000,000, with payment of \$500,000 and a principle loan of \$1,500,000. Additional details are presented in Note 3. D.

As of June 30, 2008 the Agency owed a total of \$2,726,666 in principal and interest for six loans from the County. The principal amount and date of each loan are as follows: \$195,000 in May 2000; \$200,000 in January 2001; \$200,000 in February 2002; \$400,000 in September 2004; \$250,000 in August 2005; \$970,000 in March 2007; and \$500,000 in 2008. Additional details are presented in Note 3. D and 3. E.

#### **Economic Factors and Next Year's Budget**

As the real estate market through-out the nation cools in 2007 and 2008, the Northshore Project Area is expected to be affected as well. Consequently, the amount of tax increment to be received by the Agency is not expected to increase as much as it did during the first five years (when revenues increased by over 40% each year). However, the amount of tax increment estimated for FY 2008/09 is still expected to increase by 3.45% from FY 2007/08.

As of June 30, 2008 the Agency's cash and investments were all invested in the County of Lake's Treasury pool. The fair value of some investments in this pool has declined since the June 30<sup>th</sup> value listed in these financial statements. Any decrease in fair value will be reflected as a reduction in investment earnings as realized. The amount of this decrease is not expected to exceed investment earnings in any period.

#### **Contacting the Agency's Financial Management**

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

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**FINANCIAL STATEMENTS**  
Government-Wide Financial Statements

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**COUNTY OF LAKE  
REDEVELOPMENT AGENCY**  
(A Component Unit of the County of Lake, California)  
**STATEMENT OF NET ASSETS**  
JUNE 30, 2008

	<u>Governmental Activities</u>	<u>Total</u>
<b><u>ASSETS</u></b>		
Cash and investments	\$ 3,381,347	\$ 3,381,347
Interest receivable	40,584	40,584
Loans receivable	401,774	401,774
Capital assets:		
Non-depreciable assets	3,299,715	3,299,715
Depreciable assets, net	1,080,693	1,080,693
Total capital assets	<u>4,380,408</u>	<u>4,380,408</u>
<b>Total Assets</b>	<u>8,204,113</u>	<u>8,204,113</u>
<b><u>LIABILITIES</u></b>		
Accounts payable	81,382	81,382
Salaries and benefits payable	16,529	16,529
Unearned revenue	401,774	401,774
Advance from County of Lake	2,726,666	2,726,666
Long-term liabilities:		
Due within one year	113,350	113,350
Due in more than one year	1,399,481	1,399,481
<b>Total Liabilities</b>	<u>4,739,182</u>	<u>4,739,182</u>
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	2,880,408	2,880,408
Restricted for capital projects	597,354	597,354
Unrestricted	(12,831)	(12,831)
<b>Total Net Assets</b>	<u>\$ 3,464,931</u>	<u>\$ 3,464,931</u>

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

**COUNTY OF LAKE  
REDEVELOPMENT AGENCY**  
(A Component Unit of the County of Lake, California)  
**STATEMENT OF ACTIVITIES**  
FOR THE YEAR ENDED JUNE 30, 2008

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Governmental activities:						
Community development	\$ 699,800	\$ 8,051	\$ 368	\$ 1,000	\$ (690,381)	\$ (690,381)
Interest on long-term debt	108,731	-	-	-	(108,731)	(108,731)
<b>Total Governmental Activities</b>	<b>\$ 808,531</b>	<b>\$ 8,051</b>	<b>\$ 368</b>	<b>\$ 1,000</b>	<b>(799,112)</b>	<b>(799,112)</b>
<b>General Revenues:</b>						
Taxes:						
Property taxes					1,914,394	1,914,394
Interest and investment earnings					156,121	156,121
Miscellaneous					338	338
<b>Total General Revenues</b>					<b>2,070,853</b>	<b>2,070,853</b>
<b>Change in Net Assets</b>					<b>1,271,741</b>	<b>1,271,741</b>
<b>Net Assets - Beginning</b>					<b>2,193,190</b>	<b>2,193,190</b>
<b>Net Assets - Ending</b>					<b>\$ 3,464,931</b>	<b>\$ 3,464,931</b>

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

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**FINANCIAL STATEMENTS**  
Fund Financial Statements

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**COUNTY OF LAKE  
REDEVELOPMENT AGENCY**  
(A Component Unit of the County of Lake, California)  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
JUNE 30, 2008

	<u>RDA Northshore</u>	<u>RDA Low/Mod</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>			
Cash and investments	\$ 2,743,577	\$ 637,770	\$ 3,381,347
Interest receivable	33,996	6,588	40,584
Loans receivable	-	401,774	401,774
<b>Total Assets</b>	<b><u>\$ 2,777,573</u></b>	<b><u>\$ 1,046,132</u></b>	<b><u>\$ 3,823,705</u></b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b><u>LIABILITIES</u></b>			
Accounts payable	\$ 80,618	\$ 764	\$ 81,382
Salaries and benefits payable	16,529	-	16,529
Unearned revenue	-	401,774	401,774
Advance from County of Lake	2,726,666	-	2,726,666
<b>Total Liabilities</b>	<b><u>2,823,813</u></b>	<b><u>402,538</u></b>	<b><u>3,226,351</u></b>
<b><u>FUND BALANCES</u></b>			
Unreserved, reported in:			
Capital projects funds			
Undesignated	(46,240)	643,594	597,354
<b>Total Fund Balances</b>	<b><u>(46,240)</u></b>	<b><u>643,594</u></b>	<b><u>597,354</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 2,777,573</u></b>	<b><u>\$ 1,046,132</u></b>	<b><u>\$ 3,823,705</u></b>

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

**COUNTY OF LAKE  
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, 2008**

<b>Total Fund Balance - Total Governmental Funds</b>	\$ 597,354
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.	4,380,408
Certain liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.	
Loans payable	(1,500,000)
Compensated absences	<u>(12,831)</u>
<b>Net Assets of Governmental Activities</b>	<u><u>\$ 3,464,931</u></u>

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

**COUNTY OF LAKE  
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, 2008**

	RDA Northshore	RDA Low/Mod	Total Governmental Funds
<b>REVENUES</b>			
Taxes and assessments	\$ 1,430,665	\$ 483,729	\$ 1,914,394
Fines and forfeitures	5,944	2,107	8,051
Use of money and property	131,741	24,380	156,121
Intergovernmental revenues	276	92	368
Other revenues	338	-	338
<b>Total Revenues</b>	<b>1,568,964</b>	<b>510,308</b>	<b>2,079,272</b>
<b>EXPENDITURES</b>			
Current :			
Salaries and benefits	147,461	-	147,461
Services and supplies	518,834	33,402	552,236
Debt service:			
Interest and other charges	108,731	-	108,731
Capital outlay	2,869,490	562,989	3,432,479
<b>Total Expenditures</b>	<b>3,644,516</b>	<b>596,391</b>	<b>4,240,907</b>
Excess of Revenues Over (Under) Expenditures	(2,075,552)	(86,083)	(2,161,635)
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from issuance of debt	1,500,000	-	1,500,000
<b>Total Other Financing Sources (Uses)</b>	<b>1,500,000</b>	<b>-</b>	<b>1,500,000</b>
<b>Net Change in Fund Balances</b>	<b>(575,552)</b>	<b>(86,083)</b>	<b>(661,635)</b>
Fund Balances - Beginning	529,312	729,677	1,258,989
Fund Balances - Ending	\$ (46,240)	\$ 643,594	\$ 597,354

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

**COUNTY OF LAKE  
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, 2008**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ (661,635)</b>
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	3,432,479
Donated capital assets	1,000
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Loan proceeds	(1,500,000)
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	<u>(103)</u>
<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 1,271,741</u></b>

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

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**FINANCIAL STATEMENTS**  
Notes to Financial Statements

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**COUNTY OF LAKE  
REDEVELOPMENT AGENCY**  
(A Component Unit of the County of Lake, California)  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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

**A. Reporting Entity**

The County of Lake 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 County of Lake Redevelopment Agency is presented as a blended component unit within the County of Lake's financial statements.

**B. Basis of Presentation**

**Government-Wide Financial Statements**

The statement of net assets and statement of activities display information about the Agency. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities. All activity of the Agency is reflected as a governmental type activity. Governmental activities, which are normally supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**Fund Financial Statements**

Fund financial statements of the reporting entity 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. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the Agency or meets the following criteria:

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

The Agency reports the following major governmental funds:

- The 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.

The Agency does not report any major proprietary funds.

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**NOTES TO FINANCIAL STATEMENTS  
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**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 60 days after the end of the current fiscal year. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to claims and judgments are recorded only when payment is due. Governmental capital assets acquisitions are reported as expenditures in the various functions of the governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

**D. Cash and Investments**

The Agency pools cash and investments of all funds with cash and investments of the County of Lake. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income from pooled investments is allocated to all funds in the pool. State statutes authorize 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. Interest is allocated on the basis of average month end cash balance amounts for each fund as a percentage of the total balance.

Investments are reported in the accompanying balance sheet at fair value which is determined using selected bases. Short term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Cash deposits are reported at carrying amount which reasonably estimates fair value. Managed funds not listed on an established market are reported at the estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities.

Investment transactions are recorded on the trade date. Investments in nonparticipation interest-bearing investment contracts are reported at cost, commercial paper that have maturity of less than 90 days are reported at amortized cost, and all other investments are reported at fair value. The fair value represents the amount the County could reasonably expect to receive for an investment in a current sale between a willing buyer and seller. The fair value of investments is obtained by using quotations obtained from independent published sources.

Participant's equity in the investment pool is determined by the dollar amount of participant deposits, adjusted for withdrawals and distributed investment income. Investment income is determined on an amortized cost basis. Amortized premiums and accreted discounts, accrued interest, and realized gains and losses, net of expenses, are apportioned to pool participants every quarter. This method differs from the fair value method used to value investments in these financial statements as unrealized gains or losses are not apportioned to pool participants. During the fiscal year ended June 30, 2008, the Lake County Treasurer has not entered into any legally binding guarantees to support the participant equity in the investment pool.

**E. Receivables**

In the government-wide financial statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include interest.

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

**E. Receivables (Continued)**

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

**F. Interfund Transactions**

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

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

Services provided or used, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when the funds responsible for particular expenditures or expenses repay the funds that initially paid for them. Such reimbursements are treated as an adjustment to expenditures or expenses; that is, a corresponding increase in expenditures or expenses in the reimbursing fund and a corresponding decrease in expenditures or expenses in the reimbursed fund. All other interfund transactions are treated as transfers. Transfers between funds are netted as part of the reconciliation to the government-wide presentation.

**G. Inventory**

Governmental fund inventories are recorded as expenditures at the time the inventory is purchased. Records are not maintained of inventory and supplies on hand, although these amounts are not considered material.

**H. Loans Receivable**

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

**I. Capital Assets**

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are reported in the government-wide or fund financial statements.

**Government-Wide Financial Statements**

In the government-wide financial statements, property, plant and equipment 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.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

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**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

**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, 2008, the long-term debt consisted of advances from the County of Lake, loans payable, and accrued compensated absences.

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

**L. Compensated Absences**

The Agency's policy regarding vacation is to permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements the expenditures related to those obligations are recognized when they mature. The Agency includes its share of social security and medicare taxes payable on behalf of the employees in the accrual for compensated absences.

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**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.
- 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, 2008, the Agency had no reserves or designations.

**N. Taxes and Assessments**

The Agency is funded primarily by allocated tax increment revenues. Information on property tax levy, collection and maximum rates is contained in the County of Lake financial statements.

**O. Expenditures/Expenses**

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

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

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

**P. Estimates**

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

**NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Deficit Fund Balance/Net Assets**

The RDA Northshore fund had a fund balance deficit of \$46,240, which is expected to be eliminated in future years through tax increment revenue.

**COUNTY OF LAKE  
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**NOTES TO FINANCIAL STATEMENTS**  
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**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, 2008, the Agency's cash and investments consisted of the following:

Investments:	
In County Treasurer's pool	\$ 3,381,347
Total Cash and Investments	<u>\$ 3,381,347</u>

**Cash**

The California Government Code requires California banks and savings and loan associations to collateralize an Agency's deposits by pledging government securities. The market value of pledged securities must equal at least 110 percent of an Agency's deposits. California law also allows financial institutions to collateralize Agency deposits by pledging first trust deed mortgage notes having a value of 150 percent of an Agency's total deposits. The Agency may waive collateral requirements for deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation. Agency deposits in excess of the Federal Deposit Insurance Corporation's coverage are fully collateralized.

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 by Standards & Poor's or P-1 by Moodys' Investors Service. State law also limits investments in corporate bonds to the rating of A by Standards and Poor's or P-1 by Moody's Investor's Service. The Agency does not have a formal investment policy that would further limit its investment choices.

**Custodial Credit Risk** - Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Agency will not be able to recover its deposits or collateral securities that are in the possession of an outside party. The Agency follows California Government Code which requires that deposits of more than \$100,000 must be collateralized. 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.

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**NOTES TO FINANCIAL STATEMENTS  
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**NOTE 3: DETAILED NOTES (CONTINUED)**

**B. Loans Receivable**

The Agency has made various loans to qualifying participants within the County of Lake to provide housing for low and moderate participants. At June 30, 2008, 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.

Total Loans \$ 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.

Total Loans \$ 250,000

Eskaton "forgivable" loan dated December 22, 2005, 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 5% will be immediately payable.

Total Loans \$ 145,000

**C. Capital Assets**

Capital assets activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Retirements	Adjustments/ Transfers	Balance June 30, 2008
Capital Assets, Not Being Depreciated:					
Land	\$ 926,985	\$ 2,528,711	\$ -	(\$ 171,314)	\$ 3,284,382
Construction in progress	19,944	15,333	-	(19,944)	15,333
Total Capital Assets, Not Being Depreciated:	<u>946,929</u>	<u>2,544,044</u>	-	(191,258)	<u>3,299,715</u>
Capital Assets, Being Depreciated:					
Buildings and Improvements	-	889,435	-	191,258	1,080,693
Total Capital Assets, Being Depreciated	-	889,435	-	191,258	1,080,693
Less Accumulated Depreciation For:					
Buildings and improvements	-	-	-	-	-
Total Accumulated Depreciation	-	-	-	-	-
Total Capital Assets, Being Depreciated, Net	-	889,435	-	191,258	1,080,693
Governmental Activities Capital Assets, Net	<u>\$ 946,929</u>	<u>\$ 3,433,479</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,380,408</u>

**D. Long-Term Liabilities**

The following is a summary of all long-term liabilities transactions for the year ended June 30, 2008:

<u>Type of Indebtedness</u>	Balance July 1, 2007	Additions/ Adjustments	Retirements/ Adjustments	Balance June 30, 2008	Amounts Due Within One Year
Loans	\$ -	\$ 1,500,000	\$ -	\$ 1,500,000	\$ 112,908
Compensated Absences (Note 1L)	12,728	9,663	9,560	12,831	442
Total Governmental Activities - Long-Term Liabilities	<u>\$ 12,728</u>	<u>\$ 1,509,663</u>	<u>\$ 9,560</u>	<u>\$ 1,512,831</u>	<u>\$ 113,350</u>

**COUNTY OF LAKE  
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**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**NOTE 3: DETAILED NOTES (CONTINUED)**

**D. Long-Term Liabilities**

At June 30, 2008, loans consisted of the following:

Joan S. Bartz loan dated June 12, 2008, payable in monthly installments of \$16,653, with an interest rate of 6.00% and maturity on June 19, 2018.	<u>\$ 1,500,000</u>
Total Loans	<u>\$ 1,500,000</u>

The annual aggregate maturities for the years subsequent to June 30, 2008, are as follows:

Loans	Principal	Interest	Total
Year Ended June 30			
2009	\$ 112,908	\$ 86,929	\$ 199,837
2010	119,872	79,965	199,837
2011	127,266	72,571	199,837
2012	135,115	64,722	199,837
2013	143,449	56,388	199,837
2014-2018	861,390	137,795	999,185
Total	\$ 1,500,000	\$ 498,370	\$ 1,998,370

**E. Advance Payable**

On May 9, 2000, the County of Lake approved a loan to the Redevelopment Agency for \$195,000. The term of the advance is 10 years with a variable interest rate based on the County Treasury earnings, adjusted quarterly. Repayment is to be made in two installments. The first installment is to be a minimum of \$100,000, due no later than June 30, 2007, and the balance is due June 30, 2010. The first installment of \$100,000 was paid March 14, 2007. The balance at June 30, 2008, including accrued interest was \$106,484.

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, 2008, including accrued interest, was \$107,182.

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 balance at June 30, 2008, including accrued interest, was \$238,300.

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, 2008, including accrued interest, was \$458,329.

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, 2008, including accrued interest, was \$281,649.

**COUNTY OF LAKE  
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**NOTES TO FINANCIAL STATEMENTS  
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**NOTE 3: DETAILED NOTES (CONTINUED)**

**E. Advance Payable (Continued)**

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, 2008, including accrued interest, was \$1,024,953.

On November 6, 2007, the County of Lake approved a loan to the Redevelopment Agency for an additional \$500,000. The term of the advance is 10 years with a variable interest rate based on the County Treasury earnings, adjusted quarterly. Repayment is to be made in two installments. The first installment is to be a minimum of \$125,000, due no later than June 30, 2010 and the balance shall be due and payable no later than June 30, 2018. The balance at June 30, 2008, including accrued interest, was \$509,769.

**F. Insurance**

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

**G. 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, 2008, was as follows:

Ending balance June 30, 2007	\$	729,677
Revenue set aside:		
tax increment x .20		483,729
Interest earned		24,380
Intergovernmental revenues		92
Fines and forfeitures		2,107
Total Available		510,308
Less:		
Expenditure Allocations		( 596,391)
Ending balance June 30, 2008	\$	643,594

**NOTE 4: OTHER INFORMATION**

**A. Subsequent Event**

The Agency entered into a disposition and development agreement on July 22, 2008, with Eskaton Clearlake Oaks Manor. The agreement is for the sale of the property from the Agency to the developer for \$1 and requires the developer to develop the property for low and moderate income households.

On September 23, 2008, the Agency entered into an agreement to loan up to \$75,000 to Eskaton Clearlake Oaks Manor for the construction of curb, gutter, and sidewalks and other improvements at the development that the developer acquired for \$1 from the Agency.

As of June 30, 2008, the Authority's cash and investments were all invested in the County of Lake's Treasurer's pool. The fair value of some investments in this pool have declined since the June 30<sup>th</sup> value listed in these financial statements. Any decrease in fair value will be reflected as a reduction in investment earnings as realized. The amount of this decrease is not expected to exceed investment earnings in any period.

**COUNTY OF LAKE  
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**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 4: OTHER INFORMATION (CONTINUED)**

**B. New Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) has released the following new standards:

GASB Statement No. 45, Accounting and Financial Reporting by Employers of Postemployment Benefits Other Than Pensions (OPEB) addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and for certain employers, the extent to which the plan has been funded over time. GASB Statement No. 45 is effective for certain financial statements with fiscal years ending after June 30, 2008.

Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations, issued in November 2006. This Statement establishes accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The Statement establishes once any of five specified obligating events occurs, that a government is required to estimate the components of the expected pollution remediation outlays and determine whether the outlays for those components should be recorded as a liability or, if appropriate, capitalized when goods and services are acquired. GASB Statement No. 49 is effective for financial statements for years beginning after December 15, 2007.

Statement No. 50, Pension Disclosures, an amendment of GASB Statement No. 25 and No. 27, enhances the information disclosed in the notes to the financial statements or presented as required supplementary information (RSI). Statement No. 50 is intended to improve the transparency and decision usefulness of reported information about pensions by state and local governmental plans and employers, and conforms to the applicable changes adopted in Statement No. 45. GASB Statement No. 50 is effective for financial statements for years beginning after June 15, 2007.

Statement No. 51, Accounting and Financial Reporting for Intangible Assets requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. GASB Statement No. 51 is effective for financial statements for years beginning after June 15, 2009.

Statement No. 52, Land and Other Real Estate Held as Investments by Endowments improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. GASB Statement No. 52 is effective for financial statements for years beginning after June 15, 2008.

Statement No. 53, Accounting and Financial Reporting for Derivative Instruments addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts and futures contracts. GASB Statement No. 53 is effective for financial statements for years beginning after June 15, 2009.

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**OTHER REPORT**

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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 component unit financial statements of the governmental activities and each major fund of the County of Lake Redevelopment Agency (Agency)(a redevelopment agency formed under the laws of California) and a component unit of the County of Lake, California as of and for the year ended June 30, 2008, and have issued our report thereon dated November 24, 2008. 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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies 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.

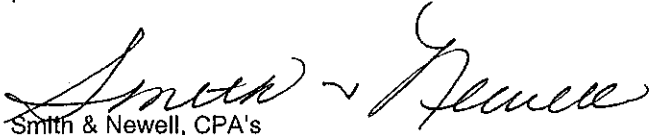
Compliance and Other Matters

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 statements 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.

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

This report is intended solely for the information and use of management, others within the organization, Governing Board, and the State Controller's Office and is not intended and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Smith & Newell", written in dark ink.

Smith & Newell, CPA's  
Yuba City, California  
November 24, 2008

**COUNTY OF LAKE  
REDEVELOPMENT AGENCY**  
(A Component Unit of the County of Lake, California)  
**STATUS OF PRIOR YEAR RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Audit Reference</u>	<u>Status of Prior Year Finding</u>
07-01	<p><b>CAPITAL ASSETS</b></p> <p><b>Recommendation</b></p> <p>We recommend that the cost of buildings and improvements be separated from land and that building and improvements be depreciated over the estimated useful life.</p> <p><b>Status</b></p> <p>Implemented</p>

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