

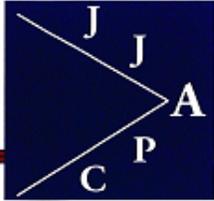
**REDEVELOPMENT AGENCY**  
**OF THE**  
**CITY OF LAKEPORT, CALIFORNIA**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**JUNE 30, 2011**

**Redevelopment Agency of the City of Lakeport, California**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

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**JJACPA, Inc.**

A Professional Accounting Services Corp.

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## **INDEPENDENT AUDITOR'S REPORT**

To the Governing Board of the  
Redevelopment Agency of the City of Lakeport  
Lakeport, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Lakeport, California (the Agency), 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 Agency's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Agency's June 30, 2010, financial statements, in which we expressed an unqualified opinion on December 27, 2010, on those financial statements.

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 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

As discussed in Note 1, the financial statements present only the Agency and are not intended to present fairly the financial position and results of operations of the City of Lakeport, California, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Redevelopment Agency of the City of Lakeport, California, 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.

To the Governing Board of the  
Redevelopment Agency of the City of Lakeport  
Lakeport, California  
Page 2

The accompanying financial statements have been prepared assuming that the entity will continue as a going concern. As discussed in Note 8 to the financial statements, the Governor signed an emergency measure that eliminates Redevelopment Agencies in the State of California. The measure is being challenged in court and the uncertainty about the outcome raises substantial doubt about the Agency's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 1M to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of implementation of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2011 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

December 19, 2011

*JJACPA, Inc.*  
**JJACPA, Inc.**

**Redevelopment Agency of the City of Lakeport, California**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

**Management's Discussion and Analysis**

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This is management's discussion and analysis of the financial activities and performance of the Redevelopment Agency of the City of Lakeport (Agency) for the fiscal year ended June 30, 2011. Please read this in conjunction with the Agency's financial statements, which follow this discussion and analysis.

**FINANCIAL HIGHLIGHTS AND ACHIEVEMENTS**

The Agency supports the City of Lakeport with development resources to enhance the economic prosperity of the downtown and surrounding business and residential neighborhoods.

The Agency is financed with tax increment revenue generated on appreciated property values within the Agency's project area. State law requires twenty percent of tax increment revenue allocated to the Agency to be placed in a separate, set-aside fund for low- and moderate-income housing programs. A separate fund was created to track the set-aside and its activities.

Property values in the project area experienced positive growth since its formation in 1999; however, the recent downturn in the economy slowed that growth substantially. Coupled with repeated attempts by the state to seize a share of the Agency's tax increment revenue or its cash assets, these destructive activities unrelated to its sole function – the elimination of blight – has weakened the Agency's ability to perform it. Notwithstanding the impact this financial adversity has had on the Agency, it continued to engage and complete projects benefiting the city and its citizenry.

Total Agency net assets decreased by \$211,227 in the year ended June 30, 2011, largely due to increased personnel costs and state-mandated payments (SERAF).

The Agency, through its Low/Mod Housing Set-Aside Fund, successfully assisted in the financing of several first-time homebuyer programs, totaling \$71,732.

The Agency's Façade Enhancement Program successfully funded \$46,332 in projects tailored to improving the look and feel of businesses along Main Street and elsewhere in the project area.

Engineering and construction activities on Main Street totaled \$560,436 as of June 30, 2011. This amount is part of a larger, ongoing downtown Main Street revitalization project.

**Redevelopment Agency of the City of Lakeport, California**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

**Management's Discussion and Analysis, Continued**

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**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

***Government-Wide Financial Statements***

The government-wide financial statements consist of a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to private-sector business. They provide information about the activities of the Agency as a whole and present a longer-term view of the Agency's finances.

The Statement of Net Assets presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The Statement of Activities and Changes in Net Assets presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses may be reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues related to uncollected taxes and interest expense incurred but not paid.

***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other governmental entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds of governmental entities can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. Currently, the Agency uses only governmental funds to account for its operations.

***Governmental Funds***

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on (1) short-term inflows and outflows of spendable resources, and (2) the remaining year-end balances available for spending. This information may be useful in evaluating a government's near-term financing requirements.

**Redevelopment Agency of the City of Lakeport, California**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

**Management's Discussion and Analysis, Continued**

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**OVERVIEW OF THE FINANCIAL STATEMENTS, Continued**

*Fund Financial Statements, continued*

*Governmental Funds, continued*

Because the focus of governmental funds is narrower than that of the government-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to assist the reader with this comparison between governmental funds and governmental activities.

The Agency maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the following funds that are considered to be major funds:

- Redevelopment Agency – Special Revenue Fund
- Low/Moderate Income Housing Fund – Special Revenue Fund
- Redevelopment Agency – Capital Projects Fund
- Redevelopment Agency – Debt Service Fund

*Notes to the Basic Financial Statements*

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are an integral part of the basic financial statements.

*Required Supplementary Information*

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information other than this discussion and analysis concerning the Agency's progress in its mission to promote development in the redevelopment area, and budgetary comparison schedules.

**Redevelopment Agency of the City of Lakeport, California**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

**Management's Discussion and Analysis, Continued**

**FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE**

	Net Assets		Increase (Decrease)	Percent Change
	2011	2010		
<b>As of June 30, 2011 and 2010</b>				
<b>Assets:</b>				
Current assets	\$ 4,202,791	\$ 4,559,268	\$ (356,477)	-7.8%
Non-current assets	268,000	733,328	(465,328)	-63.5%
<b>Total assets</b>	<b>4,470,791</b>	<b>5,292,596</b>	<b>(821,805)</b>	<b>-15.5%</b>
<b>Liabilities</b>				
Current liabilities	\$ 25,944	\$ 132,275	\$ (106,331)	-80.4%
Non-current liabilities	5,410,000	5,914,247	(504,247)	-8.5%
<b>Total liabilities</b>	<b>5,435,944</b>	<b>6,046,522</b>	<b>(610,578)</b>	<b>-10.1%</b>
<b>Net assets:</b>				
Restricted	1,096,628	-	1,096,628	100.0%
Unrestricted	(2,061,781)	(753,926)	(1,307,855)	173.5%
<b>Total net assets</b>	<b>\$ (965,153)</b>	<b>\$ (753,926)</b>	<b>\$ (211,227)</b>	<b>-28.0%</b>

This schedule is prepared from the Agency's Statement of Net Assets (page 14), which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated and long-term debt is included.

Net assets at June 30, 2011, decreased to (\$965,153) from (\$753,926) in 2010. Net assets decreased \$211,227 as of June 30, 2011, as a result of expenses exceeding revenues. This is primarily due to increased administration costs related to personnel and SERAF payments to the State.

**Redevelopment Agency of the City of Lakeport, California**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

**Management's Discussion and Analysis, Continued**

**FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE, Continued**

<b>Operating Results</b>				
<b>For the years ended June 30, 2011 and 2010</b>				
	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
<b>Operating expenses</b>	\$ 2,468,931	\$ 2,262,688	\$ 206,243	9.1%
<b>Program revenue:</b>				
Grants	167,131	17,508	149,623	854.6%
<b>Total program revenue</b>	<u>167,131</u>	<u>17,508</u>	<u>149,623</u>	854.6%
<b>Net operating expenses</b>	<u>2,301,800</u>	<u>2,245,180</u>	<u>56,620</u>	2.5%
<b>General revenue:</b>				
Property taxes	929,131	958,217	(29,086)	-3.0%
Investment income	4,182	28,367	(24,185)	-85.3%
Other revenue	1,157,260	-	1,157,260	-
<b>Total general revenue</b>	<u>2,090,573</u>	<u>986,584</u>	<u>1,103,989</u>	111.9%
<b>Change in net assets</b>	(211,227)	(1,258,596)	1,047,369	83.2%
<b>Net assets:</b>				
Beginning of year	(753,926)	504,670	(1,258,596)	249.4%
End of year	<u>\$ (965,153)</u>	<u>\$ (753,926)</u>	<u>\$ (211,227)</u>	-28.0%

This schedule is prepared from the Agency's Statement of Activities (Page 15), which is presented on the accrual basis of accounting and depicts how the Agency's net assets changed during the fiscal year.

<b>Operating Expenses</b>				
<b>For the years ended June 30, 2011 and 2010</b>				
	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
<b>Operating expense:</b>				
General and administrative	\$762,750	\$ -	\$ 762,750	100.0%
Community development	1,181,188	1,973,916	(792,728)	-40.2%
Pass-through obligations	185,826	-	185,826	100.0%
SERAF payments	64,442	-	64,442	100.0%
Interest	274,725	288,772	(14,047)	-4.9%
<b>Total</b>	<u>\$ 2,468,931</u>	<u>\$ 2,262,688</u>	<u>\$ 206,243</u>	9.1%

Operating expenses for fiscal 2011 increased \$206,243 or 9.1% over 2010. As shown in the following graphic illustration of operating expenses, 48% of the operating expenses were attributed to community development activities, 11% to interest, 31% to administration, and 10% for pass through obligations and SERAF payments.

**Redevelopment Agency of the City of Lakeport, California**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

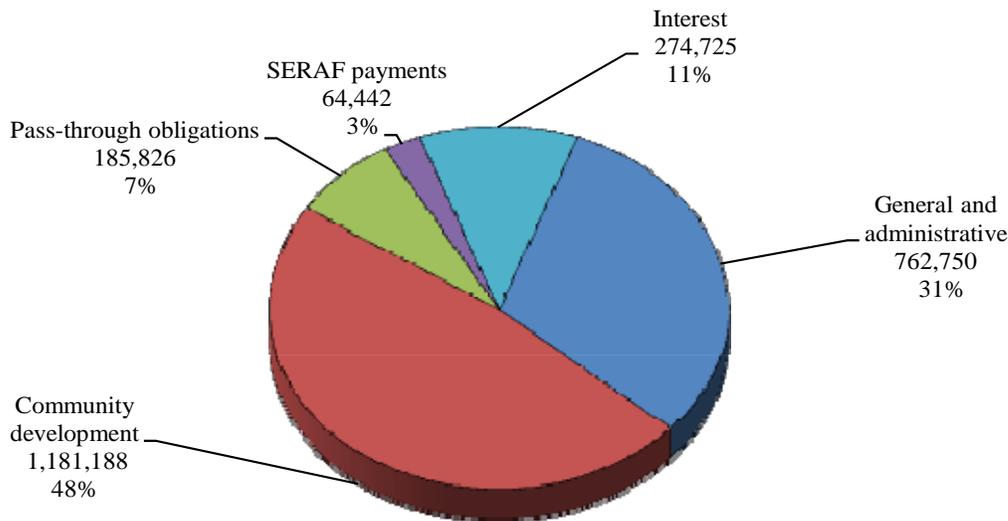
**Management's Discussion and Analysis, Continued**

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**FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE, Continued**

Operating Expenses \$2,468,931



**Cash Management**

To obtain flexibility in cash management, the Agency employs a pooled cash system through the City (Reference Note 3 in the notes to the basic financial statements). Under the pooled cash concept, the City, on behalf of the Agency, invests the cash of all funds with maturities planned to coincide with cash needs. Idle cash is invested in certain eligible securities as constrained by law and further limited by the Agency's Investment Policy. The goals of the Agency's Investment Policy are safety, liquidity, and yield in that order.

**Noncurrent Assets**

The noncurrent assets of the Agency are those assets acquired to carry out the Agency's functions and deferred charges on debt issuance. At June 30, 2011, the Agency had a balance of \$268,000 in deferred charges.

**Redevelopment Agency of the City of Lakeport, California**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

**Management’s Discussion and Analysis, Continued**

**FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE, Continued**

**Debt Administration**

Debt, considered a liability of governmental activities, decreased by \$50,000 as a result of normal debt repayments for the current year.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

In considering the Agency’s Budget for fiscal year 2011-2012, the Governing Board and management used the following criteria:

The key assumptions in the revenue forecast were:

1. Moderate revenue growth from increase in property values and new construction.
2. Interest earnings should be approximately the same.

The adopted operating budget for the new fiscal year of 2011-2012 was \$2,967,318 and is summarized as follows:

	<u>FY 2011-12</u>	<u>FY 2010-11</u>	<u>Percentage Change</u>
Administration:			
Personnel	\$ 241,244	\$ 382,783	-37.0%
Operating Expenditures	189,199	247,295	-23.5%
Capital Outlay	1,990,688	2,680,349	-25.7%
Low/Moderate Income Housing:			
Personnel	64,069	193,227	-66.8%
Operating Expenditures	123,391	273,484	-54.9%
Capital Outlay	300	1,500	-80.0%
Debt Service and Pass-through Obligations	<u>358,428</u>	<u>423,096</u>	<u>-15.3%</u>
<b>Total budget</b>	<u><u>\$ 2,967,318</u></u>	<u><u>\$ 4,201,734</u></u>	<u><u>-29.4%</u></u>

**Redevelopment Agency of the City of Lakeport, California**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

**Management's Discussion and Analysis, Continued**

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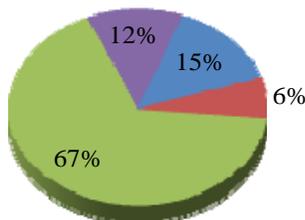
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**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES, Continued**

1. Administration and Operations - Shows an overall decrease of 32% because discretionary spending and administration expenditures related to redevelopment activities decreased overall.
2. Low/Moderate Income Housing– Shows an overall decrease of 60% because of reductions in projects and housing activities using housing set-aside funds.
3. Debt Service and Pass-through Obligations – Shows a decrease of 15% resulting from accounting reclassifications.

The following is a graphic illustration of appropriations for 2011-12:

- Administration
- Low/Moderate Income Housing
- Capital Projects
- Debt Service and Pass-through Obligations



**REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, creditors, and government regulators with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. Below is the contact address for questions about this report or requests for additional financial information.

City of Lakeport  
Finance Department  
225 Park Ave  
Lakeport, CA 95453

**Redevelopment Agency of the City of Lakeport, California**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

**Agency Board and Other Officials**

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**AGENCY BOARD**

	<b><u>Term Expires</u></b>
Suzanne Lyons, Chairperson	December 2012
Stacey Mattina, Vice Chairperson	December 2014
Tom Engstrom, Member	December 2014
Roy Parmentier, Member	December 2012
Robert Rumfelt, Member	December 2012

**OTHER OFFICIALS**

	<b><u>Position</u></b>
Margaret Silveira	Executive Director/Secretary
Richard Knoll	Community Development /Redevelopment Director
Steven Brookes	Agency Counsel
Daniel Buffalo	Finance Director

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**Redevelopment Agency of the City of Lakeport**  
**Statement of Net Assets**  
**June 30, 2011**

**ASSETS**

**Current:**

Cash and investments:	
Available for operations	\$ 795,134
Restricted	2,875,304
Accounts and notes receivable	532,353
<b>Total current assets</b>	<u>4,202,791</u>

**Noncurrent:**

Deferred charges - net of accumulated amortization	268,000
<b>Total noncurrent assets</b>	<u>268,000</u>
<b>Total assets</b>	<u>\$ 4,470,791</u>

**LIABILITIES**

**Liabilities:**

**Current:**

Accounts payable and accrued liabilities	\$ 25,944
<b>Total current liabilities</b>	<u>25,944</u>

**Noncurrent:**

Due within one year	50,000
Due after one year	5,360,000
<b>Total noncurrent liabilities</b>	<u>5,410,000</u>
<b>Total liabilities</b>	<u>5,435,944</u>

**NET ASSETS (DEFICIT)**

Restricted	1,096,628
Unrestricted (deficit)	(2,061,781)
<b>Total net assets (deficit)</b>	<u>(965,153)</u>
<b>Total liabilities and net assets</b>	<u>\$ 4,470,791</u>

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

# Redevelopment Agency of the City of Lakeport

## Statement of Activities

For the year ended June 30, 2011

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### Expenses:

General and administrative	\$ 762,750
Community development	1,181,188
Pass-through payments	185,826
SERAF payments	64,442
Interest	274,725
<b>Total expenses</b>	<u>2,468,931</u>

### Revenues:

#### Program revenues:

Grants	167,131
<b>Total program revenues</b>	<u>167,131</u>

<b>Net program expense</b>	<u>(2,301,800)</u>
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#### General revenues:

Property taxes	929,131
Investment income	4,182
Other	1,157,260
<b>Total general revenues</b>	<u>2,090,573</u>

<b>Change in net assets</b>	<u>(211,227)</u>
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### Net assets (deficit):

Beginning of the year	<u>(753,926)</u>
End of the year	<u>\$ (965,153)</u>

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

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**FUND FINANCIAL STATEMENTS**

# Redevelopment Agency of the City of Lakeport

## Balance Sheet

June 30, 2011

	Special Revenue		Capital	Debt	Totals
	Redevelopment Agency	Low/ Moderate Housing	Projects Redevelopment Agency	Service Redevelopment Agency	
<b>ASSETS</b>					
Cash and investments	\$ -	\$ 49,656	\$ -	\$ 745,478	\$ 795,134
Restricted cash and investments	-	-	2,574,534	300,770	2,875,304
Receivables:					
Interest	187	392	-	2	581
Loans	25,983	502,949	-	-	528,932
Intergovernmental	2,367	473	-	-	2,840
Due from other funds	-	553,140	-	-	553,140
Advances to other funds	-	-	-	-	-
<b>Total assets</b>	<b>\$ 28,537</b>	<b>\$ 1,106,610</b>	<b>\$ 2,574,534</b>	<b>\$ 1,046,250</b>	<b>\$ 4,755,931</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 15,962	\$ 9,982	\$ -	\$ -	\$ 25,944
Due to other funds	19,811	-	533,329	-	553,140
Deferred revenue	-	-	-	-	-
Advances from other funds	-	-	-	-	-
<b>Total liabilities</b>	<b>35,773</b>	<b>9,982</b>	<b>533,329</b>	<b>-</b>	<b>579,084</b>
<b>Fund balances:</b>					
Fund balances:					
Nonspendable:					
Loans receivable	25,983	502,949	-	-	528,932
Restricted	-	593,679	-	1,046,250	1,639,929
Assigned	-	-	2,041,205	-	2,041,205
Unassigned (deficit)	(33,219)	-	-	-	(33,219)
<b>Total fund balances</b>	<b>(7,236)</b>	<b>1,096,628</b>	<b>2,041,205</b>	<b>1,046,250</b>	<b>4,176,847</b>
<b>Total liabilities and fund balances</b>	<b>\$ 28,537</b>	<b>\$ 1,106,610</b>	<b>\$ 2,574,534</b>	<b>\$ 1,046,250</b>	<b>\$ 4,755,931</b>

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

**Redevelopment Agency of the City of Lakeport**  
**Reconciliation of Governmental Funds Balance Sheet**  
**to the Government-wide Statement of Net Assets**  
**June 30, 2011**

Fund Balances of Governmental Funds		\$ 4,176,847
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:		
Governmental funds report discounts on long-term bonds and debt issuance costs (deferred charges) as expenditures, whereas these amounts are capitalized and amortized in the government-wide Statement of Net Assets.		268,000
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Due within one year	(50,000)	
Due after one year	(5,360,000)	(5,410,000)
Net Assets of Governmental Activities		<u>\$ (965,153)</u>

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

**Redevelopment Agency of the City of Lakeport**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the year ended June 30, 2011**

	Special Revenue		Capital Projects	Debt Service	Totals
	Redevelopment Agency	Low/ Moderate Housing	Redevelopment Agency	Redevelopment Agency	
<b>Revenues:</b>					
Taxes	\$ -	\$ 185,826	\$ -	\$ 743,305	\$ 929,131
Use of money and property	978	1,074	-	2,130	4,182
Intergovernmental	-	167,131	-	-	167,131
Other	147,854	1,009,406	-	-	1,157,260
<b>Total revenues</b>	<b>148,832</b>	<b>1,363,437</b>	<b>-</b>	<b>745,435</b>	<b>2,257,704</b>
<b>Expenditures:</b>					
General and administrative	581,265	181,485	-	-	762,750
Community development	5,740	75,676	-	-	81,416
Capital outlay	53,160	-	989,248	-	1,042,408
Debt service:					
Principal	-	-	-	50,000	50,000
Interest and other charges	-	-	-	274,725	274,725
<b>Total expenditures</b>	<b>640,165</b>	<b>257,161</b>	<b>989,248</b>	<b>324,725</b>	<b>2,211,299</b>
<b>Revenues over (under) expenditures</b>	<b>(491,333)</b>	<b>1,106,276</b>	<b>(989,248)</b>	<b>420,710</b>	<b>46,405</b>
<b>Other financing sources (uses):</b>					
Pass-through obligations	(185,826)	-	-	-	(185,826)
SERAF payments	(64,442)	-	-	-	(64,442)
Transfers in	550,892	-	2,601,640	337,349	3,489,881
Transfers out	(373,855)	-	-	(3,116,026)	(3,489,881)
<b>Total other financing sources over (under) expenditures and other financing (uses)</b>	<b>(73,231)</b>	<b>-</b>	<b>2,601,640</b>	<b>(2,778,677)</b>	<b>(250,268)</b>
<b>Increase (decrease) in fund balance</b>	<b>(564,564)</b>	<b>1,106,276</b>	<b>1,612,392</b>	<b>(2,357,967)</b>	<b>(203,863)</b>
<b>Fund Balance (Deficit):</b>					
Beginning of year	557,328	(9,648)	428,813	3,404,217	4,380,710
End of year	\$ (7,236)	\$ 1,096,628	\$ 2,041,205	\$ 1,046,250	\$ 4,176,847

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

**Redevelopment Agency of the City of Lakeport**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures**  
**and Changes in Fund Balances to the Government-wide Statement of Activities**  
**For the year ended June 30, 2011**

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Net Change in Fund Balances - Total Governmental Funds \$ (203,863)

Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances because:

Principal repayments or additional advances of long-term debt are reported as expenditures (revenues) in the Governmental Funds, however, they reduce or (increase) long-term liabilities or long-term assets in the Statement of Net Assets and result in the following:

(Additions) Repayments of Bonds 50,000

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 as depreciation expense or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:

Amortization expense (57,364)

Change in Net Assets of Governmental Activities \$ (211,227)

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

**Redevelopment Agency of the City of Lakeport**  
**Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**For the year ended June 30, 2011**

	Redevelopment Agency Special Revenue			Variance Positive (Negative)
	Original Budget	Amended Budget	Actual	
<b>Revenues:</b>				
Taxes:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Use of money and property:				
Investment income	-	-	978	978
Intergovernmental:				
Grants	-	-	-	-
Other:				
Miscellaneous fees and income	-	-	147,854	147,854
<b>Total revenues</b>	<u>-</u>	<u>-</u>	<u>148,832</u>	<u>148,832</u>
<b>Expenditures:</b>				
Current:				
General and administrative	554,078	554,078	581,265	(27,187)
Community development	-	-	5,740	(5,740)
Capital outlay	176,091	176,091	53,160	122,931
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total expenditures</b>	<u>730,169</u>	<u>730,169</u>	<u>640,165</u>	<u>90,004</u>
<b>Revenues over (under) expenditures</b>	<u>(730,169)</u>	<u>(730,169)</u>	<u>(491,333)</u>	<u>(238,836)</u>
<b>Other financing sources (uses):</b>				
Pass-through obligations	(182,851)	(182,851)	(185,826)	2,975
SERAF payments	(64,380)	(64,380)	(64,442)	62
Transfers in	575,910	575,910	550,892	25,018
Transfers out	-	-	(373,855)	373,855
<b>Total other financing sources over (under) expenditures and financing (uses)</b>	<u>328,679</u>	<u>328,679</u>	<u>(73,231)</u>	<u>401,910</u>
<b>Increase (decrease) in fund balance</b>	<u>(401,490)</u>	<u>(401,490)</u>	<u>(564,564)</u>	<u>(163,074)</u>
<b>Fund balance:</b>				
Beginning of year	<u>557,328</u>	<u>557,328</u>	<u>557,328</u>	<u>-</u>
End of year	<u>\$ 155,838</u>	<u>\$ 155,838</u>	<u>\$ (7,236)</u>	<u>\$ (163,074)</u>

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

<b>Low/Moderate Income Housing</b>				<b>Redevelopment Agency Capital Projects</b>			
Original Budget	Amended Budget	Actual	Variance Positive (Negative)	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
\$ 182,851	\$ 182,851	\$ 185,826	\$ 2,975	\$ -	\$ -	\$ -	\$ -
105	105	1,074	969	-	-	-	-
-	-	167,131	167,131	-	-	-	-
5,000	5,000	1,009,406	1,004,406	-	-	-	-
<u>187,956</u>	<u>187,956</u>	<u>1,363,437</u>	<u>1,175,481</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
266,711	266,711	181,485	85,226	-	-	-	-
200,000	200,000	75,676	124,324	-	-	-	-
1,500	1,500	-	1,500	2,539,258	2,539,258	989,248	1,550,010
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>468,211</u>	<u>468,211</u>	<u>257,161</u>	<u>211,050</u>	<u>2,539,258</u>	<u>2,539,258</u>	<u>989,248</u>	<u>1,550,010</u>
<u>(280,255)</u>	<u>(280,255)</u>	<u>1,106,276</u>	<u>(1,386,531)</u>	<u>(2,539,258)</u>	<u>(2,539,258)</u>	<u>(989,248)</u>	<u>(1,550,010)</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
392,122	392,122	-	(392,122)	3,071,522	3,071,522	2,601,640	(469,882)
-	-	-	-	(532,264)	(532,264)	-	(532,264)
<u>392,122</u>	<u>392,122</u>	<u>-</u>	<u>392,122</u>	<u>2,539,258</u>	<u>2,539,258</u>	<u>2,601,640</u>	<u>(62,382)</u>
111,867	111,867	1,106,276	994,409	-	-	1,612,392	1,612,392
(9,648)	(9,648)	(9,648)	-	428,813	428,813	428,813	-
<u>\$ 102,219</u>	<u>\$ 102,219</u>	<u>\$ 1,096,628</u>	<u>\$ 994,409</u>	<u>\$ 428,813</u>	<u>\$ 428,813</u>	<u>\$ 2,041,205</u>	<u>\$ 1,612,392</u>

(continued)

**Redevelopment Agency of the City of Lakeport**  
**Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual , Continued**  
**For the year ended June 30, 2011**

	Redevelopment Agency Debt Service			Variance Positive (Negative)
	Original Budget	Amended Budget	Actual	
<b>Revenues:</b>				
Taxes:				
Property taxes	\$ 731,404	\$ 731,404	\$ 743,305	\$ 11,901
Use of money and property:				
Investment income	-	-	2,130	2,130
Intergovernmental:				
Grants	-	-	-	-
Other:				
Miscellaneous fees and income	-	-	-	-
<b>Total revenues</b>	<u>731,404</u>	<u>731,404</u>	<u>745,435</u>	<u>14,031</u>
<b>Expenditures:</b>				
Current:				
Personnel costs	-	-	-	-
Postage	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	50,000	50,000	50,000	-
Interest and fiscal charges	275,456	275,456	274,725	731
<b>Total expenditures</b>	<u>325,456</u>	<u>325,456</u>	<u>324,725</u>	<u>731</u>
<b>Revenues over (under) expenditures</b>	<u>405,948</u>	<u>405,948</u>	<u>420,710</u>	<u>(14,762)</u>
<b>Other financing sources (uses):</b>				
Pass-through obligations	-	-	-	-
SERAF payments	-	-	-	-
Transfers in	575,910	575,910	337,349	(238,561)
Transfers out	(3,071,522)	(3,071,522)	(3,116,026)	44,504
<b>Total other financing sources over (under) expenditures and financing (uses)</b>	<u>(2,495,612)</u>	<u>(2,495,612)</u>	<u>(2,778,677)</u>	<u>283,065</u>
<b>Increase (decrease) in fund balance</b>	<u>(2,089,664)</u>	<u>(2,089,664)</u>	<u>(2,357,967)</u>	<u>(268,303)</u>
<b>Fund balance:</b>				
Beginning of year	<u>3,404,217</u>	<u>3,404,217</u>	<u>3,404,217</u>	<u>-</u>
End of year	<u>\$ 1,314,553</u>	<u>\$ 1,314,553</u>	<u>\$ 1,046,250</u>	<u>\$ (268,303)</u>

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

<b>Totals</b>			
Original Budget	Amended Budget	Actual	Variance Positive (Negative)
\$ 914,255	\$ 914,255	\$ 929,131	\$ 14,876
105	105	4,182	4,077
-	-	167,131	167,131
5,000	5,000	1,157,260	1,152,260
<u>919,360</u>	<u>919,360</u>	<u>2,257,704</u>	<u>1,338,344</u>
820,789	820,789	762,750	58,039
200,000	200,000	81,416	118,584
2,716,849	2,716,849	1,042,408	1,674,441
50,000	50,000	50,000	-
275,456	275,456	274,725	731
<u>4,063,094</u>	<u>4,063,094</u>	<u>2,211,299</u>	<u>1,851,795</u>
<u>(3,143,734)</u>	<u>(3,143,734)</u>	<u>46,405</u>	<u>(3,190,139)</u>
(182,851)	(182,851)	(185,826)	2,975
(64,380)	(64,380)	(64,442)	62
4,615,464	4,615,464	3,489,881	(1,125,583)
<u>(3,603,786)</u>	<u>(3,603,786)</u>	<u>(3,489,881)</u>	<u>(113,905)</u>
<u>764,447</u>	<u>764,447</u>	<u>(250,268)</u>	<u>1,014,715</u>
<u>(2,379,287)</u>	<u>(2,379,287)</u>	<u>(203,863)</u>	<u>2,175,424</u>
<u>4,380,710</u>	<u>4,380,710</u>	<u>4,380,710</u>	<u>-</u>
<u>\$ 2,001,423</u>	<u>\$ 2,001,423</u>	<u>\$ 4,176,847</u>	<u>\$ 2,175,424</u>

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**NOTES TO BASIC FINANCIAL STATEMENTS**

**Redevelopment Agency of the City of Lakeport, California**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

**Notes to Basic Financial Statements**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The Agency, although a legally separate entity from the City of Lakeport (City), is a blended component unit of the City because the City is financially accountable for the Agency. The elected five member council governs the Agency.

The Agency was organized pursuant to provisions of the Community Redevelopment Law of the State of California for the purpose of conducting economic development and redevelopment activities. The financial statements present only the information relative to the Agency; they do not present the financial position or results of operations of the City.

Funds for redevelopment can be provided from various sources, including the issuance of tax allocation and lease revenue bonds, long-term notes, funds provided by the City, incremental property taxes, and proceeds from the sale or lease of real property acquired with these funds.

**B. Description of Funds**

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

**Redevelopment Agency of the City of Lakeport, California**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

**Notes to Basic Financial Statements, Continued**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**C. Government-Wide Financial Statements**

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

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

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

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

**D. Governmental Funds Financial Statements**

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The Agency has presented all of its funds as major funds and shows differences for the inclusion of capital assets and long-term liabilities in reporting net assets.

The major governmental funds of the Agency are:

- *Redevelopment Agency Special Revenue Fund* – This fund is used to account for the administration of redevelopment programs.

**Redevelopment Agency of the City of Lakeport, California**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

**Notes to Basic Financial Statements, Continued**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**D. Governmental Funds Financial Statements, Continued**

- *Low/Moderate Income Housing-Special Revenue Fund* – This fund is used to account for programs designed to enhance and improve availability of safe low and moderate income housing units within the Agency. The fund provides for a residential rehabilitation loan program, management of affordable housing development projects, and enhanced code enforcement activities.
- *Redevelopment Agency Capital Projects Fund* – This fund is used to account for redevelopment projects and capital outlay in the Project Area and operations intended to improve the overall Project Area's appearance, development, or other infrastructure enhancements to eliminate blight.
- *Redevelopment Agency Debt Service Fund* – This fund is used to account for debt service payments on Agency debt.

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

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

The reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach of GASB No. 34.

**E. Governmental Fund Types**

The governmental fund financial statements include the following fund types:

*Special Revenue Funds* – The Special Revenue Funds are used to account for the set-aside requirements for the tax increment within the Redevelopment Agency. The California Health and Safety Code requires Agency project areas to deposit 20% of allocated incremental property tax revenues into a Low and Moderate Income Housing Fund. This money is restricted for the purpose of increasing or improving the community's supply of low and moderate-income housing. In addition, these funds can be used for eligible individual's purchase of a first home.

**Redevelopment Agency of the City of Lakeport, California**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

**Notes to Basic Financial Statements, Continued**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**E. Governmental Fund Types, continued**

2. *Capital Projects Fund* – The Redevelopment Agency Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of capital facilities. As of June 30, 2011, the Agency does not have any non-major capital project funds.
3. *Debt Service Fund* – This fund is used to account for the payment of principal and interest on long-term obligations. The Agency uses one debt service fund for all obligations.

**F. Use of Restricted/Unrestricted Net Assets**

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

**G. Budgets and Budgetary Accounting**

Budget amounts are reported as originally adopted and as further amended by the Governing Board. Budgets are adopted for the governmental funds on a basis consistent with accounting principles generally accepted in the United States of America.

**H. Cash and Investments**

The Agency pools cash resources through the City of Lakeport in order to facilitate the management of cash. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

The Agency participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pool funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to changes in interest rates.

**I. Capital Assets**

The Agency's assets are capitalized at historical cost or estimated historical cost. Policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value on the date donated. Public domain (infrastructure) general fixed assets include roads, bridges, curbs and gutters, streets, sidewalks, drainage systems, and lighting systems. The Agency does not own any capital or infrastructure assets.

**Redevelopment Agency of the City of Lakeport, California**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

**Notes to Basic Financial Statements, Continued**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**J. Property Tax Revenues**

Incremental property tax revenues represent property taxes in a project area arising from increased assessed valuations over base valuations established at the inception of a project. Incremental property taxes from a project accrue to the Agency until all liabilities of the project have been repaid (including cumulative funds provided by the City). After all such indebtedness has been repaid; all property taxes from a project area accrue to the various taxing authorities.

State statutes provide that the property tax rate be limited generally to one percent of market value, be levied only by the County, and be shared with applicable jurisdictions. The County of Humboldt collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to adjustments for voter-approved debt. Property taxes are levied March 1 and are due on November 1 and March 1, and become delinquent on December 10 and April 10. The Agency recognizes property tax increment revenues to the extent of each year's tax allocation received or to be received within 60 days after the end of each fiscal year.

**K. Long-Term Liabilities**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the appropriate activities.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. As bond discounts and issuance costs represent costs associated with debt issuance, these amounts are presented in the government-wide statements as intangible assets, net of applicable amortization.

The governmental fund financial statements do not present long-term debt, but long-term debt is shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

Bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as other financing sources net of the applicable premium or discount. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures.

Compensated absences are treated as current expenditures with the applicable long-term portion accounted for and funded directly through the Agency's Low/Moderate Housing and Debt Service Funds.

**Redevelopment Agency of the City of Lakeport, California**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

**Notes to Basic Financial Statements, Continued**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**L. Interest Payable**

In the government-wide financial statements, long-term debt is recognized as the liability is incurred for governmental fund types.

In the governmental fund financial statements, governmental funds do not recognize the interest payable when the liability is incurred.

**M. Net Assets/Fund Balances**

Government-Wide Net Assets consist of the following:

1. *Restricted net assets* – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
2. *Unrestricted net assets* - This amount consists of all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets".

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, Governmental Fund Balances consist of the following: Nonspendable, restricted, committed and assigned. Nonspendable fund balance consists of investments that will not convert to cash soon enough to affect the current period. Restricted fund balance consists of resources that are subject to external enforceable legal restrictions. Committed fund balance consists of amounts that can only be used for specific purposes pursuant to constraints imposed by a formal action of the Agency's highest level of decision-making authority. Assigned fund balance consists of amounts where intent is expressed by the governing body itself or a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

**N. Use of 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 the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

**O. Reclassifications**

Certain amounts have been reclassified to provide for comparable results on a year to year basis.

**Redevelopment Agency of the City of Lakeport, California**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

**Notes to Basic Financial Statements, Continued**

**2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

It is the Agency's policy to adopt annual budgets. Operating and special revenue budgets are adopted in one year. The Agency Board may amend the budget by motion during the fiscal year. The Executive Director is authorized to transfer budgeted amounts within an activity, within any function. However, any revisions that alter total expenditures of any fund must be approved by the Agency Board.

Expenditures may not legally exceed appropriations at the fund level. Appropriations lapse at the end of the fiscal year, except for encumbered amounts. Supplemental appropriations, which increase appropriations, may be made during the fiscal year.

Budget information is presented for governmental fund types on a basis consistent with generally accepted accounting principles. Budgeted revenue and expenditure amounts represent the original budget modified for adjustments during the year.

**3. CASH AND INVESTMENTS**

Cash and investments, including cash and investments with fiscal agents, at June 30, 2011, consisted of the following:

	Maturities (years)		Deposits	Fair Market Value
	<1	1 to 2		
<u>Cash equivalents and investments pooled</u>				
Pooled cash, at fair value				
City of Lakeport Cash and Investment Pool	\$ 795,134	\$ -	\$ -	\$ 795,134
Total pooled items	<u>795,134</u>	<u>-</u>	<u>-</u>	<u>795,134</u>
<u>Interest obligations</u>				
Blackrock money market	110,120	-	-	110,120
Capital Assurance Insurance Contract	1	-	-	1
State of California Local Agency Investment Fund	2,765,183	-	-	2,765,183
Total pooled investments - interest obligations	<u>2,875,304</u>	<u>-</u>	<u>-</u>	<u>2,875,304</u>
Total cash equivalents and investments pooled	<u>\$ 3,670,438</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,670,438</u>

Reported in the Statement of Net Assets as follows:

Available for operations	\$ 795,134
Restricted	<u>2,875,304</u>
	<u>\$ 3,670,438</u>

The Agency has pooled its cash and investments with the City in order to achieve a higher rate of return on the investment.

**Redevelopment Agency of the City of Lakeport, California**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

**Notes to Basic Financial Statements, Continued**

**3. CASH AND INVESTMENTS, Continued**

*Investments* – The Agency is authorized by its most recent investment policy to invest in the following investments:

<u>Authorized Investment Type:</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Federal securities	None	None	None
Tax exempt obligations	None	None	None
City of Lakeport Cash and Investment Pool	None	None	None
State of California Local Agency Investment Fund	None	Maximum permitted by State	Maximum permitted by State
Bank Repurchase Agreements	None	15%	5%
Money Market Mutual Funds*	None	15%	5%
Reverse Repurchase Agreements	None	15%	5%

\*Must be rated in one of the three highest rating categories.

*Interest rate risk.* In accordance with its investment policy, the City manages for the Agency, its exposures to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than 2 years. The portfolio average maturity was .40 years as of June 30, 2011.

*Credit risk.* As of June 30, 2011, the City’s investments in money market funds were rated AAA by Standard & Poor’s and Fitch Ratings, and Aaa by Moody’s Investors Service. The State of California Local Agency Investment Fund is not rated.

*Concentration of credit risk.* The City’s investment policy, which governs pool investments as authorized above, does not allow for an investment in any one issuer that is in excess of five percent of the government’s total investments. The investments made by the City Treasurer are limited to those allowable under State statutes as incorporated into the City’s Investment Policy, which is accepted annually by the City Council. There were no concentrations in any one issuer for the year.

*Custodial credit risk – deposits.* For deposits, this is the risk that in the event of a bank failure, the Agency’s deposits may not be returned to it. The City’s Investment Policy addresses custodial credit risk, which follows the Government Code. As of June 30, 2011, the City had no balances in the pool exposed to custodial credit risk because they exceeded the \$250,000 Federal Deposit Insurance Corporation’s insurance limits.

*Custodial credit risk – investments.* For investments, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside counterparty on behalf of the Agency. For the investments maintained by the City in the pool, no security was uninsured or unregistered or held by a brokerage firm which is also the counterparty for the security.

**Redevelopment Agency of the City of Lakeport, California**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

**Notes to Basic Financial Statements, Continued**

**4. ACCOUNTS AND LOANS RECEIVABLE**

Accounts receivable consisted of the following at June 30, 2011:

	Beginning July 1, 2010	Additions	Deletions	Ending June 30, 2011
Interest	\$ -	\$ 581	\$ -	\$ 581
Loans	454,247	74,685	-	528,932
Intergovernmental	19,720	-	(16,880)	2,840
Total accounts receivable	<u>\$ 473,967</u>	<u>\$ 75,266</u>	<u>\$ (16,880)</u>	<u>\$ 532,353</u>

These amounts resulted in the following concentrations in receivables:

Other Governments      1%    Individuals      98%    Investments      1%

Amounts do not indicate a significant concentration (greater than 25%) with any single customer or agency.

**Loans Receivable**

The Agency has made business loans to qualifying businesses in the redevelopment area and various loans to qualifying participants within the City.

Loans receivable consist of the following:

**First Time Home Buyers** – The Agency maintains loans receivable for low and moderate income housing. The notes receivable principal balances are recorded in the fund based statements as loans receivable. Interest on certain loans may be waived by the Agency if the loan remains outstanding for the full term; therefore, interest income is recorded when received.

**Rehabilitation Loan** – The Agency maintains loans receivable for rehabilitation projects of properties in need of repair to make suitable for occupancy by low and moderate income individuals. The notes receivable principal balances are recorded in the fund based statements as loans receivable. Upon development, the principal and interest on the loan may be waived by the Agency if the loan remains outstanding for the full term and the development is accepted by the Agency; therefore, interest income is recorded when received.

**Redevelopment Agency of the City of Lakeport, California**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

**Notes to Basic Financial Statements, Continued**

**4. ACCOUNTS AND LOANS RECEIVABLE, Continued**

A summary of the activity of loans receivable is as follows:

	Beginning July 1, 2010	Additions	Deletions	Ending June 30, 2011
Rehabilitation loans	\$ 454,247	\$ 74,685	\$ -	\$ 528,932

**5. LONG-TERM LIABILITIES**

The Agency generally incurs debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. The Agency's debt issue and transactions related to governmental activities are summarized below and discussed in detail subsequently.

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year
2004 Tax Allocation Bonds Series A	\$ 1,050,000	\$ -	\$ -	\$ 1,050,000	\$ -
2004 Tax Allocation Bonds Series B	1,000,000	-	(40,000)	960,000	40,000
2008 Tax Allocation Bonds	3,410,000	-	(10,000)	3,400,000	10,000
Total debt issuances	5,460,000	-	(50,000)	5,410,000	50,000
Grand Total	\$ 5,460,000	\$ -	\$ (50,000)	\$ 5,410,000	\$ 50,000

**2004 Tax Allocation Bonds Series A:** On December 1, 2004, tax allocation bonds were issued, in the amount of \$1,070,000, to finance certain capital improvements within the Redevelopment Agency's project area. The bonds are payable from and secured by tax increment revenues payable to the Redevelopment Agency. Interest rates range from 2.15% to 5.25%. New principal payments ranging from \$5,000 to \$140,000 are payable annually on September 1 and interest payments ranging from \$3,675 to \$27,563 are payable semi-annually on March 1 and September 1 through September 1, 2035.

**2004 Tax Allocation Bonds Series B:** On December 1, 2004, tax allocation bonds were issued, in the amount of \$1,170,000, to finance certain capital improvements within the Redevelopment Agency's project area. The bonds are payable from and secured by tax increment revenues payable to the Redevelopment Agency. Interest rates range from 4.29% to 5.65%. New principal payments ranging from \$35,000 to \$85,000 are payable annually on September 1 and interest payments ranging from \$2,401 to \$30,886 are payable semi-annually on March 1 and September 1 through September 1, 2026.

**Redevelopment Agency of the City of Lakeport, California**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

**Notes to Basic Financial Statements, Continued**

**5. LONG-TERM LIABILITIES, Continued**

**2008 Tax Allocation Bonds:** On May 22, 2008, tax allocation bonds were issued, in the amount of \$3,425,000 to finance certain capital improvements within the Agency's project area. The bonds are payable from and secured by tax increment revenues payable to the Agency. Interest rates range from 2.5% to 5.05%. Principal payments ranging from \$15,000 to \$335,000 are payable annually on September 1 and interest payments ranging from \$8,459 to \$83,189 are payable semi-annually on March 1 and September 1 through September 1, 2038.

Future debt service at June 30, 2011 is as follows for the Tax Allocation Bonds:

Year Ending June 30,	Governmental activities						Totals	
	2004 Series A		2004 Series B		2008			
	Tax Allocation		Tax Allocation		Tax Allocation			
	Bonds		Bonds		Bonds			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ -	\$ 55,125	\$ 40,000	\$ 51,442	\$ 10,000	\$ 165,577	\$ 50,000	\$ 272,144
2013	-	55,125	40,000	49,418	15,000	165,188	55,000	269,731
2014	-	55,125	45,000	47,267	15,000	164,692	60,000	267,084
2015	-	55,125	45,000	44,991	15,000	164,171	60,000	264,287
2016	-	55,125	50,000	42,512	15,000	163,628	65,000	261,265
2017-2021	-	275,625	285,000	169,452	155,000	806,726	440,000	1,251,803
2022-2026	-	275,625	370,000	78,535	485,000	731,699	855,000	1,085,859
2027-2031	415,000	232,707	85,000	2,401	760,000	584,844	1,260,000	819,952
2032-2036	635,000	86,757	-	-	975,000	368,855	1,610,000	455,612
2037-2040	-	-	-	-	955,000	74,109	955,000	74,109
Total	\$ 1,050,000	\$ 1,146,339	\$ 960,000	\$ 486,018	\$ 3,400,000	\$ 3,389,489	\$ 5,410,000	\$ 5,021,846
Due within one year	\$ -	\$ 55,125	\$ 40,000	\$ 51,442	\$ 10,000	\$ 165,577	\$ 50,000	\$ 272,144
Due after one year	1,050,000	1,091,214	920,000	434,576	3,390,000	3,223,912	5,360,000	4,749,702
Total	\$ 1,050,000	\$ 1,146,339	\$ 960,000	\$ 486,018	\$ 3,400,000	\$ 3,389,489	\$ 5,410,000	\$ 5,021,846

**Redevelopment Agency of the City of Lakeport, California**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

**Notes to Basic Financial Statements, Continued**

**6. RISK MANAGEMENT**

The Agency is insured under the City and 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 City's insurance coverage and the respective coverage providers are as follows:

Amount	Coverage Provider	Payment Source
Liability Claim:		
\$0 - \$5,000	Self-insured	Banking layer
\$5,001 - \$10,000,000	Redwood Empire Municipal Insurance Fund	Shared risk
Workers' Compensation:		
\$0 - \$5,000	Self-insured	Banking layer
\$5,001 - Statutory	Redwood Empire Municipal Insurance Fund	Shared risk

The City purchases insurance through the Redwood Empire Municipal Insurance Fund (REMIF) for all other risks of loss. The City also participates in insurance programs through REMIF for employee dental and vision claims. There have been no significant reductions in insurance coverage from coverage in the prior fiscal year.

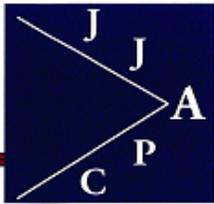
**7. COMMITMENTS AND CONTINGENCIES**

The Agency may at times be involved as a defendant in various legal proceedings. There are no current cases, in the opinion of the Agency, to which the outcome would have a material impact on the financial position of the Agency.

**8. STATE BUDGET CRISIS**

On June 29, 2011, the Governor signed an emergency measure that eliminates Redevelopment Agencies in the State of California as they currently operate. The Agency can contribute \$311,534 in fiscal year 2011/2012 and approximately \$73,000 annually thereafter to the State in order to continue to operate, or appoint a successor agency, otherwise the Agency will fall under the State appointed trustee. In addition, this measure froze all Agency activities in issuing debt and has resulted in cessation of Redevelopment activities in the City. The measure is currently being challenged in Court, but the outcome of these events is uncertain and renders the Agency's future uncertain.

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**JJACPA, Inc.**

A Professional Accounting Services Corp.

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Governing Board of the  
Redevelopment Agency of the City of Lakeport  
Lakeport, CA

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Lakeport as of and for the year ended June 30, 2011, and have issued our report thereon dated December 19, 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 Redevelopment Agency of the City of Lakeport's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Redevelopment Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Redevelopment 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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.

To the Governing Board of the  
Redevelopment Agency of the City of Lakeport  
Lakeport, CA  
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Redevelopment Agency of the City of Lakeport'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. Such provisions include those of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller. 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 Governing Board, others within the entity, and the State Controller and is not intended to be and should not be used by anyone other than these specified parties.

December 19, 2011

*JJACPA, Inc.*  
**JJACPA, Inc.**