

**THE LAKEPORT REDEVELOPMENT AGENCY**  
*California*

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**A Component Unit of  
the City of Lakeport**

**Annual Financial Report**

**Year Ended  
June 30, 2010**

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**THE LAKEPORT REDEVELOPMENT AGENCY**  
**A component unit of the City of Lakeport**

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# MARCELLO & COMPANY

## CERTIFIED PUBLIC ACCOUNTANTS

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2701 Cottage Way, Suite 30 / Sacramento, California 95825 / 916.979.9079

### INDEPENDENT AUDITOR'S REPORT

Members of the Lakeport Redevelopment Agency  
City of Lakeport, California

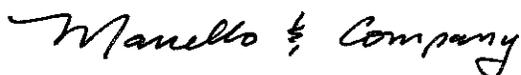
We have audited the accompanying basic financial statements of the governmental activities, which is comprised of three major funds, of the Lakeport Redevelopment Agency (the Agency), a component unit of the City of Lakeport, California, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the State Controller's Office, Division of Local Government Fiscal Affairs. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

The Agency has not presented management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information on page 15 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2010, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Certified Public Accountants  
Sacramento, California  
December 23, 2010

**THE LAKEPORT REDEVELOPMENT AGENCY**  
**A Component Unit of the City of Lakeport**  
**GOVERNMENT-WIDE FINANCIAL STATEMENTS**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2010**

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	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and investments	\$ 4,085,301
Receivables:	
Property taxes	19,720
Notes	454,247
Land held for resale	407,964
Bond issue costs	325,364
Total Assets	<u>5,292,596</u>
<b>LIABILITIES</b>	
Accounts payable	132,275
Deferred revenue	454,247
Long-term liabilities:	
Due within one year	50,000
Due in more than one year	5,410,000
Total Liabilities	<u>6,046,522</u>
<b>NET ASSETS</b>	
Unrestricted	(753,926)
Total Net Assets	<u>\$ (753,926)</u>

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

**THE LAKEPORT REDEVELOPMENT AGENCY**  
**A Component Unit of the City of Lakeport**  
**GOVERNMENT-WIDE FINANCIAL STATEMENTS**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2010**

<u>Functions/Programs</u>	<u>Operating Expenses</u>	<u>Program Revenue</u>	<u>Net (Expense) Revenue and Change in Net Assets</u>
Governmental Activities			
Community development	\$ 1,973,916	\$ 17,508	\$ (1,956,408)
Interest expense	288,772	-	(288,772)
Totals	<u>\$ 2,262,688</u>	<u>\$ 17,508</u>	<u>(2,245,180)</u>
	General Revenue		
	Property taxes		958,217
	Investment earnings		28,367
	Total		<u>986,584</u>
	<b>Change in Net Assets</b>		(1,258,596)
	Net Assets, beginning		(74,479)
	Prior period adjustment		579,149
	Net Assets, as restated		<u>504,670</u>
	Net Assets, end of year		<u>\$ (753,926)</u>

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

**THE LAKEPORT REDEVELOPMENT AGENCY**  
**A Component Unit of the City of Lakeport**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2010**

	<u>Capital Projects</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and investments	\$ 133,271	\$ 547,813	\$ 3,404,217	\$ 4,085,301
Receivables:				
Property taxes	15,776	3,944	-	19,720
Program loans	25,983	428,264	-	454,247
Land held for resale	407,964	-	-	407,964
Total Assets	<u>\$ 582,994</u>	<u>\$ 980,021</u>	<u>\$ 3,404,217</u>	<u>\$ 4,967,232</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accounts payable	\$ 128,198	\$ 4,077	\$ -	\$ 132,275
Deferred revenue	25,983	428,264	-	454,247
Total Liabilities	<u>154,181</u>	<u>432,341</u>	<u>-</u>	<u>586,522</u>
Fund Balances				
Reserved - land held for resale	407,964	-	-	407,964
Unreserved:				
Designated	-	-	3,404,217	3,404,217
Undesignated	20,849	547,680	-	568,529
Total Fund Balances	<u>428,813</u>	<u>547,680</u>	<u>3,404,217</u>	<u>4,380,710</u>
 Total Liabilities and Fund Balances	 <u>\$ 582,994</u>	 <u>\$ 980,021</u>	 <u>\$ 3,404,217</u>	 <u>\$ 4,967,232</u>

**Reconciliation of the Total Fund Balances - Governmental Funds to the  
Net Assets - Government-wide Financial Statements:**

<i>Total Fund Balances - Governmental Funds (as above)</i>	\$ 4,380,710
Adjustments for the Statement of Net Assets:	
Bond issue costs are not financial resources and are not reported in the funds.	325,364
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(5,460,000)
<i>Net Assets - Government-wide Financial Statements (page 3)</i>	<u>\$ (753,926)</u>

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

**THE LAKEPORT REDEVELOPMENT AGENCY**

**A Component Unit of the City of Lakeport**

**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCES**

**GOVERNMENTAL FUNDS**

**YEAR ENDED JUNE 30, 2010**

	<u>Capital Projects</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>REVENUE</b>				
Property tax increment	\$ 762,568	\$ 195,649	\$ -	\$ 958,217
Investment earnings	3,353	187	24,827	28,367
Program income	6,243	11,265	-	17,508
Total Revenue	<u>772,164</u>	<u>207,101</u>	<u>24,827</u>	<u>1,004,092</u>
<b>EXPENDITURES</b>				
Administration and planning	484,137	185,569	4,120	673,826
Pass through payments	191,705	-	-	191,705
Capital improvement programs	363,817	31,180	-	394,997
Loan programs	25,983	374,400	-	400,383
State "take" of RDA money	313,005	-	-	313,005
Debt service - principal	-	-	50,000	50,000
Debt service - interest	-	-	276,544	276,544
Total Expenditures	<u>1,378,647</u>	<u>591,149</u>	<u>330,664</u>	<u>2,300,460</u>
Excess of Revenues Over (Under) Expenditures	<u>(606,483)</u>	<u>(384,048)</u>	<u>(305,837)</u>	<u>(1,296,368)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	334,412	334,412
Transfers (out)	(334,412)	-	-	(334,412)
Total Other Sources (Uses)	<u>(334,412)</u>	<u>-</u>	<u>334,412</u>	<u>-</u>
<b>CHANGE IN FUND BALANCES</b>	(940,895)	(384,048)	28,575	(1,296,368)
Fund Balances - beginning	1,369,708	352,579	3,375,642	5,097,929
Prior period adjustment	-	579,149	-	579,149
Fund Balance, as restated	<u>1,369,708</u>	<u>931,728</u>	<u>3,375,642</u>	<u>5,677,078</u>
Fund Balances - end of year	<u>\$ 428,813</u>	<u>\$ 547,680</u>	<u>\$ 3,404,217</u>	<u>\$ 4,380,710</u>

**Reconciliation of the Change in Fund Balances - Governmental Funds to the**

**Change in Net Assets - Governmental Activities:**

*Change in Fund Balances - Governmental Funds (as above)* \$ (1,296,368)

Adjustments for the Statement of Activities:

Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but in the statement of net assets, the costs are deferred and amortized throughout the period during which the related debt is outstanding. (12,228)

Governmental funds report bond principal payments as expenditures while governmental activities report those expenditures as assets. 50,000

*Change in Net Assets - Governmental Activities (page 4)* \$ (1,258,596)

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

**THE LAKEPORT REDEVELOPMENT AGENCY**  
**Notes to Financial Statements**  
**June 30, 2010**

The notes to the financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the Agency as follows:

Note 1 - Defining the Financial Reporting Entity

Note 2 - Summary of Significant Accounting Policies

Note 3 - Stewardship, Compliance and Accountability

Note 4 - Cash and Investments

Note 5 - Long-term Obligations

Note 6 - Interfund Transfers

Note 7 - Subsequent Events

Note 8 - New Pronouncements

**THE LAKEPORT REDEVELOPMENT AGENCY**  
**Notes to Financial Statements**  
**June 30, 2010**

***Note 1 - Defining the Financial Reporting Entity***

The Lakeport Redevelopment Agency of the City of Lakeport, California (the "Agency"), is a separate legal entity subject to oversight by the City of Lakeport (the "Council"). As the primary governing unit of the Agency, the Council exercises significant financial and management control over the Agency. Therefore, the Agency is also a component unit of the City of Lakeport (the "City"). In addition to presenting these financial statements of the Agency, the financial data of this component unit has also been combined with the City's annual financial report for the fiscal year ended June 30, 2010.

The Agency was established January 1, 1986, under the provisions of the California Community Redevelopment Law (Health and Safety Code, Section 33000, et seq.) primarily to prepare and carry out plans for improvement, rehabilitation, and redevelopment of blighted areas within the City of Lakeport (City).

The Agency is authorized to finance the Plan with financial assistance from the City of Lakeport, County of Lake, State of California, United States Government, private developers, or any other public or private source including property tax increments, interest income, and Agency notes and bonds or other indebtedness.

***Note 2 - Summary of Significant Accounting Policies***

The accounting policies of the Agency conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies:

**A. Basis of Presentation**

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. GASB Statement No. 34 is effective in three phases based on the public institution's total annual revenues in the fiscal year ending after June 15, 1999. The Agency adopted the provisions of this statement along with GASB Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus (an amendment to GASB Statements No. 21 and No. 34), as of July 1, 2003. In June 2001, GASB issued Statement No. 38, Certain Financial Statement Note Disclosures, to reevaluate certain existing disclosure requirements in the context of reporting model statement No. 34. The Agency adopted the provisions of Statement No. 38 as of July 1, 2003.

The Financial Statement presentation, required by GASB 34, 37, and No. 38 provides a comprehensive, entity-wide perspective of the Agency's assets, liabilities, and replaces the fund-group perspective previously required. The Agency now follows the "primary government's governmental activities" reporting requirements of GASB No. 34 that provides a comprehensive one-line look at the Authority's financial activities.

**B. Fund Accounting**

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, revenue, and expenditures.

**THE LAKEPORT REDEVELOPMENT AGENCY**  
**Notes to Financial Statements**  
**June 30, 2010**

***Note 2 - Summary of Significant Accounting Policies (continued)***

Governmental Funds

*Special Revenue Funds* - Special Revenue Funds account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditures for specified purposes. Within the Agency, this fund is used to account for financial resources to be used for financing development and rehabilitation of low and moderate income housing units (LMI set-aside).

*Capital Project Funds* - Capital Project Funds account for the financial resources used for the acquisition and/or construction of major capital facilities, as well as being the general operating fund of the Agency. They are used to account for all financial resources except those required to be accounted for in the Special Revenue Fund.

C. Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

All Governmental Funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available to finance the expenditures of the current period (susceptible to accrual). Expenditures are recorded in the accounting period in which the related liability is incurred.

All Governmental Funds are accounted for using a current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental Fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

D. Budgetary Accounting

The Lakeport City Council, in its capacity as members of the Board, adopts a budget for the Agency annually, effective each July 1, for all Agency funds. The Board may amend the budget by resolution during the fiscal year. Budgets are prepared on a basis consistent with accounting principles generally accepted in the United States of America. Encumbrance accounting is not employed by the Agency and all appropriations lapse at year end.

E. Interfund Payables

Interfund payables are reported as liabilities in both the government-wide and fund financial statements.

**THE LAKEPORT REDEVELOPMENT AGENCY**  
**Notes to Financial Statements**  
**June 30, 2010**

***Note 2 - Summary of Significant Accounting Policies (continued)***

F. Net Assets

In the government-wide financial statements, net assets are classified as either restricted or unrestricted:

- Restricted net assets - Restricted net assets include resources that the Agency is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties, such as property tax increment.
- Unrestricted net assets - Unrestricted net assets represent resources derived from sources such as tax revenue and interest earnings. These resources are used for transactions relating the general operations of the Agency, and may be used at the discretion of the governing board to meet current expenses for any purpose.

G. Tax Increment

The Agency does not have the authority to levy tax, but receives tax increment directly from Lake County. Tax increment is the additional property tax created in a project area, which exceeds the base year (year of Plan adoption) value because of improvements and reassessments. Property tax revenue is recognized when measurable and collectible.

H. Interfund Transactions

“Operating Transfers-In” and “Operating Transfers-Out” on the Statement of Revenues and Expenditures are restricted to transfers within the funds and/or projects of the agency. “Transfers to” or “transfers from” the legislative body of the agency are reported as appropriate revenue or expenditure line items.

I. 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

J. Major Funds

In accordance with GASB Stmt. No. 34, paragraph 76, the Agency has elected to report its three funds as major funds because they believe these funds are particularly important to financial statement users.

***Note 3 - Stewardship, Compliance and Accountability***

Management is not aware of any material violations of finance-related legal or contractual provisions in any of the funds of the Agency.

**THE LAKEPORT REDEVELOPMENT AGENCY**  
**Notes to Financial Statements**  
**June 30, 2010**

**Note 4 - Cash and Investments**

The City and the Agency follow the practice of pooling cash and investments of all funds except for restricted funds required to be held by outside custodians, fiscal agents or trustees under the provisions of bond indentures. Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	<u>\$ 4,085,301</u>

Cash and investments are comprised of the following:

Deposits with financial institution - checking account	\$ 455,357
Investment in Local Agency Investment Fund (LAIF)	246,828
Investment with fiscal agent	<u>3,383,116</u>
Total cash and investments	<u>\$ 4,085,301</u>

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the Agency's investments to market interest rate fluctuations is provided by the following table that shows the maturity date and yield of each investment:

		<u>Maturity / Yield</u>
State investment pool (LAIF)	\$ 243,870	7.2 months average maturity, 0.56% yield
Money market funds	3,383,116	N/A-due on demand, yield under 1%

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

Under the provisions of the Agency's investment policy, the Agency may invest or deposit in the following types of investments:

- Securities of the U.S. Government or its Agencies – no percentage limitation
- Bankers Acceptances (Federal Reserve purchase eligible) – between 30% and 40%
- Commercial Paper – between 15% and 30% maximum
- Negotiable Certificates of Deposit – up to 30%
- Repurchase and Reverse Purchase Agreements – maximum maturity of 30 days
- Medium term notes – up to 30%
- Mutual funds – up to 15%
- Certificates of Deposit – up to 30%
- Local Agency Investment Fund (State investment pool) – up to \$10m
- Passbook savings accounts – no limit

**THE LAKEPORT REDEVELOPMENT AGENCY**  
**Notes to Financial Statements**  
**June 30, 2010**

**Note 4 - Cash and Investments (continued)**

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Investment in State Investment Pool

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California.

The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Annual reports of the Local Agency Investment Fund may be obtained from the California Treasurer's web site at [www.treasurer.ca.gov](http://www.treasurer.ca.gov)

**Note 5 - Long Term Obligations**

2004 Series A Bonds

2004 Series A, total issue \$1,070,000. Annual principal is due on September 1 and interest payments are semi-annually at 5.25%, due September 1 and March 1 each year, secured by Redevelopment property tax revenues, maturing in 2035.

*Balance due* \$ 1,050,000

2004 Series B Bonds

2004 Series B, total issue \$1,170,000. Annual principal is due on September 1 and interest payments are semi-annually at 5.31%, due September 1 and March 1 each year, secured by Redevelopment property tax revenues, maturing in 2035.

*Balance due* \$ 1,000,000

**THE LAKEPORT REDEVELOPMENT AGENCY**  
**Notes to Financial Statements**  
**June 30, 2010**

**Note 5 - Long Term Obligations (continued)**

2008 Tax Allocation Bonds

2008 Tax Allocation Bonds, total issue \$3,425,000. Annual principal is due on September 1 and interest payments are semi-annually at 5.29%, due September 1 and March 1 each year, secured by Redevelopment property tax revenues, maturing in 2038.

*Balance due* \$ 3,410,000

Changes in long term obligations comprise the following:

	<u>June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2010</u>	<u>Due within One Year</u>
Bonds payable	\$ 5,510,000	\$ -	\$ 50,000	\$ 5,460,000	\$ 50,000

Various bond indentures contain limitations and restrictions with which, in the opinion of management, the City is in compliance.

Future principal and interest debt service requirements on long-term debt outstanding at June 20, 2010 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 50,000	\$ 274,456	\$ 324,456
2012	50,000	272,145	322,145
2013	55,000	269,731	324,731
2014	60,000	267,086	327,086
2015	60,000	264,288	324,288
2016-2020	355,000	1,271,709	1,626,709
2021-2025	820,000	1,127,981	1,947,981
2026-2030	1,165,000	881,428	2,046,428
2031-2035	1,535,000	535,946	2,070,946
2036-2039	1,310,000	206,598	1,516,598
	<u>\$ 5,460,000</u>	<u>\$ 5,371,368</u>	<u>\$ 10,831,368</u>

Deferred Debt Issuance Costs

Bond issuance costs in the amount of \$366,848 are capitalized and amortized over the terms of the bonds using a method that approximates the effective interest method. The balance at June 30, 2010 was \$325,364.

**Note 6 - Interfund Transactions**

Transfers are indicative of funding for capital projects, debt service, subsidies of various City operations and re-allocations of special revenue. The following schedule briefly summarizes the City's transfer activity:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Debt service	\$ 334,412	
Capital projects		\$ 334,412

**THE LAKEPORT REDEVELOPMENT AGENCY**  
**Notes to Financial Statements**  
**June 30, 2010**

***Note 7 - Subsequent Events***

Redevelopment Agencies

In July 2009, the California Legislature passed ABX4-26 as part of the State's budget package which requires redevelopment agencies to remit approximately \$2.05 billion in redevelopment revenues back to the State. Under ABX4-26, each redevelopment agency must contribute a proportionate share of revenue to the newly created Supplemental Educational Revenue Augmentation Fund (SERAF). The bill authorizes redevelopment agencies, from July 1, 2009, to June 30, 2010, to suspend all or part of its required 20% allocation to its Low and Moderate Income Housing Fund in order to make the required payments. The Housing Fund must be repaid by June 30, 2015. If the agency fails to repay the Housing Fund, the required allocation of tax increment to the Housing Fund is increased to 25% for most agencies as long as the project area continues to receive tax increment. This will result in the delay or elimination of many affordable housing projects where redevelopment funding is a key funding component. In October 2009, the California Redevelopment Association and two of its members filed a lawsuit to challenge the constitutionality of the bill. A ruling was not in favor for California redevelopment agencies and the Lakeport RDA was forced to pay the State \$313,005 in fiscal year 2009-10.

***Note 8 - New Pronouncements***

The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, issued in March 2009, initially distinguishes fund balance between amounts that are considered nonspendable, such as fund balance associated with long term notes receivable or land, and other amounts that are classified as spendable based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications:

- Restricted - amounts that can be spent only for the *specific purposes* stipulated by constitution, external resource providers, or through enabling legislation.
- Committed - amounts that can be used only for the *specific purposes* determined by a formal action of the government's highest level of decision-making authority.
- Assigned - amounts intended to be used by the government for *specific purposes* but do not meet the criteria to be classified as restricted or committed.
- Unassigned - the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

The new standard also clarifies the definitions of individual governmental fund types. It also specifies how economic stabilization or "rainy day" amounts should be reported. Because of the specific nature of these accounts, the statement considers stabilization amount as *specific purposes*. Stabilization amounts should be reported in the general fund as restricted or committed if they meet the appropriate criteria. Only if the resources in the stabilization arrangement derive from a restricted or committed revenue source could a stabilization fund be reported as a special revenue fund.

The requirements of this statement are effective for fiscal periods beginning after June 15, 2010.

**THE LAKEPORT REDEVELOPMENT AGENCY**  
**A Component Unit of the City of Lakeport**  
**BUDGETARY COMPARISON INFORMATION**  
**YEAR ENDED JUNE 30, 2010**

	<b>Special Revenue</b>		
	<b>Housing Set-aside Fund</b>		
	<b>Budgeted Amounts</b>		<b>Actual</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>
<b>Resources (Inflows)</b>			
Property tax increment	\$ 190,000	\$ 190,000	\$ 195,649
Intergovernmental revenue	700,000	700,000	-
Investment earnings	10,000	10,000	187
Program income	4,988	4,988	11,265
Amounts available for appropriation	<u>904,988</u>	<u>904,988</u>	<u>207,101</u>
<b>Charges to Appropriations (Outflows)</b>			
Administration and planning	504,174	504,174	185,569
Capital improvement programs	2,250	2,250	31,180
Transfer out	400,000	400,000	-
Total charges to appropriations	<u>906,424</u>	<u>906,424</u>	<u>216,749</u>
<b>Surplus (deficit)</b>	<u>\$ (1,436)</u>	<u>\$ (1,436)</u>	<u>\$ (9,648)</u>

# MARCELLO & COMPANY

## CERTIFIED PUBLIC ACCOUNTANTS

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2701 Cottage Way, Suite 30 / Sacramento, California 95825 / 916.979.9079

### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH AUDIT GUIDELINES FOR CALIFORNIA REDEVELOPMENT AGENCIES

Members of the Lakeport Redevelopment Agency  
Lakeport, California

We have audited the component unit basic financial statements of the Lakeport Redevelopment Agency (the Agency), a component unit of the City of Lakeport, California, as of and for the year ended June 30, 2010, and have issued our report thereon dated December 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the Agency is the responsibility of the Agency's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Agency's compliance with provisions of laws and regulations contained in *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the State Controller's Office, Division of Accounting and Reporting.

The results of our tests indicated that, with respect to the items tested, the Agency complied, in all material respects, with the provisions referred to in the second paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Agency had not complied, in all material respects, with those provisions.

This report is intended for the information of the Agency and the State Controller's Office and is not intended to be and should not be used by persons other than these specified people.

*Marcello & Company*

Certified Public Accountants  
Sacramento, California  
December 23, 2010



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## CERTIFIED PUBLIC ACCOUNTANTS

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2701 Cottage Way, Suite 30 / Sacramento, California 95825 / 916.979.9079

December 27, 2010

Mr. Richard Knoll, Redevelopment Agency Director  
Ms. Trisha Franco, Housing Specialist  
City Hall - Lakeport  
225 Park Street  
Lakeport, California 95453

**RE: RDA 2010 Annual Financial Report**

Dear Richard and Trisha,

We are pleased to present you with one "photo-ready" master copy of the June 30, 2010 Annual Financial Report of the Lakeport Redevelopment Agency.

Your bound reports will be prepared when the city reports are prepared, within 30 days.

The *Redevelopment Agencies Financial Transactions Report* will be electronically prepared and submitted to the SCO by Brett Miller, CPA, the City's financial consultant. Someone from the City or Agency should sign the *Cover Page* and mail it to the SCO. Brett will be in contact with the RDA concerning this matter. This SCO electronically filed report is a separate report from the annual financial report (which includes the independent auditor's report). There are other reports required to be filed that we are not involved with, such as the HCD report, the Bureau of Census survey form, and the Statement of Indebtedness.

Mail two photocopies of the RDA audit report to:

State Controller Office  
Division of Accounting and Reporting  
Local Government Reporting Section - RDA Unit  
Post Office Box 942850  
Sacramento, California 94250

It was a pleasure to be of service this year.  
Please feel free to call our office if you have any questions at (916) 979-9079  
or email: [auditor@marcello-cpa.com](mailto:auditor@marcello-cpa.com)

Sincerely,

Ralph A. Marcello, CPA

RAM:jtf

Enclosures