LEMOORE REDEVELOPMENT AGENCY
(A Component Unit of the City of Lemoore)

REPORT ON AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS AND ON COMPLIANCE AND INTERNAL CONTROL

YEAR ENDED JUNE 30, 2011

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December 20, 2011

Honorable Members of the
Lemoore Redevelopment Agency
City of Lemoore
Lemoore, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Lemoore Redevelopment Agency, California (Agency), a component unit of the City of Lemoore, California as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Agency, as of June 30, 2011, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 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 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.

The Agency has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

The Budgetary comparison information on page 25 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. Such information has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly presented in all material respects in relation to the component unit financial statements taken as a whole.

Sampson, Sampson and Partners, LLP

LEMOORE REDEVELOPMENT AGENCY
(A Component Unit of the City of Lemoore)
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS:	
Cash and investments	$17,005,118
Receivables:	
Taxes	527,775
Interest	20,345
Notes	2,664,876
Other	11,349
Advances to the City of Lemoore	6,535,121
Assets held for resale	1,854,930
Bond discounts	1,189,672
Capital assets:	
Nondepreciable	1,806,363
Restricted assets:	
Cash with fiscal agent	19,441,913
Total assets	51,057,462
LIABILITIES:	
Accounts payable	2,464,841
Accrued interest payable	882,876
Due to the City of Lemoore	1,137,307
Advances from the City of Lemoore	1,625,914
Noncurrent liabilities:	
Due within one year	983,103
Due in more than one year	42,417,523
Total liabilities	49,511,564
NET ASSETS:	
Invested in capital assets	1,806,363
Restricted for:	
Housing	6,537,842
Unrestricted	(6,798,307)
Total net assets	$ 1,545,898

See independent auditors' report and notes to financial statements.

LEMOORE REDEVELOPMENT AGENCY
(A Component Unit of the City of Lemoore)
STATEMENT OF ACTIVITIES
JUNE 30, 2011

EXPENSES:	
Community development	$ 11,535,243
Interest and fiscal charges	1,743,738
Total governmental expenses	13,278,981
Net governmental revenue (expense)	(13,278,981)
GENERAL REVENUES:	
Property taxes	10,006,171
Investment earnings	295,558
Other	64,553
Net transfers from the City of Lemoore	801,765
Total general revenues and transfers	11,168,047
Changes in net assets	(2,110,934)
Net assets, beginning of year	3,656,832
Net assets, end of year	$ 1,545,898

See independent auditors' report and notes to financial statements.

LEMOORE REDEVELOPMENT AGENCY
(A Component Unit of the City of Lemoore)
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	Low and Moderate Income Housing Special Revenue Fund	Debt Service Fund	Capital Projects Fund	1998 and 2003 Note Project Fund	Non-Major Capital Facilities & Capital Projects	Total Governmental Funds
ASSETS:						
Cash and investments	$4,887,480	$ 4,366,503	$ 6,746,296	$ 89,208	$915,631	$17,005,118
Cash with fiscal Agents-restricted		19,441,913				19,441,913
Receivables:						
Taxes	105,555		422,220			527,775
Interest	7,317	3,733	7,921	1	1,373	20,345
Notes	1,258,844		1,406,032			2,664,876
Other	3,777		7,572			11,349
Advances to the City of Lemoore			6,386,741	148,380		6,535,121
Assets held for resale	296,528			1,558,402		1,854,930
Total assets	$6,559,501	$23,812,149	$14,976,782	$1,795,991	$917,004	$48,061,427
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable	$ 21,659	$ 1,477,237	$ 867,809	$ 98,136	$	$ 2,464,841
Due to the City of Lemoore			1,137,307			1,137,307
Advances from the City of Lemoore		1,625,914				1,625,914
Total liabilities	21,659	3,103,151	2,005,116	98,136		5,228,062
Fund balances:						
Restricted	6,537,842	20,708,998	12,971,666	1,697,855	917,004	42,833,365
Total fund balances	6,537,842	20,708,998	12,971,666	1,697,855	917,004	42,833,365
Total liabilities and fund balances	$6,559,501	$23,812,149	$14,976,782	$1,795,991	$917,004	$48,061,427

See independent auditors' report and notes to financial statements.

LEMOORE REDEVELOPMENT AGENCY
(A Component Unit of the City of Lemoore)
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Fund balances of governmental funds	$ 42,833,365
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.	1,806,363
Long-term liabilities are not due and payable in the current period. Therefore, they are not reported in the governmental funds.	(43,400,626)
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability on the governmental fund balance sheet.	(882,876)
Governmental funds reported the effect of issuance cost, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,189,672
Net assets of governmental activities	$ 1,545,898

See independent auditors' report and notes to financial statements.

LEMOORE REDEVELOPMENT AGENCY
(A Component Unit of the City of Lemoore)
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	Low and Moderate Income Housing Special Revenue Fund	Debt Service Fund	Capital Projects Fund	1998 and 2003 Note Project Fund	Non-Major Capital Facilities & Capital Projects	Total Governmental Funds
REVENUES:						
Property taxes	$2,001,234	$	$ 8,004,937	$	$	$10,006,171
Use of money and property	109,321	17,416	160,057	4,523	4,241	295,558
Other revenue	3,219		100	61,234		64,553
Total revenues	2,113,774	17,416	8,165,094	65,757	4,241	10,366,282
EXPENDITURES:						
Current:						
Community development	413,077		4,699,366	421,327		5,533,770
Debt service:						
Principal		1,401,199				1,401,199
Interest		1,364,557				1,364,557
Bond issuance costs		1,009,397				1,009,397
Total expenditures	413,077	3,775,153	4,699,366	421,327		9,308,923
Excess (deficiency) of revenues over (under) expenditures	1,700,697	(3,757,737)	3,465,728	(355,570)	4,241	1,057,359
OTHER FINANCING SOURCES (USES):						
Bond proceeds		19,150,000				19,150,000
Transfers in		4,518,182	2,173,800	331,456	166,027	7,189,465
Transfers out	(429,973)	(1,288,493)	(3,469,234)	(1,200,000)		(6,387,700)
Total other financing sources (uses)	(429,973)	22,379,689	(1,295,434)	(868,544)	166,027	19,951,765
Net change in fund balances	1,270,724	18,621,952	2,170,294	(1,224,114)	170,268	21,009,124
Fund balances, July 1, 2010	5,267,118	2,087,046	10,801,372	2,921,969	746,736	21,824,241
Fund balances, June 30, 2011	$6,537,842	$20,708,998	$12,971,666	$ 1,697,855	$917,004	$42,833,365

See independent auditors' report and notes to financial statements.

LEMOORE REDEVELOPMENT AGENCY
(A Component Unit of the City of Lemoore)
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011

Net change in fund balances of governmental funds	$ 21,009,124
Amounts reported for governmental activities in the Statement of Activities are different because:	
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(16,760,863)
Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(6,000,000)
Interest expenditures are reported in the governmental funds when paid. Interest expense is reported on the statement of activities when incurred. This amount represents the difference between interest paid and interest incurred.	(359,195)
Changes in net assets of governmental activities	$ (2,110,934)

See independent auditors' report and notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Description of Reporting Entity

The Lemoore Redevelopment Agency (Agency) was established in September, 1985, as authorized by the Health and Safety Code of the State of California. The primary purpose of the Agency is to prepare and carry out plans for improvement, rehabilitation, and redevelopment of the blighted areas within the City of Lemoore (City).

The Agency is comprised of all funds under the jurisdiction and control of the Agency's Governing Board. The Governing Board is comprised of the same individuals who comprise the City of Lemoore City Council. Because the City's governing council controls the Agency, the Agency is considered a component unit of the City; therefore, the Agency's financial information is blended into the City's annual Financial Report. The Agency has no financial or operational relationships with other related agencies, organizations, or functions of government which meet the reporting entity definition criteria of GASB Statement No. 14, The Financial Reporting Entity, as amended by GASB Statement No. 39 determining *Whether Certain Organizations are Component Units*, for inclusion as a component unit of the Agency. A comprehensive annual financial report of the City may be obtained from the City of Lemoore, 119 Fox Street, Lemoore, CA 93245.

The financial statements of the Agency have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard setting body for governmental accounting and financial reporting principles.

B. Basis of Accounting/Measurement Focus

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. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be sent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The Agency government-wide financial statements include a statement of net assets and a statement of activities. These statements present summaries of the governmental activities for the Agency.

These 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, as well as infrastructure assets, and long-term liabilities, 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. The types of transactions reported as program revenues for the Agency are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all taxes and other items, are presented instead as general revenues.

The statement of net assets and statement of activities display information about the Agency as a whole and, accordingly, eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities.

Governmental Fund 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 the aggregate remaining fund information. 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 reports the following major governmental funds:

The **Low and Moderate Income Housing Special Revenue Fund** is used to account for the operations and projects of the Agency, and to account for the 20% of tax increment funds required by state law to be set aside for the purpose of increasing or improving the City's supply of low and moderate income housing needs.

The **Debt Service Fund** is used to account for the accumulation of resources for, and for the payment of, principal and interest on the Agency's long-term debt.

The **Capital Projects Fund** is used to account for redevelopment activities including administration and acquisition and construction of major capital projects undertaken by the Agency.

The **1998 and 2003 Note Projects Fund** is used to account for bond proceeds.

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 current liabilities are included on the balance sheets. 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. Accordingly, revenues are recorded when received in cash during the year or within 60 days after year-end. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are property taxes and investment income. Expenditures are recorded in the accounting period in which the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds.

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

Reconciliation of the fund financial statements to the government-wide financial statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

C. Cash and Investments

Under the Agency's cash management program, cash in excess of operating requirements is pooled with the purpose of maximizing interest through investment activities, and is deposited in savings accounts or invested in bank certificates of deposit, bank money market accounts and the State of California Local Agency Investment Fund (LAIF). Interest income on pooled investments is allocated on the end of month balances in each fund included in the pools.

D. Use of Estimates

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

E. Budgeting

Prior to July 1, the Board of Directors adopts budgets for the governmental funds of the Agency. Following publication and public hearings, the budgets are legally enacted by resolution. The budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

These budgets are revised by the Agency's governing board during the year to give consideration to unanticipated income and expenditures. Both the original and final revised budget for the low and moderate income housing are presented in the required supplementary information section.

F. Property Taxes

Revenue is recognized when measurable and available. The assessment, levy and collection of property taxes are the responsibility of the County of Kings (County). The Agency records property taxes as revenue when received from the County, except at fiscal year-end, when property taxes received within 60 days after the end of the fiscal year are "available," and, therefore, recognized as revenue.

Secured and unsecured property taxes are levied based on the assessed value as of January 1st, lien date, of the preceding fiscal year. Secured property tax is levied on July 1st and due in two installments, on November 1st and February 1st. Collection dates are December 10th and April 10th, which are also the delinquent dates. Unsecured property tax is levied on July 1st and due on July 31st, and has a collection date of August 31st, which is also the delinquent date.

G. Capital Assets

The Agency's assets are capitalized at historical cost or estimated historical cost. Agency policy has set the capitalization threshold for reporting capital assets at $2,500. Gifts or contributions of capital assets are recorded at fair market value when received. Depreciation is recorded on a straight-line basis over the useful life of the following assets:

Infrastructure	20 years
Buildings and Improvements	20 years

H. Assets Held for Resale

Land and improvements held by the Agency for the purpose of improving and reselling are accounted for in this account. The primary purpose of redevelopment agencies is the development or redevelopment of blighted properties. This is accomplished by buying, improving, and reselling parcels of land. Property is stated at the lower of cost or net realizable value.

I. Long-Term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities section of the statement of net assets.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as cost of issuance, during the current period. The face amount of debt issued is reported as other financing sources. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts not withheld from the actual debt proceeds received, are reported as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

J. Low Income Housing

Under requirements of the State of California Health and Safety Code, the Agency is required to set aside 20% of tax increment revenues for use in housing projects benefiting low- and moderate-income households. At June 30, 2011, the net cumulative upspent low- and moderate-income housing set aside funds have been obligated by the Agency and are included in the respective project area Low Income Housing Special Revenue Fund for 20% set aside.

NOTE 2 - CASH AND INVESTMENTS:

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	$17,005,118
Restricted cash and investments	19,441,913
Total cash and investments	$36,447,031

Cash and investments as of June 30, 2011 consisted of the following:

Deposits with financial institutions	$ 210,668
Investments	36,236,363
	$36,447,031

Investments Authorized by the California Government Code and the Lemoore Redevelopment Agency's Investment Policy.

The table below identifies the **investment types** that are authorized for the Lemoore Redevelopment Agency's by the California government Code (or the Lemoore Redevelopment Agency's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Lemoore Redevelopment Agency's investment policy, where more restrictive) that address **interest rate risk, credit risk, and concentration of credit risk**. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the Lemoore Redevelopment Agency rather than the general provisions of the California Government Code or the Lemoore Redevelopment Agency's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio or Amount	Maximum Investment of One Issuer or Amount
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposits	5 years	30%	Legal Limit
Repurchase Agreements	1 year	None	None
Medium-Term Notes	5 years	30%	None
Mutual Accounts	N/A	20%	10%
Money Market Accounts	N/A	20%	10%
Local Agency Investment fund (LAIF)	N/A	None	None

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Lemoore Redevelopment Agency's investment policy. The table below identifies the **investment types** that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address **interest rate risk, credit risk, and concentration of credit risk.**

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Bankers Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 year	None	None

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. One of the ways that Lemoore Redevelopment Agency manages its exposure to interest rate risk is through the purchase of a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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 distribution of the Agency's investments by maturity.

		Remaining Maturity (in months)			
Investment Type	Fair Value	12 Months or Less	13 to 24 Months	25 to 60 Months	Over 60 Months
State Investment Pool	$16,794,450	$16,794,450	$	$	$
Held by Bond Trustee:					
Money Market	17,934,491	17,934,491			
Guaranteed Investment Contract	1,507,422				1,507,422
Total	$36,236,363	$34,728,941	$	$	$1,507,422

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. Presented below is the minimum rating required by (where applicable) the California Government Code, City of Lemoore's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

		Minimum Legal	Ratings as of Year End	
Investment Type	Amount	Rating	AAAm	Not Rated
State investment pool	$16,794,450	N/A	$	$16,794,450
Held by Bond Trustee:				
Money Market	17,934,491	N/A	17,934,491	
Guaranteed Investment Contract	1,507,422	N/A		1,507,422
Total	$36,236,363		$17,934,491	$18,301,872

Concentration of Credit Risk

The Agency does not have a formal investment policy that has limits on the amount that can be invested in any one issuer beyond that stipulated in California Government Code. The Agency's investments are exempt from this disclosure.

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 be 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 City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2011, no Lemoore Redevelopment Agency deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. In addition, as of June 30, 2011, no investments were held by the same broker dealer (counterparty) that was used by the Agency to purchase the 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 the State of California 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 City of Lemoore investment in this pool is reported in the accompanying financial statements at amounts based upon the City of Lemoore'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.

NOTE 3 - ASSETS HELD FOR RESALE:

The following is a summary of changes in the assets held for resale for the year ended June 30, 2011.

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011
Land	$1,410,905	$444,025	$	$1,854,930
Total assets held for sale	$1,410,905	$444,025	$	$1,854,930

NOTE 4 – INTERFUND TRANSACTIONS:

A. Advances

Advances to/from the City of Lemoore at June 30, 2011 were as follows:

	Receivable Funds	Payable Funds
Major Funds:		
City of Lemoore general fund	$1,625,914	$
RDA debt service fund		1,625,914
RDA capital projects fund	6,386,741	
City of Lemoore golf course		6,386,741
City of Lemoore disposal fund		148,380
RDA 1998 and 2003 note project fund	148,380	
	$8,161,035	$8,161,035

C. Interfund Transfers

With Council approval, resources may be transferred from one Agency's fund to another or between the City of Lemoore and the Agency. The purpose of the majority of transfers is to reimburse a fund that has made expenditures on behalf of another fund. Current year transfers included activity to recognize the refunding of debt.

LEMOORE REDEVELOPMENT AGENCY
(A Component Unit of the City of Lemoore)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011
(Continued)

Transfers in and out between Agency funds consisted of the following as of June 30, 2011.

	Transfers	
	In	Out
Major funds:		
Low and moderate income housing special revenue fund	$	$ 429,973
Debt service fund	4,518,182	1,288,493
Capital projects fund	1,372,035	3,469,234
1998 and 2003 note payable projects fund	331,456	1,200,000
Nonmajor capital facilities fund	166,027	
Total	$6,387,700	$6,387,700

NOTE 5 - CAPITAL ASSETS:

The following table presents summary information on capital assets.

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
Governmental Activities:				
Capital assets not being depreciated:				
Land	$1,806,363	$	$	$1,806,363
Total capital assets not being depreciated	1,806,363			1,806,363
Governmental activities capital assets, net	$1,806,363	$	$	$1,806,363

NOTE 6 - LONG-TERM LIABILITIES:

A schedule of changes in long-term debt for the year ended June 30, 2011, is shown below:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year
Bonds:					
1998 Tax Allocation Refunding	$ 5,725,000	$	$ 45,000	$ 5,680,000	$260,000
2003 Tax Allocation Refunding	12,370,000		400,000	11,970,000	195,000
2011 Tax Allocation Bonds		19,150,000		19,150,000	
Unamortized deferred charges for defeasance	(33,889)		(1,473)	(32,416)	(1,473)
Obligations Payable:					
Leprino Owner Participation Agreement	1,589,241		519,062	1,070,179	529,576
Leprino Owner Participation Agreement		6,000,000	437,137	5,562,863	
Total Long-term debt	$19,650,352	$25,150,000	$1,399,726	$43,400,626	$983,103

Tax Allocation Refunding Bonds Payable

1998 Tax Allocation Refunding Bonds

The Agency Issued $6,180,000 of its Tax Allocation Refunding Bonds on April 1, 1998 (the 1998 Bonds), to advance refund $5,015,000 of the Agency's $8,500,000 issuance of 1995 Tax Allocation Bonds (the 1995 Bonds), and to fund issuance costs and a reserve account. Beginning August 1, 1998, interest on the 1998 Bonds is payable semi-annually on February 1, and August 1, of each year at interest rates varying from 3.60% to 5.28% per annum. Debt Service payments of the 1998 Bonds are secured by a pledge of the property tax revenue increments collected on properties within the redevelopment project area. The debt agreement requires a reserve account to be held by the trustee.

Annual debt service requirements to maturity for the 1998 RDA Tax Allocation Refunding Bonds are as follows:

	1998 RDA Tax Allocation Refunding Bonds		
Year Ending June 30,	Principal	Interest	Total
2012	$ 260,000	$ 287,550	$ 547,550
2013	275,000	274,030	549,030
2014	285,000	259,730	544,730
2015	300,000	244,910	544,910
2016	320,000	229,310	549,310
2017-2021	1,860,000	883,920	2,743,920
2022-2026	2,380,000	368,500	2,748,500
Totals	$5,680,000	$2,547,950	$8,227,950

2003 RDA Tax Allocation Refunding Bonds

On May 15, 2003, the Agency issued $13,835,000 of its Tax Allocation Refunding Bonds, Series 2003 (the 2003 Bonds), bearing interest of 1.6% to 4.75%, payable semi-annually on August 1 and February 1, commencing August 1, 2003. Beginning August 1, 2006, principal comes due annually in various sums through August 1, 2033, subject to optional redemption by the Agency, in whole or in part, on August 1, 2013. The 2003 Bonds are payable from, and secured by, incremental property tax revenues (Pledged Tax Revenues). The proceeds were used to legally defease the remaining outstanding balance ($2,360,000) of the 1995 Bonds to fund a debt service payment reserve account, and to pay costs of issuance, with the balance of the 2003 Bond proceeds deposited into the Agency's Housing and Redevelopment Funds for future redevelopment activities. The refunding of the 1995 bonds resulted in an economic gain (the difference between the present value of the debt service payments on the original and refunding debt) of $298,825 which is being amortized in the government-wide financial statements on a straight-line basis over the life of the 2003 Bonds, along with the costs of issuing the 2003 Bonds.

Annual debt service requirements to maturity for the 2003 Tax Allocation Refunding Bonds are as follows:

	2003 RDA Tax Allocation Refunding Bonds		
Year Ending June 30,	Principal	Interest	Total
2012	$ 195,000	$ 545,184	$ 740,184
2013	195,000	538,359	733,359
2014	200,000	531,148	731,148
2015	215,000	523,256	738,256
2016	220,000	514,664	734,664
2017-2021	1,240,000	2,424,553	3,664,553
2022-2026	1,545,000	2,111,591	3,656,591
2027-2031	4,740,000	1,393,075	6,133,075
2032-2034	3,420,000	248,431	3,668,431
	$11,970,000	$ 8,830,261	$20,800,261
Less: Unamortized deferred charges for defeasance	(32,416)		(32,416)
Totals	$11,937,584	$ 8,830,261	$20,767,845

2011 Tax Allocation Bonds

On March 4, 2011, The Agency issued $19,150,000 of its 2011 Tax Allocation Bonds, bearing interest of 3.0% to 7.375%, payable semi-annually on February 1 and August 1, commencing August 1, 2011. Beginning August 1, 2012 principal comes due annually in various sums through August 1, 2040, subject to optimal redemption by the Agency, in whole or in part on August 1, 2017. The 2011 Bonds are payable from, and secured by incremental property tax revenue (Pledged Tax Revenues).

The proceeds were used to finance additional redevelopment activities, fund a parity debt service reserve for the Bonds and to pay the costs of issuance.

Annual debt service requirements to maturity for the 2011 Tax Allocation Bonds are as follows:

	2011 RDA Tax Allocation Bonds		
Year Ending June 30,	Principal	Interest	Total
2012	$	$ 554,318	$ 554,318
2013	160,000	1,357,513	1,517,513
2014	170,000	1,352,712	1,522,712
2015	165,000	1,345,913	1,510,913
2016	170,000	1,339,313	1,509,313
2017-2021	920,000	6,573,906	7,493,906
2022-2026	1,115,000	6,288,694	7,403,694
2027-2031	1,685,000	5,823,081	7,508,081
2032-2036	4,865,000	5,037,362	9,902,362
2037-2041	9,900,000	2,186,318	12,086,318
Totals	$19,150,000	$31,859,130	$51,009,130

Leprino Owner Participation Agreement Obligation

On March 7, 2000, The Agency entered into an owner participation agreement with Leprino Foods Company (Leprino) whereby Leprino was to construct a dairy and related products manufacturing and storage facility within the redevelopment project area. The City was to reimburse Leprino $3 million for the cost of the infrastructure improvements which contributed to the elimination of blight in the project area. Subsequently, due to an expansion of the project scope requiring Leprino to increase its investment from $125 million to more than $250 million, the Agency's reimbursement obligation increased to $6 million, payable in 10 annual installments of $600,000 each, subject to the Leprino facility having an assessed value in excess of $250 million and verification of actual infrastructure costs incurred by Leprino. During the current fiscal year, a payment of $1,040,100 was made. This payment was adjusted from $600,000 because the facility assessed value was $413 million. Future payments are expected to equal $600,000.

Although the stated interest rate on this obligation is zero percent, the Agency has used the effective interest rate on its 2003 Tax Allocation Refunding Bonds (4.75%) as an imputed interest discount rate to value the obligation at its present value of $3,017,181 (taking into account the increase in this fiscal years payment discussed above) for reporting purposes. Scheduled payments on this obligation are summarized below:

	Leprino Owner Participation Agreement Obligation		
Year Ending June 30,	Principal	Interest	Total
2012	$ 529,576	$ 70,424	$ 600,000
2013	540,603	59,397	600,000
Totals	$1,070,179	$129,821	$1,200,000

On September 4, 2007, the Agency entered into an amendment to the Owner Participation Agreement with Leprino Foods Company (Leprino). Leprino has decided to expand the production capacity of the plant to permit the increase in the milk received on a daily basis from its current level of 6,000,000 pounds of milk per day, to install additional packaging capacity and make other process improvements. The 2007 Expansion Project includes the completion of the additional work at the Expanded Wastewater Pretreatment System.

It has been acknowledged that the City will incur an additional liability of approximately $6,000,000 for wastewater improvements at the Leprino plant and this liability will be paid from the additional tax increments that the plant would generate based on this expansion. The amount calculated for 2010/2011 was $437,137 based on the increase in tax increments and other factors.

The old liability of $6,000,000 will continue to be paid at the $600,000 per year amount and is scheduled to be paid off in two more years.

NOTE 7 - CLASSIFICATION OF NET ASSETS:

In the government-wide financial statements, net assets are classified in the following categories:

Invested in capital assets – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted net assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This category represents the remaining net assets of the Agency, which are not restricted for any project or other purposes.

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Council and management and can be increased, reduced or eliminated by similar actions.

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the Agency is bound to honor constraints on how specific amounts can be spent.

- Nonspendable fund balance-amounts that are not in a spendable form or are required to be maintained intact.
- Restricted fund balance-amounts constrained to specific purposes by their providers through constitutional provisions, or by enabling legislation;
- Committed fund balance-amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance-amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance-amounts that are available for any purpose.

The Agency Board establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, followed by the unrestricted committed, assigned and unassigned resources as they are needed.

NOTE 8 – CONTINGENT LIABILITIES:

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter.

On August 16, 2011, the City Council adopted an ordinance electing to participate in the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the City is estimated to be $2.86 million. Thereafter, an estimated $680,000 will be due annually.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that these bills violate the California Constitution. The California Supreme Court is expected to make a decision on the lawsuit before January 15, 2012.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of litigation surrounding the actions of the state. In the event that Assembly Bills X1 26 and 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature's stated intent to eliminate California redevelopment agencies and to reduce their funding.

REQUIRED SUPPLEMENTARY INFORMATION

LEMOORE REDEVELOPMENT AGENCY
(A Component Unit of the City of Lemoore)
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – BUDGET (GAAP BASIS) AND ACTUAL
LOW AND MODERATE INCOME HOUSING SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2011

	Budged Amounts			Variance with Final Budget-
	Original	Final	Actual Amounts	Positive (Negative)
REVENUES:				
Property taxes	$ 1,666,648	$ 1,666,648	$2,001,234	$ 334,586
Use of money and property	28,000	28,000	109,321	81,321
Other revenue	4,420	4,420	3,219	(1,201)
Total revenues	1,699,068	1,699,068	2,113,774	414,706
EXPENDITURES:				
Community development	3,046,800	3,246,800	413,077	2,833,723
Total expenditures	3,046,800	3,246,800	413,077	2,833,723
Revenues over (under) expenditures	(1,347,732)	(1,547,732)	1,700,697	3,248,429
OTHER FINANCING SOURCES (USES):				
Transfers out	(429,973)	(429,973)	(429,973)	
Total other financing sources (uses)	(429,973)	(429,973)	(429,973)	
Net change in fund balances	(1,777,705)	(1,977,705)	1,270,724	3,248,429
Fund balance-July 1, 2010	$ 5,267,118	$ 5,267,118	5,267,118	$
Fund balance June 30, 2011			$6,537,842	

See independent auditors' report and notes to financial statements.

Sampson, Sampson and Partners, LLP
Certified Public Accountants

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December 20, 2011

Honorable Members of the
Lemoore Redevelopment Agency
City of Lemoore
Lemoore, California

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

We have audited the component unit financial statements of the Lemoore Redevelopment Agency (the Agency); a component unit of the City of Lemoore, California, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations contained in the *Guidelines For compliance Audits of California Redevelopment Agencies* issued by the California State Controller's Office, Division of Local Government Fiscal Affairs, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Agency Board, management of the Lemoore Redevelopment Agency and the California State Controller's Office. However, this report is a matter of public record and its distribution is not limited.

Sampson, Sampson and Partners LLP