CITY OF LAKEPORT
California

Annual Financial Report
June 30, 2009

CITY OF LAKEPORT

Table of Contents

INDEPENDENT AUDITOR'S REPORT 1-2

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements:
- Statement of Net Assets 3
- Statement of Activities 4

Fund Financial Statements:

Governmental Funds:
- Balance Sheet 5
- Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets 6
- Statement of Revenue, Expenditures, and Change in Fund Balances 7
- Reconciliation of the Statement of Revenue, Expenditures, and Change in Fund Balances of Governmental Funds to the Statement of Activities 8

Proprietary Funds
- Statement of Net Assets 9
- Statement of Revenue, Expenses, and Change in Net Assets 10
- Statement of Cash Flows 11

Statement of Fiduciary Assets and Liabilities - Fiduciary Funds 12

NOTES TO FINANCIAL STATEMENTS 13-28

REQUIRED SUPPLEMENTARY INFORMATION

- Schedule of Funding Progress - Defined Benefit Pension Plan 29
- Note to Required Supplementary Information - Budgetary Comparison Information 30
- Budgetary Comparison Information - General Fund 31

OTHER SUPPLEMENTARY INFORMATION

Nonmajor Other Governmental Funds:
- Combining Balance Sheet 32-35
- Combining Statement of Revenue, Expenditures, and Change in Fund Balances 36-39

MARCELLO & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

2701 Cottage Way, Suite 30 / Sacramento, California 95821 / 916.979.9079

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor
Members of the City Council
City of Lakeport, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lakeport, California, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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. 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 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 opinion.

The City 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lakeport, California, as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The schedule of funding progress and budgetary comparison information on pages 29 through 31 are not a required part of the basic financial statements but are 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.

Honorable Mayor
Members of the City Council
City of Lakeport, California

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements on pages 32 through 39 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Marcello & Company

Certified Public Accountants
Sacramento, California
October 13, 2010

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF LAKEPORT
Statement of Net Assets
Government-wide Financial Statements
June 30, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	$ 4,233,161	$ 2,527,516	$ 6,760,677
Receivables	690,534	235,358	925,892
Inventory	-	88,992	88,992
Notes receivable	1,208,142	-	1,208,142
Land held for resale	407,964	-	407,964
Capital assets not being depreciated	399,546	1,775,403	2,174,949
Capital assets, net of depreciation	4,632,771	17,285,079	21,917,850
Deferred charges	305,897	195,301	501,198
Restricted cash with fiscal agent	3,383,116	-	3,383,116
Total Assets	15,261,131	22,107,649	37,368,780
LIABILITIES			
Accounts payable	113,959	84,690	198,649
Accrued liabilities	117,983	23,868	141,851
Interest payable	92,494	178,060	270,554
Deposits payable	-	209,652	209,652
Deferred revenue	26,125	-	26,125
Noncurrent liabilities:			
Due within one year	50,000	240,272	290,272
Due in more than one year	5,735,519	10,354,289	16,089,808
Total Liabilities	6,136,080	11,090,831	17,226,911
NET ASSETS			
Invested in capital assets, net of related debt	(722,824)	8,661,222	7,938,398
Unrestricted	9,847,875	2,355,596	12,203,471
Total Net Assets	$ 9,125,051	$ 11,016,818	$ 20,141,869

The accompanying notes are an integral part of these financial statements

CITY OF LAKEPORT
Statement of Activities
Government-wide Financial Statements
Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Assets: Primary Government: Governmental Activities	Net (Expense) Revenue and Change in Net Assets: Primary Government: Business-type Activities	Net (Expense) Revenue and Change in Net Assets: Primary Government: Total
Governmental Activities							
General government	$ 1,935,917	$ 655,982	$ 339,009	$ -	$ (940,926)		$ (940,926)
Public safety	1,565,218	25,197	101,701	-	(1,438,320)		(1,438,320)
Public works, streets and planning	1,330,038	109,829	147,130	333,356	(739,723)		(739,723)
Parks and recreation	364,010	18,752	-	-	(345,258)		(345,258)
Interest on long-term debt	315,102	-	-	-	(315,102)		(315,102)
Total governmental activities	5,510,285	809,760	587,840	333,356	(3,779,329)		(3,779,329)
Business-type Activities							
Water utility	1,370,097	1,278,356	-	-		$ (91,741)	(91,741)
Sewer utility	2,631,756	1,668,539	-	-		(963,217)	(963,217)
Total business-type activities	4,001,853	2,946,895	-	-		(1,054,958)	(1,054,958)
Total primary government	$ 9,512,138	$ 3,756,655	$ 587,840	$ 333,356	(3,779,329)	(1,054,958)	(4,834,287)
General Revenue							
Sales tax					1,719,441	-	1,719,441
Property taxes					2,030,678	351,668	2,382,346
Transient occupancy taxes					100,596	-	100,596
Other taxes					78,533	-	78,533
Franchise fee					98,219	-	98,219
Use of money and property					119,695	66,236	185,931
Other revenue					526,566	-	526,566
Totals					4,673,728	417,904	5,091,632
Change in Net Assets					894,399	(637,054)	257,345
Net Assets - Beginning					8,230,652	11,653,872	19,884,524
Net Assets - End of Year					$ 9,125,051	$ 11,016,818	$ 20,141,869

The accompanying notes are an integral part of these financial statements

FUND FINANCIAL STATEMENTS

CITY OF LAKEPORT
Balance Sheet
Governmental Funds
June 30, 2009

	General	Redevelopment Agency	Redevelopment Agency Debt Service	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	$ 1,346,106	$ 965,464	$ -	$ 1,921,591	$ 4,233,161
Accrued interest	22,929	-	-	-	22,929
Taxes receivable	29,857	12,193	-	3,048	45,098
Other receivables	419,533	-	-	202,974	622,507
Due from other funds	463,541	-	-	-	463,541
Land held for resale	-	407,964	-	-	407,964
Notes receivable	-	-	-	1,208,142	1,208,142
Restricted assets:					
cash with fiscal agent	-	-	3,383,116	-	3,383,116
Total Assets	$ 2,281,966	$ 1,385,621	$ 3,383,116	$ 3,335,755	$ 10,386,458
Liabilities					
Accounts payable	$ 78,931	$ 12,034	$ -	$ 22,994	$ 113,959
Salaries payable	114,104	3,879	-	-	117,983
Deferred revenue	26,125	-	-	1,208,142	1,234,267
Due to other funds	-	-	7,474	456,067	463,541
Total Liabilities	219,160	15,913	7,474	1,687,203	1,929,750
Fund Balance					
Reserved for debt service	-	-	3,375,642	-	3,375,642
Reserved for land held for sale	-	407,964	-	-	407,964
Unreserved, reported in:					
General fund	2,062,806	-	-	-	2,062,806
Special revenue funds	-	-	-	869,653	869,653
Capital Projects funds	-	961,744	-	778,899	1,740,643
Total Fund Balances	2,062,806	1,369,708	3,375,642	1,648,552	8,456,708
Total Liabilities and Fund Balances	$ 2,281,966	$ 1,385,621	$ 3,383,116	$ 3,335,755	$ 10,386,458

The accompanying notes are an integral part of these financial statements

CITY OF LAKEPORT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2009

Total Fund Balances - Governmental Funds (page 5)	$	8,456,708
Amounts reported in the governmental activities column in the statement of net assets are different because of the following:		
Deferred Expenses		
Deferred charges represent costs associated with the issuance of long-term debt which are deferred and amortized over the period during which the debt is outstanding. The costs are reported as expenditures of current financial resources in governmental funds.		305,897
Capital Assets		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds balance sheet:		
Governmental capital assets		7,055,461
Accumulated depreciation		(2,023,144)
Interest Expense		
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred.		(92,494)
Notes Receivable		
In governmental funds, other long-term assets are not available to pay for current-period expenditures and, therefore, are offset by deferred revenue.		1,208,142
Long Term Obligations		
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds balance sheet:		
Accrued compensated absences		(275,519)
Bonds payable		(5,510,000)
Net Assets - Governmental Activities (page 3)	$	9,125,051

The accompanying notes are an integral part of these financial statements

CITY OF LAKEPORT
Statement of Revenue, Expenditures, and Change in Fund Balances
Governmental Funds
Year Ended June 30, 2009

	General	Redevelopment Agency	Redevelopment Agency Debt Service	Other Governmental Funds	Total Governmental Funds
Revenue					
Intergovernmental revenue	$ 127,568	$ -	$ -	$ 793,628	$ 921,196
Taxes	3,074,876	762,073	-	190,518	4,027,467
Licenses and permits	62,422	-	-	-	62,422
Fines and penalties	23,073	-	-	-	23,073
Use of money and property	22,631	12,438	60,199	24,427	119,695
Charge for services	698,699	-	-	25,566	724,265
Other revenue	430,596	2,352	-	93,618	526,566
Total revenue	4,439,865	776,863	60,199	1,127,757	6,404,684
Expenditures					
Current -					
General government	1,290,775	580,557	6,924	1,026,764	2,905,020
Public safety	1,548,492	-	-	-	1,548,492
Public works and streets	846,711	-	-	249,102	1,095,813
Parks and recreation	300,632	-	-	-	300,632
Capital outlay	-	699,510	-	102,913	802,423
Debt service -					
Principal retirement	39,487	-	35,000	-	74,487
Interest	3,664	-	240,798	-	244,462
Total expenditures	4,029,761	1,280,067	282,722	1,378,779	6,971,329
Excess of Revenue over (under) Expenditures	410,104	(503,204)	(222,523)	(251,022)	(566,645)
Other Financing Sources and (Uses)					
Operating transfers in	114,366	919,642	-	35,000	1,069,008
Operating transfers (out)	-	-	(919,642)	(149,366)	(1,069,008)
Total other	114,366	919,642	(919,642)	(114,366)	-
Change in Fund Balances	524,470	416,438	(1,142,165)	(365,388)	(566,645)
Fund Balances - beginning	1,538,336	953,270	4,517,807	2,013,940	9,023,353
Fund Balances - end of year	$ 2,062,806	$ 1,369,708	$ 3,375,642	$ 1,648,552	$ 8,456,708

The accompanying notes are an integral part of these financial statements

CITY OF LAKEPORT
Reconciliation of the Statement of Revenue, Expenditures, and Change in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2009

Net Change in Fund Balances - Governmental Funds (page 7)	$	(566,645)
Amounts reported for governmental activities in the Statement of Net Assets are difference because of the following:		
Notes Receivable		
Repayment of long-term receivables are treated as revenue in the governmental funds, but the repayment reduces long-term receivables in the Statement of Net Assets. Issuance of long-term receivables are treated as expenditures in the governmental funds, but the issuance increases long-term receivables in the Statement of Net Assets.		
Net change of loans		639,493
Capital Assets		
Governmental Funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay expenditures are added back to fund balances		1,002,966
Depreciation expense is not reported in governmental funds		(157,562)
Long Term Obligations		
The amounts below included in the Statement of Activities do not provide (require) the use of current financial resources and, therefore, are not reported as revenues or expenditures in the governmental funds (net change):		
Interest payable		(54,959)
Compensated absences		(27,700)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but deferred and amortized throughout the period during which the related debt is outstanding in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.		
Repayment of debt principal is added back to fund balance		74,487
Amortization expense of issuance costs		(15,681)
Change in Net Assets - Governmental Activities (page 4)	$	894,399

The accompanying notes are an integral part of these financial statements

CITY OF LAKEPORT
Proprietary Funds
Statement of Net Assets
June 30, 2009

	Business-type Activities		Total Enterprise Funds
Assets	**Water**	**Sewer**	
Current assets:			
Cash and investments	$ 1,008,161	$ 1,519,355	$ 2,527,516
Receivables	108,457	126,901	235,358
Inventory	48,892	40,100	88,992
Total current assets	1,165,510	1,686,356	2,851,866
Noncurrent assets:			
Capital assets not being depreciated	40,170	1,735,233	1,775,403
Capital assets, net of depreciation	4,344,685	12,940,394	17,285,079
Deferred charges	-	195,301	195,301
Total noncurrent assets	4,384,855	14,870,928	19,255,783
Total Assets	5,550,365	16,557,284	22,107,649
Liabilities			
Current liabilities:			
Accounts payable	25,078	59,612	84,690
Accrued payroll and benefits	13,071	10,797	23,868
Interest payable	57,347	120,713	178,060
Customer deposits	209,652	-	209,652
Revenue bonds, current	95,272	50,000	145,272
Tax assessment bonds, current	-	95,000	95,000
Total current liabilities	400,420	336,122	736,542
Noncurrent liabilities:			
Compensated absences	13,958	7,218	21,176
Revenue bonds, net	3,243,113	3,010,000	6,253,113
Tax assessment bonds, net	-	4,080,000	4,080,000
Total noncurrent liabilities	3,257,071	7,097,218	10,354,289
Total Liabilities	3,657,491	7,433,340	11,090,831
Net Assets			
Investment in capital assets, net of related debt	1,046,470	7,635,928	8,682,398
Unrestricted	846,404	1,488,016	2,334,420
Total Net Assets	$ 1,892,874	$ 9,123,944	$ 11,016,818

The accompanying notes are an integral part of these financial statements

CITY OF LAKEPORT
Proprietary Funds
Statement of Revenue, Expenses, and Change in Net Assets
Year Ended June 30, 2009

	Business-type Activities		Total Enterprise Funds
	Water	Sewer	
Operating Revenue			
Charges for services	$ 1,276,602	$ 1,635,025	$ 2,911,627
Other income	1,754	33,514	35,268
Total operating revenue	1,278,356	1,668,539	2,946,895
Operating Expenses			
Salaries and benefits	766,990	812,197	1,579,187
Utility Costs	14,496	185,023	199,519
Materials, supplies and service costs	238,569	612,212	850,781
Travel and training	2,325	7,563	9,888
Other	592	2,410	3,002
Amortization	-	6,853	6,853
Depreciation	184,774	624,183	808,957
Total operating expenses	1,207,746	2,250,441	3,458,187
Operating Income (Loss)	70,610	(581,902)	(511,292)
Nonoperating Revenue (Expenses)			
Property tax assessments	-	351,668	351,668
Use of money and property	17,267	48,969	66,236
Interest expense	(162,351)	(381,315)	(543,666)
Total nonoperating revenue (expenses)	(145,084)	19,322	(125,762)
Change in Net Assets	(74,474)	(562,580)	(637,054)
Net Assets - beginning	1,967,348	9,686,524	11,653,872
Net Assets - end of year	$ 1,892,874	$ 9,123,944	$ 11,016,818

The accompanying notes are an integral part of these financial statements

CITY OF LAKEPORT
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2009

CASH FLOWS PROVIDED BY (USED FOR)	Business-type Activities		Total Enterprise Funds
	Water	Sewer	
Operating Activities			
Cash received from customers	$ 1,282,435	$ 1,662,639	$ 2,945,074
Cash paid to suppliers of goods and services	(230,018)	(786,482)	(1,016,500)
Cash paid for employee compensation	(774,076)	(824,602)	(1,598,678)
Net cash provided (used)	278,341	51,555	329,896
Noncapital & Related Financing Activities			
Property tax assessments	-	351,668	351,668
Capital & Related Financing Activities			
Principal payments on capital debt	(90,606)	(90,000)	(180,606)
Interest paid on capital debt	(159,289)	(382,185)	(541,474)
Net cash provided (used)	(249,895)	(472,185)	(722,080)
Investing Activities			
Collection of investment earnings	17,267	48,969	66,236
Net Increase (Decrease) in Cash	45,713	(19,993)	25,720
Cash and cash equivalents - beginning	962,448	1,539,348	2,501,796
Cash and cash equivalents - end of year	$ 1,008,161	$ 1,519,355	$ 2,527,516
Operating Activities Analysis			
Operating Income (Loss) (page 10)	$ 70,610	$ (581,902)	$ (511,292)
Reconciliation adjustments:			
Depreciation, a noncash expense	184,774	624,183	808,957
Amortization, a noncash expense	-	6,853	6,853
(Increase) decrease in trade receivables	6,085	(5,900)	185
(Increase) decrease in inventory	19,475	-	19,475
Increase (decrease) in accounts payable	6,489	20,726	27,215
Increase (decrease) in accrued liabilities	(7,086)	(12,405)	(19,491)
Increase (decrease) in customer deposits	(2,006)	-	(2,006)
Net cash provided (used)	$ 278,341	$ 51,555	$ 329,896

The accompanying notes are an integral part of these financial statements

CITY OF LAKEPORT
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2009

	Special Deposits	Storm Drainage	Total
Assets			
Cash and investments	$ 131,856	$ 395,477	$ 527,333
Total Assets	$ 131,856	$ 395,477	$ 527,333
Liabilities			
Refundable deposits and trust liabilities	$ 131,856	$ 395,477	$ 527,333
Total Liabilities	$ 131,856	$ 395,477	$ 527,333

The accompanying notes are an integral part of these financial statements

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 City as follows:

Note 1 - Defining the Reporting Entity

Note 2 - Summary of Significant Accounting Policies

Note 3 - Stewardship, Compliance, and Accountability

Note 4 - Cash and Investments

Note 5 - Capital Assets

Note 6 - Long-Term Obligations

Note 7 - Defined Benefit Pension Plan

Note 8 - Post-Retirement Health Care Benefits

Note 9 - Interfund Transactions

Note 10 - Risk Management

Note 11 - Commitments and Contingencies

Note 12 - New Pronouncements

Note 1 - Defining the Reporting Entity

The City of Lakeport (the City) was incorporated in 1888 under the laws of the State of California. Lakeport operates under a Council-Manager form of government. The City provides a full range of municipal services to its citizens including public safety, public works, planning and building regulation, recreation and parks, water and sewer services.

These financial statements present the financial status of the City and its component units. The component units discussed in the following paragraph are included in the City's financial statements because the City is financially accountable for their operations.

The Redevelopment Agency (the Agency) of the City of Lakeport was established by the City as a separate legal entity in accordance with state law. The purpose of the Agency is to encourage new investment and reinvestment within legally designated redevelopment areas in partnership with property owners.

The Municipal Sewer District No. 1 was established as a separate legal entity to obtain funding and construct a new sewage treatment plant and pumping stations in 1965. In later years an assessment district was formed for the purpose of financing needed improvements and expansion of the wastewater system.

Although the component units are legally separate from the City, they are reported on a blended basis as part of the primary government because their boards consist of members of the City Council. The component units' financial statements may be obtained from the City.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of the City conform to accounting principles generally accepted in the United States of America 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 policies of the City are described below:

A. Government-wide and Fund Financial Statements

The government-wide financial statements report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of *interfund activity* has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) changes to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributors that are restricted to meeting the operational or capital requirements of a particular function or segment taxes, and other items not properly included among program revenues are reported instead as general revenues.

The accounts of the City are organized on the basis of funds. 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 or expenses, as appropriate. 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.

Note 2 - Summary of Significant Accounting Policies

In the fund financial statements in this report, the various funds are grouped into generic funds within three broad fund types. They are as follows:

Governmental Funds

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes.

Capital Projects Funds are used to account for revenues and expenditures restricted to the acquisition or construction of major capital facilities (other than those financed by Proprietary or Trust funds).

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, governmental fund long-term debt, both principal and interest.

Proprietary Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprise - where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis, be financed or recovered primarily through user charges. The City accounts for the operation of its water and sewer utility funds on this basis.

Fiduciary Funds

Agency Funds are used to account for assets administered by the City in a trustee capacity or as an agent for other governments, and other funds. Agency Funds are custodial in nature (assets equal liabilities), and do not involve measurement of results of operations.

Trust Funds are used to account for assets held by the government in a trustee capacity.

B. Basis of Accounting and Measurement Focus

Basis of accounting refers to when revenues and expenditures or expenses 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 the accrual basis of accounting, as are the proprietary fund financial statements. 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.

In the fund financial statements, all Governmental Funds and Agency 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). Major revenue sources susceptible to accrual include substantially all property taxes, taxpayer-assessed taxes (such as sales and use, utility users, business license, transient occupancy, franchise fees and gas taxes), interest, special assessments levied, state and federal grants and charges for current services. Revenues from licenses, permits, fines and forfeits are recorded as received. Expenditures are recorded when the related fund liability is incurred.

Note 2 - Summary of Significant Accounting Policies

Fiduciary Fund revenues and expenses or expenditures (as appropriate) are recognized on the basis consistent with the fund's accounting measurement objective.

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. Accordingly, they present a summary of sources and uses of "available spendable resources" during a period.

The government-wide financial statements, as well as the proprietary funds financial statements, are accounted for on a flow of economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund operating statements present increases (revenues) and decreases (expenses) in net total assets.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statement to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

C. Use of Estimates

Financial statement preparation in conformity with accounting principles generally accepted in the United States of America requires the use of 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/expenses during the reporting period. Actual results could differ from those estimates.

D. Cash and Investments

Cash and investments held in the City's investment pool are reported as cash and investments since funds can spend cash at any time without prior notice or penalty. All investments with fiscal agents are also considered cash equivalents if they are liquid. Investments are stated at fair value.

E. Receivables and Payables

Balances representing lending/borrowing transactions between funds outstanding at the end of the fiscal year are reported as either "due to/due from other funds" (amounts due within one year), "advances to/from other funds" (non-current portions of interfund lending/borrowing transactions), or "loans to/from other funds" (long-term lending/borrowing transactions as evidenced by loan agreements). Advances and loans to other funds are offset by a fund balance reserve in applicable Governmental Funds to indicate they are not available for appropriation, and are not expendable available financial resources.

Property, sales, use, and utility user taxes related to the current fiscal year are accrued as revenue and accounts receivable and considered available if received within 60 days of year end. Federal and State grants are considered receivable and accrued as revenue when reimbursable costs are incurred under the accrual basis of accounting in the government-wide statement of net assets. The amount recognized as revenue under the modified accrual basis of accounting is limited to the amount that is deemed measurable and available. The City considers these taxes available if they are received during the period when settlement of prior fiscal year accounts payable and payroll charges normally occur.

Note 2 - Summary of Significant Accounting Policies

Grants, entitlements or shared revenues are recorded as receivables and revenues in the General, Special Revenue and Capital Projects Funds when they are received or susceptible to accrual.

Notes receivables represent the aggregate of individual loans, secured by property liens in favor of the City, made through the Community Development Block Grant (CDBG) housing programs. When repaid, these amounts are designated for purposes allowed under the CDBG reuse guidelines.

F. Allowance for Doubtful Accounts
Management has elected to record bad debts using the direct write-off method. Accounting principles generally accepted in the United States of America require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed.

G. Inventories
The inventory held by the Proprietary Fund is stated at cost. Materials and supplies used by Governmental Funds are recorded as expenditures at the time they are purchased or obtained.

H. Capital Assets
Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are stated at historical cost, when available and at estimated replacement cost when original cost was not available. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, which range from five to forty years. Donated assets are stated at estimated market value at the date of donation. Capital leases are recorded at the present value of future minimum lease payments. Related assets are classified as capital assets and depreciated.

I. Compensated Absences
Compensated absences represent the vested portion of accumulated vacation and sick leave. In Governmental Funds, the cost of vacation and sick leave benefits is recognized when payments are made to employees. Upon termination, 100% of vacation leave is paid. In Proprietary Funds, a long-term liability for such benefits has been recorded.

J. Deferred Revenue
Deferred revenue in governmental funds primarily represents funds under the City's housing rehabilitation and business assistance program. The program consists of long-term deferred payment loans of grant funds received from the State, which were reported as grant revenues in the year received, and expenditures in the year the loans were made. Principal and interest payments, which are receivable at June 30, are offset by an equal amount of deferred revenue. Such payments will be recognized as revenue when received.

K. Long -Term Obligations
In both the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets. Bond premiums, issuance costs and discounts are deferred and amortized over the life of the bond.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources.

Note 2 - Summary of Significant Accounting Policies

L. Net Assets
The City's net assets are classified as follows:

- Invested in capital assets - This represents the City's total investment in capital assets net of any related debt.
- Restricted net assets - Restricted net assets include resources that the City is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- Unrestricted net assets - Unrestricted net assets represent resources derived from sources without spending restrictions. These resources are used for transactions relating the general operations of the City, and may be used at the discretion of the governing board to meet current expenses for any purpose.

M. Property Taxes
Property taxes in the State of California are administered for all local agencies at the county level and consist of secured, unsecured and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

Property Valuations - are established by the Assessor of the Lake County for the secured and unsecured property tax rolls; the utility property tax roll is valued by the State Board of Equalization. Under the provisions of Article XIIIA of the Sate Constitution (Proposition 13, adopted by the voters on June 6, 1978), properties are assessed at 100% of full value. From this base of assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increase to full value is allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations and is subject to annual reappraisal.

Tax Levies - are limited to 1% of full assessed value which results in a tax rate of $1.00 per $100 assessed valuation under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

Tax Levy Dates - are attached annually on January 1, preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

Tax Collections - are the responsibility of the county's tax collector. Taxes and assessments on secured and utility rolls, which constitute a lien against the property, may be paid in two installments: The first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the county for late payments. The City has elected to receive the City's portion of the property taxes from the County under the Teeter Bill. Under this program, the City receives 100% of the City's share of the levied property taxes in periodic payments with the County assuming responsibility for the delinquencies.

Property Tax Administration Fees - The State of California FY 90-91 Budget Act authorized counties to collect an administrative fee for collection and distribution of property taxes.

Note 2 - Summary of Significant Accounting Policies (concluded)

Tax Levy Apportionments - Due to the nature of the City-wide maximum levy, it is not possible to identify general-purpose tax rates for specific entities. Under State legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by the county's auditor-controller based primarily on the ratio that each agency represented of the total City-wide levy for the three fiscal years prior to fiscal year 1979.

Note 3 - Stewardship, Compliance, and Accountability

Budgetary Information

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

1. The City Manager submits to the City Council a proposed draft budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.

2. The City Council reviews the proposed budget at special scheduled sessions which are open to the public. The Council also conducts a public hearing on the proposed budget to obtain comments from interested persons.

3. Prior to July 1, the budget is adopted by minute action of the City Council.

4. From the effective date of the budget, which is adopted and controlled at the department level, the amounts stated therein as proposed expenditures become appropriations to the various City departments. The City Council may amend the budget by minute action during the fiscal year. The City Manager may authorize transfers from one object or purpose to another within the same department, and between departments within the General Fund. All appropriations lapse at year end.

Deficit Fund Equity

At June 30, 2009, certain funds had deficit fund equity balances as follows:

Fund	Deficit Balance
Special Revenue Funds	
Lakeport Housing	$ 239,543
2007 Home Grant	$ 16,481
2009 Home Grant	$ 104
Capital Project Funds	
Forbes Creek Trail	$ 5,595
Safe Routes to School	$ 18,803

Revenue Limitations Imposed By California Proposition 218

Proposition 218, which was approved by the voters in November 1996, regulates the City's ability to impose, increase, and extend taxes, assessments, and fees. Any new, increased, or extended taxes, assessments, and fees subject to the provisions of Proposition 218, require voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes, assessments, and fees are subject to the voter initiative process and may be rescinded in the future years by the voters.

Note 4 - Cash and Investments

Cash and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	$ 6,760,677
Cash and investments with fiscal agents	3,383,116
Fiduciary funds:	
Cash and investments	527,333
Total cash and investments	$ 10,671,126

Cash and investments as of June 30, 2009 consist of the following:

Cash on hand	$ 400
Deposits with financial institutions	2,753,957
Investments	7,916,769
Total cash and investments	$ 10,671,126

Investments Authorized by the City's Investment Policy

The City's investment policy only authorizes investment in the local government investment pool administered by the State of California (LAIF). The City's investment policy does not contain any specific provisions intended to limit the City's exposure to *interest rate risk*, *credit risk*, and *concentration of credit risk*.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by the bond trustee is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City'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
U.S. Treasury Obligations	None
U.S. Agency Securities	None
Banker's Acceptances	180 days
Commercial Paper	270 days
Money Market Mutual Funds	N/A
Investment Contracts	30 years

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. At year end, the weighted average maturity of the investments contained in the LAIF investment pool is approximately 7.8 months. Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment:

Investment type		Maturity and Yield
State investment pool	$ 4,472,742	7.8 months average, 1.51% yield
Money Market funds	3,444,027	due on demand, yield under 1%
Total	$ 7,916,769	

Note 4 - Cash and Investments (continued)

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
The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total City investments.

Investments in any one issuer that represent 5% or more of total investments by reporting unit (primary government, discretely presented component unit, governmental activities, major fund, nonmajor funds in the aggregate, etc.) are as follows:

$1,038,310 of the cash and investments (including amounts held by bond trustee) reported in the Redevelopment Debt Service Fund and Sewer Fund (major funds of the City) are held in the form of money market funds.

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 City'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 City 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 City'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 City 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's investment in this pool is reported in the accompanying financial statements at amounts based upon the City'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 5 - Capital Assets

A summary of changes in the Governmental Activities follows:

Capital Assets	July 1, 2008	Additions	(Dispositions)	June 30, 2009
Land	$ 323,186	$ 76,360	$ -	$ 399,546
Buildings	2,619,229	-	-	2,619,229
Improvements	2,115,424	926,606	-	3,042,030
Vehicles	994,656	-	-	994,656
	6,052,495	1,002,966	-	7,055,461
Less: Depreciation	(1,865,583)	(157,562)	-	(2,023,144)
	$ 4,186,912	$ 845,404	$ -	$ 5,032,317

A summary of changes in the Business-type Activities follows:

Water Utility	July 1, 2008	Additions	(Dispositions)	June 30, 2009
Land	$ 40,170	$ -	$ -	$ 40,170
Buildings, Improvements, and Infrastructure	6,267,168	-	-	6,267,168
Equipment	219,898	-	-	219,898
	6,527,236	-	-	6,527,236
Less: Depreciation	(1,957,607)	(184,774)	-	(2,142,381)
	$ 4,569,629	$ (184,774)	$ -	$ 4,384,855

Sewer Utility	July 1, 2008	Additions	(Dispositions)	June 30, 2009
Land	$ 1,735,233	$ -	$ -	$ 1,735,233
Buildings, Improvements, and Infrastructure	21,549,805	-	-	21,549,805
Equipment	449,619	-	-	449,619
	23,734,657	-	-	23,734,657
Less: Depreciation	(8,434,847)	(624,183)	-	(9,059,030)
	$ 15,299,810	$ (624,183)	$ -	$ 14,675,627

Note 6 - Long-Term Obligations

Water Revenue Bonds

2002 Refunding Loan Agreement of the 1993 Water Revenue Bonds, total refunding issue $873,577, WestAmerica Bank. Semi-annual principal and interest payments of approximately $41,000, annual interest at 5.1%, due May 1 and November 1 each year, secured by water fund revenues, maturing in 2017.

Balance due $ 561,385

Water Revenue Bonds

Series 2000 COPS, USDA Rural Development, total issue $3,050,000. Annual principal and interest payments of approximately $105,000, interest payable semi-annually at 4.75%, due February 1 and August 1 each year, secured by water fund revenues, maturing in 2039.

Balance due $ 2,777,000

Note 6 - Long-Term Obligations (continued)

Sewer District Improvement Bonds
Series 1993-1, USDA Rural Development, total issue $5,196,270. Annual principal and interest payments of approximately $115,000, interest payable semi-annually at 5%, due March 1 and September 1 each year, secured by Municipal Sewer District No. 1 revenues from the South Assessment District 91-1 area, maturing in 2032.

Balance due	$	4,175,000

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	$	1,035,000

2008 Series Bonds
2008 Series, total issue $3,425,000. 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 2038.

Balance due	$	3,425,000

2007 Series A Bonds
2007 Series A, total issue $3,060,000. 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 Wastewater fund revenues, maturing in 2037.

Balance due	$	3,060,000

Capital Lease
The City entered into a lease-purchase agreement with SunTrust Leasing Corporation for the acquisition of an Asphalt Grinder machine. The lease obligation was paid-in-full during the fiscal year.

Note 6 - Long-Term Obligations (concluded)

Changes in long-term obligations comprise the following:

	July 1, 2008	Increases	Decreases	June 30, 2009	Due within One Year
Governmental Activities					
Bonds payable	$ 5,545,000	$ -	$ 35,000	$ 5,510,000	$ 50,000
Capital lease	39,487	-	39,487	-	-
Compensated absences	247,819	27,700	-	275,519	28,000
Total	$ 5,832,306	$ 27,700	$ 74,487	$ 5,785,519	$ 78,000
Business-type Activities					
Revenue bonds	$ 6,488,991	$ -	$ 90,606	$ 6,398,385	$ 145,272
Tax assessment bonds	4,265,000	-	90,000	4,175,000	95,000
Compensated absences	21,176	5,000	5,000	21,176	5,000
Total	$ 10,775,167	$ 5,000	$ 185,606	$ 10,594,561	$ 245,272

Issuance costs for the 2004 Series A & B bonds and the 2008 RDA bonds in the amount of $342,065 are being amortized over the life of the related debt in the amount of $15,681 per year. Accumulated amortization at June 30, 2009 was $36,168.

Issuance costs for the 2007 Series A bonds and in the amount of $205,580 are being amortized over the life of the related debt in the amount of $6,853 per year. Accumulated amortization at June 30, 2009 was $10,279.

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

Future debt service requirements on long-term debt (not including capital leases) are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2010	$ 50,000	$ 276,544	$ 240,272	$ 501,818
2011	50,000	274,456	255,075	490,044
2012	50,000	272,145	265,023	477,681
2013	55,000	269,732	280,124	464,721
2014	60,000	267,086	290,884	451,144
2015-2019	335,000	1,288,946	1,589,007	1,998,497
2020-2024	715,000	1,166,315	1,600,000	1,692,635
2025-2029	1,085,000	938,588	2,052,500	1,218,127
2030-2034	1,460,000	612,347	2,286,000	666,551
2035-2039	1,650,000	206,598	1,549,500	229,912
2040	-	-	165,000	3,919
Total	$ 5,510,000	$ 5,572,757	$ 10,573,385	$ 8,195,049

Deferred Debt Issuance Costs

Bond issuance costs are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

Note 7 - Defined Benefit Pension Plan

Plan Description

The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS annual financial report may be obtained from their Executive Office, 400 "P" Street, Sacramento, California 95814.

Funding Status and Progress

Non-public safety participants are required to contribute 7% of their annual covered salary, while public safety employees are required to contribute 9% of their annual covered salary. The City makes the contributions required of city employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current 2008-2009 rate was 16.455% for non-public safety employees (miscellaneous plan) and 28.049% for public safety employees (safety plan), of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost

The City's annual pension cost of $507,320 was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2007, actuarial valuation using the entry age normal actuarial cost method.

The actuarial assumptions included:

- a 7.75% investment rate of return (net of administrative expenses).
- projected annual salary increases that vary by age, service and type of employment.
- an inflation rate of 3%.
- a payroll growth rate of 3.25%.
- individual salary growth - a merit scale varying by duration of employment coupled with an assumed annual inflation growth rate of 3% and an annual production growth of 0.25%.

The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). The Schedule of Funding Progress on page 29 shows that both plans were underfunded as of June 30, 2007. Information for the year ending June 30, 2008 has not been released by the Plan Actuary.

The contribution rate for normal cost is determined using the entry-age normal actuarial cost method, a projected benefit cost method. It takes into account those benefits that are expected to be earned in the future as well as those already accrued. Significant actuarial assumptions used in the 2007 and 2008 valuations to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation as described above.

Note 7 - Defined Benefit Pension Plan (continued)

Historic Trend Information
Three-year trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

Three-Year Trend Information for PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2007	$ 673,608	100%	$-0-
6/30/2008	$ 501,863	100%	$-0-
6/30/2009	$ 507,320	100%	$-0-

Note 8 - Post-Retirement Health Care Benefits

The City provides post employment benefit options for medical healthcare to eligible retirees. The plan is offered to qualified employees based upon years of service. For the fiscal year ended June 30, 2009, the City paid $311,540 for retired employees covered under the plan.

Note 9 - Interfund Transactions

Interfund Receivables/ Payables	Interfund Receivable	Interfund Payable
General Fund	$ 463,541	$ -
Special Revenue Funds:		
Lakeport Housing Program fund	-	239,543
2007 Home Grant	-	210,825
2009 Home Grant	-	104
Capital Project Funds:		
Forbes Creek Trail	-	5,595
Debt Service Fund:		
Redevelopment Agency Debt Service	-	7,474
	$ 463,541	$ 463,541

With City Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund which has made expenditure on behalf of another fund. Transfers between funds during the fiscal year ended June 30, 2009 were as follows:

Interfund Transfers	Amounts Transferred in	Amounts Transferred Out
General Fund	$ 114,366	$ -
Special Revenue Funds:		
Gas tax funds	-	114,366
Economic RLF Re-use	-	35,000
Economic RLF Re-use Micro	35,000	-
Capital Project Funds:		
Redevelopment agency fund	919,642	-
Debt Service Fund:		
Redevelopment Debt Service fund	-	919,642
	$ 1,069,008	$ 1,069,008

Note 10 - Risk Management

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1978, the City joined together with other cities to form the Redwood Empire Municipal Insurance Fund (REMIF), a public City risk pool currently operating as a common risk management and insurance program for 16 member cities. The City pays an annual premium to REMIF for its workers' compensation, general liability and property coverage.

The coverage pays up to $10,000 for property losses, $10,000 for liability losses, and $5,000 for workers' compensation losses. The City has excess insurance purchased by REMIF, except liability, which is pooled with the California Joint Powers Insurance Authority (a self funded risk sharing pool). The excess insurance limits are $10,000 to $295 million for property losses (except auto physical which is a maximum of $1,000,000); $10,000 to $15 million for all liability losses; and $5,000 to $300,000 for workers' compensation losses. At June 30, 2009, the City determined that it need not accrue liability or revenues for purposes of funding the City's potential future claim liabilities. REMIF issues a separate comprehensive annual financial report. Copies of that report may be obtained from REMIF at Post Office Box 885, Sonoma, California 95476.

Note 11 - Commitments and Contingencies

The City receives funding from a number of federal, state and local grant programs, principally the Community Development Block Grants. These programs are subject to financial and compliance review by grantors. Accordingly, the City's compliance with applicable grant requirements will be determined at some future date. Expenditures, if any, which may be disallowed by the granting agencies, cannot be determined at this time. The City does not expect the undeterminable amounts of disallowed expenditures, if any, to materially affect the financial statements. Receipt of these federal, state and local grant revenues is not assured in the future.

Note 12 - New Pronouncements

In June 2004, the GASB issued Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*," effective for fiscal periods beginning after December 15, 2006 for larger governments and in the two subsequent years for smaller governments. The City's required implementation of this new reporting requirement is for the fiscal year ended June 30, 2010.

In March 2009, the GASB issued Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*." This statement initially distinguishes fund balance between amounts that are considered nonspendable, such as fund balance associated with long-term notes receivable or inventory, 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.

Note 12 - New Pronouncements (continued)

- 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 definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by this statement. The capital projects fund type was clarified for better alignment with the needs of financial statement users and prepares. Definitions are as follows:

- General fund - account for and report all financial resources and uses not accounted for and reported in another fund.
- Special revenue funds - account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.
- Capital projects funds - account for and report financial resources that are restricted, committed, or assigned to the expenditure for capital outlays, including the acquisition of construction of capital facilities and other capital assets.
- Debt service funds - account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.
- Permanent funds - account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs, that is, for the benefit of the government or its citizenry.

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAKEPORT
Schedule of Funding Progress (CalPERS cost sharing pool)
Defined Benefit Pension Plan
Year Ended June 30, 2009

Pooled Report Format

Since the City has less than 100 active members in each plan, it is required by CalPERS to participate in a risk pool. The following actuary valuation reports the activity of the risk pool as a whole, and not the specific activity of individual members such as the City of Lakeport.

	Actuarial Valuation Date - Year Ended		
Miscellaneous Plan - 2.5% at 55 Risk Pool	June 30, 2007	June 30, 2006	June 30, 2005
Actuarial Liabilities (AL)	$ 1,315,454,361	$ 912,988,585	$ 579,276,103
Actuarial Value of Assets (AVA)	$ 1,149,247,298	$ 787,758,909	$ 500,388,523
Unfunded Liabilities (UL)	$ 166,207,063	$ 125,229,676	$ 78,887,580
Funded Ratio (AVA/AL)	87.4%	86.3%	86.4%
Annual Covered Payroll	$ 289,090,187	$ 200,320,145	$ 129,379,492
UL As a % of Payroll	57.5%	62.5%	61.0%
Safety Plan - 2% at 50 Risk Pool			
Actuarial Liabilities (AL)	$ 462,354,459	$ 534,135,011	$ 742,247,338
Actuarial Value of Assets (AVA)	$ 403,484,775	$ 46,098,452	$ 646,358,708
Unfunded Liabilities (UL)	$ 58,869,684	$ 73,186,549	$ 95,888,630
Funded Ratio (AVA/AL)	87.3%	86.3%	87.1%
Annual Covered Payroll	$ 72,308,836	$ 84,179,637	$ 115,062,820
UL As a % of Payroll	81.4%	86.9%	83.3%

Note - Details of the defined benefit pension plan can be found in Note 7 of the financial statements.

CITY OF LAKEPORT
Note to Required Supplementary Information
Budgetary Comparison Schedule
Year Ended June 30, 2009

The City follows these procedures in establishing the budgetary date reflected in the financial statements:

- Prior to the close of each fiscal year, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed revenues and expenditures.

- Public hearings are conducted at City Council meetings to obtain taxpayer comments prior to adoption of the budget in June.

- Prior to July 1, the budget is legally adopted for all governmental fund types through Council approved budget.

- The City Manager is authorized to transfer budget amounts within and between funds as deemed desirable and necessary in order to meet the City's needs; however, revisions that alter the total expenditures must be approved by the City Council. Formal budgetary integration is employed as a management control device during the year for the governmental type funds.

- Budgets for the governmental type funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts presented are as originally adopted and as further amended by the City Council.

CITY OF LAKEPORT
Budgetary Comparison Information
General Fund
Year Ended June 30, 2009

	Budget Amounts		Actual	Variance with Final Budget Positive
Resources (Inflows)	**Original**	**Final**	**Amounts**	**(Negative)**
Intergovernmental revenues	$ 124,000	$ 124,000	$ 127,568	$ 3,568
Taxes	3,292,092	3,292,092	3,074,876	(217,216)
Licenses and permits	118,000	118,000	62,422	(55,578)
Fines and penalties	40,000	40,000	23,073	(16,927)
Use of money and property	15,576	15,576	22,631	7,055
Charges for services	649,500	649,500	698,699	49,199
Other revenue	411,000	411,000	-	(411,000)
Transfers in from other funds	144,646	144,646	145,129	483
Amounts Available for Appropriation	4,794,814	4,794,814	4,154,398	(640,416)
Charges to Appropriations (Outflows)				
General government	1,307,649	1,307,649	1,290,775	16,874
Public safety	1,765,136	1,765,136	1,548,492	216,644
Public works, streets, and planning	1,464,077	1,464,077	846,711	617,366
Parks and recreation	370,963	370,963	300,632	70,331
Debt service - principal	-	-	39,487	(39,487)
Debt service - interest	-	-	3,271	(3,271)
Transfers out to other funds	-	-	-	-
Total Charges to Appropriations	4,907,825	4,907,825	4,029,368	878,457
Surplus (Deficit)	$ (113,011)	$ (113,011)	$ 125,030	$ 238,041

OTHER SUPPLEMENTARY INFORMATION

CITY OF LAKEPORT
Other Governmental Funds
Combining Balance Sheet
June 30, 2009

	Parkland Dedication Fund	2105 Gasoline Tax	2106 Gasoline Tax	2107 Gasoline Tax	2107.5 Gasoline Tax	TDA Non-Transit	Lakeport Housing Program	Economic RLF Re-use	RDA Low/ Moderate Housing
ASSETS									
Cash and investments	$ 53,600	$ -	$ -	$ -	$ -	$ 113,497	$ -	$ 173,949	$ 559,669
Taxes receivable	-	-	-	-	-	-	-	-	3,048
Other receivables	-	2,098	1,754	2,778	2,000	-	-	-	-
Notes receivable	-	-	-	-	-	-	98,870	438,101	245,081
Total Assets	$ 53,600	$ 2,098	$ 1,754	$ 2,778	$ 2,000	$ 113,497	$ 98,870	$ 612,050	$ 807,798
LIABILITIES									
Accounts payable	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 561
Deferred revenue	-	-	-	-	-	-	98,870	438,101	245,081
Due to other funds	-	-	-	-	-	-	239,543	-	-
Total Liabilities	-	-	-	-	-	-	338,413	438,101	245,642
FUND BALANCES									
Capital project funds	-	-	-	-	-	-	-	-	-
Special revenue funds	53,600	2,098	1,754	2,778	2,000	113,497	(239,543)	173,949	689,927
Total Fund Balances	53,600	2,098	1,754	2,778	2,000	113,497	(239,543)	173,949	689,927
Total Liabilities and Fund Balances	$ 53,600	$ 2,098	$ 1,754	$ 2,778	$ 2,000	$ 113,497	$ 98,870	$ 612,050	$ 935,569

CITY OF LAKEPORT
Other Governmental Funds
Combining Balance Sheet
June 30, 2009

	Traffic Congestion Relief	Housing Revolving	FEMA-1646	2007 Home Grant	Emergency Housing Assistance	Economic RLF Reuse Micro	2009 Home Grant	Tenth Street Drainage
ASSETS								
Cash and investments	$ 32,679	$ 27,686	$ 41,411	$ -	$ 22,616	$ 1,150	$ -	$ 83,467
Taxes receivable	-	-	-	-	-	-	-	-
Other receivables	-	-	-	194,344	-	-	-	-
Notes receivable	-	116,170	-	309,920	-	-	-	-
Total Assets	$ 32,679	$ 143,856	$ 41,411	$ 504,264	$ 22,616	$ 1,150	$ -	$ 83,467
LIABILITIES								
Accounts payable	$ -	$ 2,347	$ -	$ -	$ -	$ -	$ -	$ -
Deferred revenue	-	116,170	-	309,920	-	-	-	-
Due to other funds	-	-	-	210,825	-	-	104	-
Total Liabilities	-	118,517	-	520,745	-	-	104	-
FUND BALANCES								
Capital project funds	-	-	-	-	-	-	-	83,467
Special revenue funds	32,679	25,339	41,411	(16,481)	22,616	1,150	(104)	-
Total Fund Balances	32,679	25,339	41,411	(16,481)	22,616	1,150	(104)	83,467
Total Liabilities and Fund Balances	$ 32,679	$ 143,856	$ 41,411	$ 504,264	$ 22,616	$ 1,150	$ -	$ 83,467

CITY OF LAKEPORT
Other Governmental Funds
Combining Balance Sheet
June 30, 2009

	Lakeport Blvd. Improvement	South Main Improvement	Indian Gaming Fund	Prop 1B Fund	State Transportation Fund	Parkside Traffic Mitigation	Bevins Street Maintenance	Forbes Creek Trail
ASSETS								
Cash and investments	$ 114,449	$ 60,674	$ 105,166	$ 155,785	$ 335,499	$ 17,036	$ 20,179	$ -
Taxes receivable	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-	-	-
Total Assets	$ 114,449	$ 60,674	$ 105,166	$ 155,785	$ 335,499	$ 17,036	$ 20,179	$ -
LIABILITIES								
Accounts payable	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Deferred revenue	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	5,595
Total Liabilities	-	-	-	-	-	-	-	5,595
FUND BALANCES								
Capital project funds	114,449	60,674	105,166	155,785	335,499	17,036	20,179	(5,595)
Special revenue funds	-	-	-	-	-	-	-	-
Total Fund Balances	114,449	60,674	105,166	155,785	335,499	17,036	20,179	(5,595)
Total Liabilities and Fund Balances	$ 114,449	$ 60,674	$ 105,166	$ 155,785	$ 335,499	$ 17,036	$ 20,179	$ -

CITY OF LAKEPORT
Other Governmental Funds
Combining Balance Sheet
June 30, 2009

	Lakeshore Storm Damage	Safe Routes to School	Total - Other Governmental Funds
ASSETS			
Cash and investments	$ 1,796	$ 1,283	$ 1,921,591
Taxes receivable	-	-	3,048
Other receivables	-	-	202,974
Notes receivable	-	-	1,208,142
Total Assets	$ 1,796	$ 1,283	$ 3,335,755
LIABILITIES			
Accounts payable	$ -	$ 20,086	$ 22,994
Deferred revenue	-	-	1,208,142
Due to other funds	-	-	456,067
Total Liabilities	-	20,086	1,687,203
FUND BALANCES			
Capital project funds	1,796	(18,803)	869,653
Special revenue funds	-	-	778,899
Total Fund Balances	1,796	(18,803)	1,648,552
Total Liabilities and Fund Balances	$ 1,796	$ 1,283	$ 3,335,755

CITY OF LAKEPORT
Other Governmental Funds
Combining Statement of Revenue, Expenditures and Change in Fund Balances
Year Ended June 30, 2009

	Parkland Dedication Fund	2105 Gasoline Tax	2106 Gasoline Tax	2107 Gasoline Tax	2107.5 Gasoline Tax	TDA Non-Transit	Lakeport Housing Program	Economic RLF Re-use	RDA Low/ Moderate Housing
REVENUES									
Intergovernmental revenues	$ -	$ 27,534	$ 22,704	$ 36,647	$ 2,000	$ -	$ -	$ -	$ 6,922
Taxes	-	-	-	-	-	-	-	-	190,518
Use of money and property	1,558	298	241	398	27	1,500	-	2,855	5,484
Charges for services	4,430	-	-	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-	5,660	40,544	5,749
Total Revenues	5,988	27,832	22,945	37,045	2,027	1,500	5,660	43,399	208,673
EXPENDITURES									
General government	-	-	-	-	-	-	-	194,941	335,994
Streets	-	-	-	-	-	-	-	-	-
Capital outlay	76,360	-	-	-	-	-	-	-	450
Total Expenditures	76,360	-	-	-	-	-	-	194,941	336,444
EXCESS OF REVENUES OVER EXPENDITURES	(70,372)	27,832	22,945	37,045	2,027	1,500	5,660	(151,542)	(127,771)
OTHER FINANCING SOURCES (USES)									
Operating transfers in	-	-	-	-	-	-	-	-	-
Operating transfers (out)	-	(35,588)	(29,184)	(47,567)	(2,027)	-	-	(35,000)	-
Total Other Financing Sources (Uses)	-	(35,588)	(29,184)	(47,567)	(2,027)	-	-	(35,000)	-
CHANGES IN FUND BALANCES	(70,372)	(7,756)	(6,239)	(10,522)	-	1,500	5,660	(186,542)	(127,771)
FUND BALANCES - BEGINNING	123,972	9,854	7,993	13,300	2,000	111,997	(245,203)	360,491	689,927
FUND BALANCES - END OF YEAR	$ 53,600	$ 2,098	$ 1,754	$ 2,778	$ 2,000	$ 113,497	$ (239,543)	$ 173,949	$ 562,156

CITY OF LAKEPORT
Other Governmental Funds
Combining Statement of Revenue, Expenditures and Change in Fund Balances
Year Ended June 30, 2009

	Traffic Congestion Relief	Housing Revolving Fund	FEMA-1646 Fund	2007 Home Grant	Emergency Housing Assistance	Economic RLF Reuse Micro	2009 Home Grant	Tenth Street Drainage
REVENUES								
Intergovernmental revenues	$ 32,520	$ -	$ -	$ 304,519	$ -	$ -	$ -	$ -
Taxes	-	-	-	-	-	-	-	-
Use of money and property	159	627	547	-	305	29	-	1,103
Charges for services	-	-	-	-	-	-	-	-
Other revenue	-	40,544	-	-	-	1,121	-	-
Total Revenues	32,679	41,171	547	304,519	305	1,150	-	1,103
EXPENDITURES								
General government	-	139,036	-	321,000	689	35,000	104	-
Streets	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Total Expenditures	-	139,036	-	321,000	689	35,000	104	-
EXCESS OF REVENUES OVER EXPENDITURES	32,679	(97,865)	547	(16,481)	(384)	(33,850)	(104)	1,103
OTHER FINANCING SOURCES (USES)								
Operating transfers in	-	-	-	-	-	35,000	-	-
Operating transfers (out)	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-	35,000	-	-
CHANGES IN FUND BALANCES	32,679	(97,865)	547	(16,481)	(384)	1,150	(104)	1,103
FUND BALANCES - BEGINNING	-	123,204	40,864	-	23,000	-	-	82,364
FUND BALANCES - END OF YEAR	$ 32,679	$ 25,339	$ 41,411	$ (16,481)	$ 22,616	$ 1,150	$ (104)	$ 83,467

CITY OF LAKEPORT
Other Governmental Funds
Combining Statement of Revenue, Expenditures and Change in Fund Balances
Year Ended June 30, 2009

	Lakeport Blvd. Improvement	South Main Improvement	Indian Gaming Fund	Prop 1B Fund	State Transportation Fund	Parkside Traffic Mitigation	Bevins Street Maintenance	Forbes Creek Trail
REVENUES								
Intergovernmental revenues	$ -	$ -	$ 23,933	$ -	$ 333,356	$ -	$ -	$ -
Taxes	-	-	-	-	-	-	-	-
Use of money and property	1,512	802	1,124	3,628	2,143	36	43	-
Charges for services	-	-	-	-	-	1,000	20,136	-
Other revenue	-	-	-	-	-	-	-	-
Total Revenues	1,512	802	25,057	3,628	335,499	1,036	20,179	-
EXPENDITURES								
General government	-	-	-	-	-	-	-	-
Streets	-	-	-	249,102	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	5,595
Total Expenditures	-	-	-	249,102	-	-	-	5,595
EXCESS OF REVENUES OVER EXPENDITURES	1,512	802	25,057	(245,474)	335,499	1,036	20,179	(5,595)
OTHER FINANCING SOURCES (USES)								
Operating transfers in	-	-	-	-	-	-	-	-
Operating transfers (out)	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-	-	-	-
CHANGES IN FUND BALANCES	1,512	802	25,057	(245,474)	335,499	1,036	20,179	(5,595)
FUND BALANCES - BEGINNING	112,937	59,872	80,109	401,259	-	16,000	-	-
FUND BALANCES - END OF YEAR	$ 114,449	$ 60,674	$ 105,166	$ 155,785	$ 335,499	$ 17,036	$ 20,179	$ (5,595)

CITY OF LAKEPORT
Other Governmental Funds
Combining Statement of Revenue, Expenditures and Change in Fund Balances
Year Ended June 30, 2009

	Lakeshore Storm Damage	Safe Routes to School	Total - Other Governmental Funds
REVENUES			
Intergovernmental revenues	$ 1,792	$ 1,701	$ 793,628
Taxes	-	-	190,518
Use of money and property	4	4	24,427
Charges for services	-	-	25,566
Other revenue	-	-	93,618
Total Revenues	1,796	1,705	1,127,757
EXPENDITURES			
General government	-	-	1,026,764
Streets	-	-	249,102
Capital outlay	-	20,508	102,913
Total Expenditures	-	20,508	1,378,779
EXCESS OF REVENUES OVER EXPENDITURES	1,796	(18,803)	(251,022)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	35,000
Operating transfers (out)			(149,366)
Total Other Financing Sources (Uses)	-	-	(114,366)
CHANGES IN FUND BALANCES	1,796	(18,803)	(365,388)
FUND BALANCES - BEGINNING	-	-	2,013,940
FUND BALANCES - END OF YEAR	$ 1,796	$ (18,803)	$ 1,648,552