CITY OF LAKEPORT
California

Annual Financial Report
June 30, 2008

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 30
- Budgetary Comparison Schedule - General Fund 31

OTHER SUPPLEMENTARY INFORMATION

Nonmajor Other Governmental Funds:
- Combining Balance Sheet 32-34
- Combining Statement of Revenue, Expenditures, and Change in Fund Balances 35-37

MARCELLO & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

2701 Cottage Way, Suite 30 / Sacramento, California / 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, 2008, 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, 2008, 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 37 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.

Certified Public Accountants
Sacramento, California
July 15, 2010

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF LAKEPORT
Statement of Net Assets
Government-wide Financial Statements
June 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	$ 4,308,013	$ 2,501,796	$ 6,809,809
Receivables	386,947	235,543	622,490
Inventory	-	108,467	108,467
Notes receivable	568,650	-	568,650
Capital assets not being depreciated	323,186	1,775,403	2,098,589
Capital assets, net of depreciation	3,863,726	18,094,036	21,957,762
Deferred charges	321,578	206,313	527,891
Restricted cash with fiscal agent	4,517,807	-	4,517,807
Total Assets	14,289,907	22,921,558	37,211,465
LIABILITIES			
Accounts payable	80,625	57,475	138,100
Accrued liabilities	105,678	435,044	540,722
Deferred revenue	40,646	-	40,646
Noncurrent liabilities:			
Due within one year	113,974	180,607	294,581
Due in more than one year	5,718,332	10,594,560	16,312,892
Total Liabilities	6,059,255	11,267,686	17,326,941
NET ASSETS			
Invested in capital assets, net of related debt	(5,435,361)	(8,772,275)	(14,207,636)
Unrestricted	13,666,013	20,426,147	34,092,160
Total Net Assets	$ 8,230,652	$ 11,653,872	$ 19,884,524

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, 2008

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Net (Expense) Revenue and Change in Net Assets, Primary Government: Governmental Activities	Business-type Activities	Total
Governmental Activities						
General government	$ 2,081,007	$ 547,651	$ 6,551	$ (1,526,805)		$ (1,526,805)
Public safety	1,789,931	51,146	120,000	(1,618,785)		(1,618,785)
Public works, streets and planning	1,832,657	81,519	496,828	(1,254,310)		(1,254,310)
Parks and recreation	350,013	60,069	-	(289,944)		(289,944)
Interest on long-term debt	121,981	-	-	(121,981)		(121,981)
Total governmental activities	6,175,589	740,385	623,379	(4,811,825)		(4,811,825)
Business-type Activities						
Water utility	1,415,436	1,288,404	-		$ (127,032)	(127,032)
Sewer utility	2,213,478	1,534,988	-		(678,490)	(678,490)
Total business-type activities	3,628,914	2,823,392	-		(805,522)	(805,522)
Total primary government	$ 9,804,503	$ 3,563,777	$ 623,379	(4,811,825)	(805,522)	(5,617,347)
General Revenue						
Sales tax				1,775,520	-	1,775,520
Property taxes				2,178,210	357,214	2,535,424
Transient occupancy taxes				141,361	-	141,361
Other taxes				88,675	-	88,675
Franchise fee				50,536	-	50,536
Motor vehicle license fee				22,837	-	22,837
Use of money and property				120,961	80,841	201,802
Other revenue				81,017	-	81,017
Sale of land held for resale				1,083,629	-	-
Totals				5,542,746	438,055	4,897,172
Change in Net Assets				730,921	(367,467)	363,454
Net Assets - Beginning				7,499,731	12,021,339	19,521,070
Net Assets - End of Year				$ 8,230,652	$ 11,653,872	$ 19,884,524

The accompanying notes are an integral part of these financial statements

FUND FINANCIAL STATEMENTS

CITY OF LAKEPORT
Balance Sheet
Governmental Funds
June 30, 2008

	General	Redevelopment Agency	Redevelopment Agency Debt Service	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	$ 1,116,837	$ 965,180	$ -	$ 2,225,996	$ 4,308,013
Accrued interest	276,452	-	-	-	276,452
Taxes receivable	32,213	-	-	-	32,213
Other receivables	45,135	-	-	33,147	78,282
Due from other funds	245,203	-	-	-	245,203
Notes receivable	-	-	-	568,650	568,650
Restricted assets:					
cash with fiscal agent	-	-	4,517,807	-	4,517,807
Total Assets	$ 1,715,840	$ 965,180	$ 4,517,807	$ 2,827,793	$ 10,026,620
Liabilities					
Accounts payable	$ 79,237	$ 1,388	$ -	$ -	$ 80,625
Salaries payable	57,621	8,045	-	-	65,666
Other liabilities	-	2,477	-	-	2,477
Deferred revenue	40,646	-	-	568,650	609,296
Due to other funds	-	-	-	245,203	245,203
Total Liabilities	177,504	11,910	-	813,853	1,003,267
Fund Balance					
Reserved for debt service	-	-	4,517,807	-	4,517,807
Unreserved, reported in:					
General fund	1,538,336	-	-	-	1,538,336
Special revenue funds	-	-	-	1,261,399	1,261,399
Capital Projects funds	-	953,270	-	752,541	1,705,811
Total Fund Balances	1,538,336	953,270	4,517,807	2,013,940	9,023,353
Total Liabilities and Fund Balances	$ 1,715,840	$ 965,180	$ 4,517,807	$ 2,827,793	$ 10,026,620

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, 2008

Total Fund Balances - Governmental Funds (page 5)	$	9,023,353
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.		321,578
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		6,052,495
Accumulated depreciation		(1,865,583)
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.		(37,535)
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.		568,650
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		(247,819)
Bonds payable		(5,545,000)
Capital lease purchase		(39,487)
Net Assets - Governmental Activities (page 3)	$	8,230,652

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, 2008

	General	Redevelopment Agency	Redevelopment Agency Debt Service	Other Governmental Funds	Total Governmental Funds
Revenue					
Intergovernmental revenue	$ 149,388	$ -	$ -	$ 496,829	$ 646,217
Taxes	3,239,724	753,639	-	190,402	4,183,765
Licenses and permits	177,442	-	-	-	177,442
Fines and penalties	51,146	-	-	-	51,146
Use of money and property	42,583	24,247	12,876	41,255	120,961
Charge for services	1,586,271	-	-	59,691	1,645,962
Other revenue	-	6,000	-	75,017	81,017
Total revenue	5,246,554	783,886	12,876	863,194	6,906,510
Expenditures					
Current -					
General government	975,649	679,134	3,971	29,012	1,687,766
Public safety	1,782,701	-	-	7,230	1,789,931
Public works and streets	1,678,562	-	-	154,095	1,832,657
Parks and recreation	350,013	-	-	-	350,013
Debt service -					
Principal retirement	39,858	-	35,000	-	74,858
Interest	3,271	-	113,357	-	116,628
Cost of issuance	-	-	196,565	-	196,565
Total expenditures	4,830,054	679,134	348,893	190,337	6,048,418
Excess of Revenue over (under) Expenditures	416,500	104,752	(336,017)	672,857	858,092
Other Financing Sources and (Uses)					
Proceeds from issuance	-	-	3,425,000	-	3,425,000
Operating transfers in	145,129	-	148,358	23,000	316,487
Operating transfers (out)	-	(208,358)	-	(108,129)	(316,487)
Total other	145,129	(208,358)	3,573,358	(85,129)	3,425,000
Change in Fund Balances	561,629	(103,606)	3,237,341	587,728	4,283,092
Fund Balances - beginning	976,707	1,056,876	1,280,466	1,426,212	4,740,261
Fund Balances - end of year	$ 1,538,336	$ 953,270	$ 4,517,807	$ 2,013,940	$ 9,023,353

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, 2008

Net Change in Fund Balances - Governmental Funds (page 7)	$	4,283,092
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		(203,091)
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		-
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		501
Compensated absences		(32,588)
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		74,858
Issuance of debt		(3,425,000)
Cost of issuance		196,565
Amortization expense of issuance costs		(5,854)
Change in Net Assets - Governmental Activities (page 4)	$	730,921

The accompanying notes are an integral part of these financial statements

CITY OF LAKEPORT
Proprietary Funds
Statement of Net Assets
June 30, 2008

	Business-type Activities		Total Enterprise Funds
Assets	**Water**	**Sewer**	
Current assets:			
Cash and investments	$ 962,448	$ 1,539,348	$ 2,501,796
Receivables	114,542	121,001	235,543
Inventory	68,367	40,100	108,467
Total current assets	1,145,357	1,700,449	2,845,806
Noncurrent assets:			
Capital assets not being depreciated	40,170	1,735,233	1,775,403
Capital assets, net of depreciation	4,529,459	13,564,577	18,094,036
Deferred charges	4,159	202,154	206,313
Total noncurrent assets	4,573,788	15,501,964	20,075,752
Total Assets	5,719,145	17,202,413	22,921,558
Liabilities			
Current liabilities:			
Accounts payable	18,589	38,886	57,475
Accrued payroll and benefits	20,157	23,202	43,359
Interest payable	58,444	121,583	180,027
Customer deposits	211,658	-	211,658
Revenue bonds, current	-	90,607	90,607
Tax assessment bonds, current	-	90,000	90,000
Total current liabilities	308,848	364,278	673,126
Noncurrent liabilities:			
Compensated absences	13,958	7,218	21,176
Revenue bonds, net	3,428,991	2,969,393	6,398,384
Tax assessment bonds, net	-	4,175,000	4,175,000
Total noncurrent liabilities	3,442,949	7,151,611	10,594,560
Total Liabilities	3,751,797	7,515,889	11,267,686
Net Assets			
Investment in capital assets, net of related debt	(3,384,662)	(5,387,613)	(8,772,275)
Unrestricted	5,352,010	15,074,137	20,426,147
Total Net Assets	$ 1,967,348	$ 9,686,524	$ 11,653,872

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, 2008

	Business-type Activities		Total Enterprise Funds
	Water	Sewer	
Operating Revenue			
Charges for services	$ 1,288,404	$ 1,534,217	$ 2,822,621
Other income	-	771	771
Total operating revenue	1,288,404	1,534,988	2,823,392
Operating Expenses			
Salaries and benefits	691,962	690,563	1,382,525
Utility Costs	108,013	168,306	276,319
Materials, supplies and service costs	257,645	498,203	755,848
Travel and training	5,615	4,098	9,713
Other	573	2,327	2,900
Amortization	-	3,426	3,426
Depreciation	184,774	557,957	742,731
Total operating expenses	1,248,582	1,924,880	3,173,462
Operating Income (Loss)	39,822	(389,892)	(350,070)
Nonoperating Revenue (Expenses)			
Property tax assessments	-	357,214	357,214
Use of money and property	27,641	53,200	80,841
Interest expense	(166,854)	(288,598)	(455,452)
Total nonoperating revenue (expenses)	(139,213)	121,816	(17,397)
Change in Net Assets	(99,391)	(268,076)	(367,467)
Net Assets - beginning	2,066,739	9,954,600	12,021,339
Net Assets - end of year	$ 1,967,348	$ 9,686,524	$ 11,653,872

The accompanying notes are an integral part of these financial statements

CITY OF LAKEPORT
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2008

CASH FLOWS PROVIDED BY (USED FOR)	Business-type Activities		Total Enterprise Funds
	Water	Sewer	
Operating Activities			
Cash received from customers	$ 1,307,405	$ 1,631,226	$ 2,938,631
Cash paid to suppliers of goods and services	(358,519)	(777,294)	(1,135,813)
Cash paid for employee compensation	(686,393)	(681,896)	(1,368,289)
Net cash provided (used)	262,493	172,036	434,529
Noncapital & Related Financing Activities			
Property tax assessments	-	357,214	357,214
Capital & Related Financing Activities			
Purchase of capital assets	-	(2,528,619)	(2,528,619)
Principal payments on capital debt	(86,573)	(323,000)	(409,573)
Proceeds from issuance of debt	-	3,060,000	3,060,000
Bond issuance costs	-	(205,580)	(205,580)
Interest paid on capital debt	(167,799)	(221,390)	(389,189)
Net cash provided (used)	(254,372)	(218,589)	(472,961)
Investing Activities			
Collection of investment earnings	27,641	53,200	80,841
Net Increase (Decrease) in Cash	35,762	363,861	399,623
Cash and cash equivalents - beginning	926,686	1,175,487	2,102,173
Cash and cash equivalents - end of year	$ 962,448	$ 1,539,348	$ 2,501,796
Operating Activities Analysis			
Operating Income (Loss) (page 10)	$ 39,822	$ (389,892)	$ (350,070)
Reconciliation adjustments:			
Depreciation, a noncash expense	184,774	557,957	742,731
Amortization, a noncash expense	-	3,426	3,426
(Increase) decrease in trade receivables	(3,101)	96,238	93,137
Increase (decrease) in accounts payable	13,327	(104,360)	(91,033)
Increase (decrease) in accrued liabilities	2,319	6,608	8,927
Increase (decrease) in accrued vacation	3,250	2,059	5,309
Increase (decrease) in customer deposits	22,102	-	22,102
Net cash provided (used)	$ 262,493	$ 172,036	$ 434,529

The accompanying notes are an integral part of these financial statements

CITY OF LAKEPORT
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2008

	Special Deposits	Storm Drainage	Total
Assets			
Cash and investments	$ 113,151	$ 388,972	$ 502,123
Total Assets	$ 113,151	$ 388,972	$ 502,123
Liabilities			
Refundable deposits and trust liabilities	$ 113,151	$ 388,972	$ 502,123
Total Liabilities	$ 113,151	$ 388,972	$ 502,123

The accompanying notes are an integral part of these financial statements

CITY OF LAKEPORT
Notes to Financial Statements
June 30, 2008

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 Financial Reporting City

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 Financial Reporting City

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 reporting City because the City is financially accountable for its 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 its boards consist of members of the City Council. The component unit's 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 six 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, 2008, certain funds had deficit fund equity balances as follows:

Fund	Deficit Balance
Special Revenue Funds	
Lakeport Housing	$ 245,203

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, 2008 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	$ 6,809,809
Cash and investments with fiscal agents	4,517,807
Fiduciary funds:	
Cash and investments	502,123
Total cash and investments	$ 11,829,739

Cash and investments as of June 30, 2008 consist of the following:

Cash on hand	$ 400
Deposits with financial institutions	4,012,534
Investments	7,816,805
Total cash and investments	$ 11,829,739

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 10.5 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	$ 2,974,735	10.5 months average, 5.2% yield
Money Market	4,842,070	N/A, 4.5% yield
Total	$ 7,816,805	

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:

$1,276,333 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	June 30, 2007	Additions	(Dispositions)	June 30, 2008
Land	$ 323,186	$ -	$ -	$ 323,186
Buildings	2,619,229	-	-	2,619,229
Improvements	2,115,424	-	-	2,115,424
Equipment	994,656	-	-	994,656
	6,052,495	-	-	6,052,495
Less: Depreciation	(1,708,021)	(157,562)	-	(1,865,583)
	$ 4,344,474	$ (157,562)	$ -	$ 4,186,912

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

Water Utility	June 30, 2007	Additions	(Dispositions)	June 30, 2008
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	(1,772,833)	(184,774)	-	(1,957,607)
	$ 4,754,403	$ (184,774)	$ -	$ 4,569,629
Sewer Utility				
Land	$ 1,735,233	$ -	$ -	$ 1,735,233
Buildings, improvements and infrastructure	19,021,186	2,528,619	-	21,549,805
Equipment	449,619	-	-	449,619
	21,206,038	2,528,619	-	23,734,657
Less: Depreciation	(7,876,890)	(557,957)	-	(8,434,847)
	$ 13,329,148	$1,970,662	$ -	$ 15,299,810

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 $ 612,991

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 $ 2,816,000

Sewer Revenue Bonds

1978 Series A, USDA Rural Development, total issue $482,000. Annual principal and interest payments of approximately $30,000, interest payable semi-annually at 5%, due January 1 and July 1 each year, secured by Municipal Sewer District No. 1 revenues, maturing in 2018.

Balance due $ -

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	$	4,265,000

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	$	1,070,000

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 ten police vehicles. The lease was paid-in-full during the fiscal year.

The City entered into a lease-purchase agreement with SunTrust Leasing Corporation for the acquisition of an Asphalt Grinder machine. Future minimum lease payments with the present value of the minimum lease payments at June 30, 2008 are as follows:

Year Ending June 30	Obligation
2009	$ 43,129
Total lease payments	43,129
Less interest	(3,642)
Present value of future lease payments	$ 39,487

Note 6 - Long-Term Obligations (concluded)

Changes in Long-term Obligations comprise the following:

	June 30, 2007	Increases	Decreases	June 30, 2008	Due within One Year
Governmental Activities					
Bonds payable	$ 2,155,000	$3,425,000	$ 35,000	$ 5,545,000	$ 74,487
Capital lease	79,345	-	39,858	39,487	39,487
Compensated absences	215,231	32,588	-	247,819	-
Totals	$ 2,449,576	$3,457,588	$ 74,858	$ 5,832,306	$ 113,974
Business-type Activities					
Revenue bonds	$ 3,753,564	$3,060,000	$ 324,573	$ 6,488,991	$ 90,607
Tax assessment bonds	4,350,000	-	85,000	4,265,000	90,000
Compensated absences	15,867	5,309	-	21,176	-
Totals	$ 8,119,431	$3,065,309	$ 409,573	$ 10,775,167	$ 180,607

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 $15,682 per year. Accumulated amortization at June 30, 2008 was $20,487.

Issuance costs for the 2007 Series A bonds and in the amount of $202,154 are being amortized over the life of the related debt in the amount of $7,852 per year. Accumulated amortization at June 30, 2008 was $20,487.

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	Governmental Activities		Business-type Activities	
June 30,	Principal	Interest	Principal	Interest
2009	$ 74,487	$ 162,002	$ 180,607	$ 545,634
2010	50,000	277,483	240,272	501,818
2011	50,000	275,605	255,075	490,044
2012	50,000	273,307	265,023	477,681
2013	55,000	270,982	280,124	464,721
2014-2018	325,000	1,313,089	1,565,325	2,062,495
2019-2023	615,000	1,214,721	1,561,065	1,780,052
2024-2028	1,000,000	1,017,149	1,957,000	1,314,695
2029-2033	1,395,000	720,534	2,465,000	781,896
2034-2038	1,635,000	331,803	1,482,000	301,875
2039-2040	335,000	16,917	502,500	19,772
	$ 5,584,487	$ 5,873,592	$10,753,991	$ 8,740,683

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 2007-2008 rate is 15.75% for non-public safety employees (miscellaneous plan) and 25.97% 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 $501,863 was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2006, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) an 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by age, service and type of employment, (c) an inflation rate of 3%, (d) a payroll growth rate of 3.25%, and (e) 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%.

Three-Year Trend Information for PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/06	$ 514,653	100%	-0-
6/30/07	$ 673,608	100%	-0-
6/30/08	$ 501,863	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, 2008, the City paid $333,109 for retired employees covered under the plans.

Note 9 - Interfund Transactions

Interfund Receivables/ Payables	Interfund Receivable	Interfund Payable
General Fund	$ 245,203	$ -
Special Revenue Funds:		
Lakeport Housing Program fund	-	245,203
	$ 245,203	$ 245,203

Note 9 - Interfund Transactions (continued)

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, 2008 were as follows:

Transfers	Amounts Transferred In	Amounts Transferred Out
General Fund	$ 145,129	$ -
Special Revenue Funds:		
Gas tax funds	-	75,024
Economic RLF Re-use	-	23,000
Emergency Housing Assistance	23,000	-
Traffic Safety	-	10,105
Redevelopment agency fund	-	208,358
Debt Service Fund:		
Redevelopment Debt Service fund	148,358	-
	$ 316,487	$ 316,487

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, 2008, 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 November 2006, the GASB issued Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations*," which provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts. The requirements of the new statement become effective for fiscal periods beginning after December 15, 2007.

In May 2007, the GASB issued Statement No. 50, "*Pension Disclosures*." This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits. The requirements of the new statement become effective for fiscal periods beginning after June 15, 2007 except for the requirement for plans that use the aggregate actuarial cost method to present a schedule of funding progress using the entry age actuarial cost method which is effective for the actuarial valuations as of June 15, 2007.

In June 2007, the GASB issued Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets*." This statement establishes accounting and financial reporting requirements for intangible assets including easements, water rights, timber rights, patents, trademarks, and computer software. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

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.
- 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.

Note 12 - New Pronouncements (continued)

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, 2008

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, 2008

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, 2008

Resources (Inflows)	Budget Amounts Original	Budget Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Intergovernmental revenues	$ 157,000	$ 157,000	$ 149,388	$ (7,612)
Taxes	3,335,538	3,335,538	3,239,724	(95,814)
Licenses and permits	224,687	224,687	177,442	(47,245)
Fines and penalties	33,570	33,570	51,146	17,576
Use of money and property	30,500	30,500	42,583	12,083
Charges for services	1,384,100	1,384,100	1,586,271	202,171
Other revenue	-	268,902	-	(268,902)
Transfers in from other funds	-	114,600	145,129	30,529
Amounts Available for Appropriation	5,165,395	5,548,897	5,391,683	(157,214)
Charges to Appropriations (Outflows)				
General government	878,629	928,629	975,649	(47,020)
Public safety	1,894,359	1,876,456	1,782,701	93,755
Public works, streets, and planning	2,511,280	2,501,280	1,678,562	822,718
Parks and recreation	622,449	619,449	350,013	269,436
Debt service - principal	39,858	39,858	39,858	-
Debt service - interest	3,271	3,271	3,271	-
Transfers out to other funds	-	-	-	-
Total Charges to Appropriations	5,949,846	5,968,943	4,830,054	1,138,889
Surplus (Deficit)	$ (784,451)	$ (420,046)	$ 561,629	$ 981,675

OTHER SUPPLEMENTARY INFORMATION

CITY OF LAKEPORT
Other Governmental Funds
Combining Balance Sheet
June 30, 2008

	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	$ 123,972	$ -	$ -	$ -	$ -	$ 111,997	$ -	$ 360,491	$ 689,927
Cash and investments with fiscal agent	-	-	-	-	-	-	-	-	-
Accrued interest	-	-	-	-	-	-	-	-	-
Taxes receivable	-	-	-	-	-	-	-	-	-
Other receivables	-	9,854	7,993	13,300	2,000	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-	102,072	322,378	144,200
Total Assets	$ 123,972	$ 9,854	$ 7,993	$ 13,300	$ 2,000	$ 111,997	$ 102,072	$ 682,869	$ 834,127
LIABILITIES									
Accounts payable	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Salaries and benefits payable	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	102,072	322,378	144,200
Due to other funds	-	-	-	-	-	-	245,203	-	-
Total Liabilities	-	-	-	-	-	-	347,275	322,378	144,200
FUND BALANCES									
Capital project funds	-	-	-	-	-	-	-	-	-
Special revenue funds	123,972	9,854	7,993	13,300	2,000	111,997	(245,203)	360,491	689,927
Total Fund Balances	123,972	9,854	7,993	13,300	2,000	111,997	(245,203)	360,491	689,927
Total Liabilities and Fund Balances	$ 123,972	$ 9,854	$ 7,993	$ 13,300	$ 2,000	$ 111,997	$ 102,072	$ 682,869	$ 834,127

CITY OF LAKEPORT
Other Governmental Funds
Combining Balance Sheet
June 30, 2008

	Traffic Congestion Relief	Downtown Improvement	Housing Revolving	Westshore Pool Grant	FEMA-1646	Emergency Housing Assistance	Traffic Safety
ASSETS							
Cash and investments	$ -	$ -	$ 123,204	$ -	$ 40,864	$ 23,000	$ -
Cash and investments with fiscal agent	-	-	-	-	-	-	-
Accrued interest	-	-	-	-	-	-	-
Taxes receivable	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-	-
Total Assets	$ -	$ -	$ 123,204	$ -	$ 40,864	$ 23,000	$ -
LIABILITIES							
Accounts payable	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Salaries and benefits payable	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-
Total Liabilities	-	-	-	-	-	-	-
FUND BALANCES							
Capital project funds	-	-	-	-	-	-	-
Special revenue funds	-	-	123,204	-	40,864	23,000	-
Total Fund Balances	-	-	123,204	-	40,864	23,000	-
Total Liabilities and Fund Balances	$ -	$ -	$ 123,204	$ -	$ 40,864	$ 23,000	$ -

CITY OF LAKEPORT
Other Governmental Funds
Combining Balance Sheet
June 30, 2008

	Tenth Street Drainage	Lakeport Blvd. Improvement	South Main Improvement	Indian Gaming Fund	Prop 1B Fund	Parkside Traffic Mitigation	Total Other Governmental Funds
ASSETS							
Cash and investments	$ 82,364	$ 112,937	$ 59,872	$ 80,109	$ 401,259	$ 16,000	$ 2,225,996
Cash and investments with fiscal agent	-	-	-	-	-	-	-
Accrued interest	-	-	-	-	-	-	-
Taxes receivable	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	33,147
Due from other funds	-	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-	568,650
Total Assets	$ 82,364	$ 112,937	$ 59,872	$ 80,109	$ 401,259	$ 16,000	$ 2,827,793
LIABILITIES							
Accounts payable	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Salaries and benefits payable	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	568,650
Due to other funds	-	-	-	-	-	-	245,203
Total Liabilities	-	-	-	-	-	-	813,853
FUND BALANCES							
Capital project funds	82,364	112,937	59,872	80,109	401,259	16,000	752,541
Special revenue funds	-	-	-	-	-	-	1,261,399
Total Fund Balances	82,364	112,937	59,872	80,109	401,259	16,000	2,013,940
Total Liabilities and Fund Balances	$ 82,364	$ 112,937	$ 59,872	$ 80,109	$ 401,259	$ 16,000	$ 2,827,793

CITY OF LAKEPORT
Other Governmental Funds
Combining Statement of Revenue, Expenditures and Change in Fund Balances
Year Ended June 30, 2008

	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
REVENUE									
Intergovernmental revenue	$ -	$ 30,292	$ 23,998	$ 40,539	$ 2,000	$ -	$ -	$ -	$ -
Taxes	-	-	-	-	-	-	-	-	190,402
Use of money and property	2,237	234	183	314	39	2,503	-	8,425	12,186
Charges for services	43,691	-	-	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-	8,770	31,230	3,788
Total Revenue	45,928	30,526	24,181	40,853	2,039	2,503	8,770	39,655	206,376
EXPENDITURES									
General government	-	-	-	-	-	-	459	8,673	-
Streets	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	-
Total Expenditures	-	-	-	-	-	-	459	8,673	-
EXCESS OF REVENUE OVER EXPENDITURES	45,928	30,526	24,181	40,853	2,039	2,503	8,311	30,982	206,376
OTHER FINANCING SOURCES (USES)									
Operating transfers in	-	-	-	-	-	-	-	-	-
Operating transfers (out)	-	(23,394)	(18,319)	(31,272)	(2,039)	-	-	(23,000)	-
Total Other Financing Sources (Uses)	-	(23,394)	(18,319)	(31,272)	(2,039)	-	-	(23,000)	-
CHANGE IN FUND BALANCES	45,928	7,132	5,862	9,581	-	2,503	8,311	7,982	206,376
Fund Balance - beginning	78,044	2,722	2,131	3,719	2,000	109,494	(253,514)	352,509	483,551
Fund Balance - end of year	$ 123,972	$ 9,854	$ 7,993	$ 13,300	$ 2,000	$ 111,997	$ (245,203)	$ 360,491	$ 689,927

CITY OF LAKEPORT
Other Governmental Funds
Combining Statement of Revenue, Expenditures and Change in Fund Balances
Year Ended June 30, 2008

	Traffic Congestion Relief	Downtown Improvement Fund	Housing Revolving Fund	Westshore Pool Grant	FEMA-1646 Fund	Emergency Housing Assistance	Traffic Safety Fund
REVENUE							
Intergovernmental revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Taxes	-	-	-	-	-	-	-
Use of money and property	-	-	2,927		914	-	195
Charges for services	-	-	-	-	-	-	-
Other revenue	-	-	31,229	-	-	-	-
Total Revenue	-	-	34,156	-	914	-	195
EXPENDITURES							
General government	-	-	19,880	-	-	-	-
Streets	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Total Expenditures	-	-	19,880	-	-	-	-
EXCESS OF REVENUE OVER EXPENDITURES	-	-	14,276	-	914	-	195
OTHER FINANCING SOURCES (USES)							
Operating transfers in	-	-	-	-	-	23,000	-
Operating transfers (out)	-	-	-	-	-	-	(10,105)
Total Other Financing Sources (Uses)	-	-	-	-	-	23,000	(10,105)
CHANGE IN FUND BALANCES	-	-	14,276	-	914	23,000	(9,910)
Fund Balance - beginning	-	-	108,928	-	39,950	-	9,910
Fund Balance - end of year	$ -	$ -	$ 123,204	$ -	$ 40,864	$ 23,000	$ -

CITY OF LAKEPORT
Other Governmental Funds
Combining Statement of Revenue, Expenditures and Change in Fund Balances
Year Ended June 30, 2008

	Tenth Street Drainage	Lakeport Blvd. Improvement	South Main Improvement	Indian Gaming Fund	Prop 1B Fund	Parkside Traffic Mitigation	Total Other Governmental Funds
REVENUE							
Intergovernmental revenue	$ -	$ -	$ -	$ -	$ 400,000	$ -	$ 496,829
Taxes	-	-	-	-	-	-	190,402
Use of money and property	1,841	2,525	1,338	4,135	1,259	-	41,255
Charges for services	-	-	-	-	-	16,000	59,691
Other revenue	-	-	-	-	-	-	75,017
Total Revenue	1,841	2,525	1,338	4,135	401,259	16,000	863,194
EXPENDITURES							
General government	-	-	-	-	-	-	29,012
Streets	-	-	-	7,230	-	-	7,230
Capital outlay	-	-	-	154,095	-	-	154,095
Total Expenditures	-	-	-	161,325	-	-	190,337
EXCESS OF REVENUE OVER EXPENDITURES	1,841	2,525	1,338	(157,190)	401,259	16,000	672,857
OTHER FINANCING SOURCES (USES)							
Operating transfers in	-	-	-	-	-	-	23,000
Operating transfers (out)							(108,129)
Total Other Financing Sources (Uses)	-	-	-	-	-	-	(85,129)
CHANGE IN FUND BALANCES	1,841	2,525	1,338	(157,190)	401,259	16,000	587,728
Fund Balance - beginning	80,523	110,412	58,534	237,299	-	-	1,426,212
Fund Balance - end of year	$ 82,364	$ 112,937	$ 59,872	$ 80,109	$ 401,259	$ 16,000	$ 2,013,940