CITY OF LAKEPORT

California

Annual Financial Report
June 30, 2007

CITY OF LAKEPORT
Notes to Financial Statements
June 30, 2007

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 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 City 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 City 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 consists 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 statement 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.

Note 2 - Summary of Significant Accounting Policies (continued)

A. Government-wide and Fund Financial Statements (continued)

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.

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.

Note 2 - Summary of Significant Accounting Policies (continued)

A. Government-wide and Fund Financial Statements (concluded)

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.

Note 2 - Summary of Significant Accounting Policies (continued)

B. Basis of Accounting and Measurement Focus (continued)

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.

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 statement, as well as the Proprietary Funds, is 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 type 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. 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.

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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.

Note 2 - Summary of Significant Accounting Policies (continued)

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.

Note 2 - Summary of Significant Accounting Policies (continued)

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 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 the government-wide financial statements, and proprietary fund financial statement, 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.

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.

Note 2 - Summary of Significant Accounting Policies (continued)

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.

Note 2 - Summary of Significant Accounting Policies (concluded)

M. Property Taxes (continued)

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.

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 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.

Note 3 - Stewardship, Compliance, and Accountability (continued)

Budgetary Information (continued)

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, 2007, certain funds had deficit fund equity balances as follows:

Fund	Deficit Balance
Special Revenue Funds	
Lakeport Housing	$ 253,514

Note 4 - Cash and Investments

Cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	$ 4,978,916
Cash and investments with fiscal agents	1,276,333
Fiduciary funds:	
Cash and investments	520,900
Total cash and investments	$ 6,776,149

Cash and investments as of June 30, 2007 consist of the following:

Cash on hand	$ 400
Deposits with financial institutions	2,083,146
Investments	4,692,603
Total cash and investments	$ 6,776,149

Note 4 - Cash and Investments (continued)

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:

Maturity Date		
State investment pool	$ 3,416,270	10.5 months average maturity
Money Market	1,276,333	N/A
Total	$ 4,692,603	

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.

Note 4 - Cash and Investments (continued)

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 (a nonmajor fund 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).

Note 4 - Cash and Investments (concluded)

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, 2006	Additions	(Dispositions)	June 30, 2007
Land	$ 323,186	$ -	$ -	$ 323,186
Buildings	2,619,229	-	-	2,619,229
Improvements	1,777,921	337,503	-	2,115,424
Equipment	994,656	-	-	994,656
	5,714,992	337,503	-	6,052,495
Less: Depreciation	(1,493,965)	(214,056)	-	(1,772,833)
	$ 4,221,027	$ 123,447	$ -	$ 4,344,474

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

Water Utility	June 30, 2006	Additions	(Dispositions)	June 30, 2007
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	(1,588,060)	(184,773)	-	(1,772,833)
	$ 4,939,176	$ (184,773)	$ -	$ 4,754,403
Sewer Utility				
Land	$ 1,735,233	$ -	$ -	$ 1,735,233
Buildings, Improvements and infrastructure	19,021,186	-	-	19,021,186
Equipment	449,619	-	-	449,619
	21,206,038	-	-	21,206,038
Less: Depreciation	(7,324,953)	(551,937)	-	(7,876,890)
	$ 13,881,085	$ (551,937)	$ -	$ 13,329,148

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 $ 662,063

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 $ 2,853,500

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 $ 238,000

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 $ 4,430,000

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 $ 1,105,000

Note 6 - Long-Term Obligations (continued)

Capital Lease

The City entered into a lease-purchase agreement with SunTrust Leasing Corporation for the acquisition of ten police vehicles. The lease was satisfied during the fiscal year.

The City entered into a lease-purchase agreement with SunTrust Leasing Corporation for the acquisition of Asphalt Grinder. Future minimum lease payments with the present value of the minimum lease payments at June 30, 2007 is as follows:

Year Ending June 30	Obligation
2008	$ 43,129
2009	43,129
Total lease payments	83,258
Less interest	(3,913)
Present value of future lease payments	$ 79,345

Changes in Long-term Obligations comprise the following:

	June 30, 2006	Increases	Decreases	June 30, 2007	Due within One Year
Governmental Activities					
Bonds payable	$ 2,185,000	$ -	$ 30,000	$ 2,155,000	$ 30,000
Capital lease	117,686	-	38,341	79,345	39,128
Compensated absences	246,985	-	31,754	215,231	-
Totals	$ 2,549,671	$ -	$ 100,095	$ 2,449,576	$ 63,128
Business-type Activities					
Revenue bonds	$ 3,851,728	$ -	$ 98,164	$ 3,753,564	$ 98,162
Tax assessment bonds	4,430,000	-	80,000	4,350,000	80,000
Compensated absences	33,468	-	17,601	15,867	-
Totals	$ 8,315,196	$ -	$ 195,765	$ 8,119,431	$ 178 ,162

Note 6 - Long-Term Obligations (concluded)

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

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
2008	$ 35,000	$ 114,108	$ 187,572	$ 395,075
2009	35,000	112,606	198,607	385,548
2010	35,000	111,105	208,272	375,458
2011	40,000	109,603	219,075	364,884
2012	40,000	107,579	230,023	353,771
2013-2017	230,000	505,614	1,332,949	1,582,037
2018-2022	300,000	437,345	924,069	1,028,999
2023-2027	395,000	343,709	1,392,500	949,451
2028-2032	525,000	221,814	1,755,000	563,566
2033-2037	520,000	70,088	941,000	200,213
2038-2040	-	-	473,000	34,390
	$ 2,155,000	$ 2,133,571	$ 7,862,067	$ 6,233,392

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.

Note 7 - Defined Benefit Pension Plan (continued)

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 2006-2007 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 $224,970 PERS 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.%, and (d) a payroll growth rate of 3.25%.

Three-Year Trend Information for PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/05	$ 269,232	100%	-0-
6/30/06	240,514	100%	-0-
6/30/07	224,970	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, 2007, the City paid $275,741 for retired employees covered under the plans.

Note 9 - Interfund Transactions

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, 2007 were as follows:

Transfers	Amounts Transferred In	Amounts Transferred Out
General Fund	$ 314,619	$ -
Special Revenue Funds		
Gas tax funds	-	102,914
Traffic Congestion	-	45,329
Downtown Improvement	-	1,750
Housing Revolving	-	32,000
Westshore Pool Grant	-	132,626
Redevelopment agency fund	-	145,395
Debt Service Fund		
Redevelopment Debt Service fund	145,395	-
	$ 460,014	$ 460,014

Interfund Receivable/ Payable	Interfund Receivable	Interfund Payable
General Fund	$ 253,514	$ -
Special Revenue Funds		
Lakeport Housing Program fund	-	253,514
	$ 253,514	$ 253,514

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, 2007, the City determined that it needed no accrued 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.

On November 5, 1996, California voters approved Proposition 218 which limited the ability of the state's local governments to impose, increase, and extend taxes, assessments, and fees. This applies to all taxes, assessments, and fees enacted or increased on or before January 1, 1995. The City is resolved to set forth procedures for bringing existing and new assessments, taxes, and fees into conformity with this law.

The full impact of Proposition 218 on the finances of the City, as well as all local governments in California, is currently not determinable. This will likely not be apparent until after the state legislature enacts implementing statues or court rulings occur. Accordingly, no adjustments have been made to these financial statements.

Note 12 – Subsequent Events

On January 3, 2008 the City issued $3,060,000 California Statewide Communities Development Authority – Wastewater Revenue Bonds – Series 2007A for capital improvements. Principal and interest payment start October 1, 2009. The interest rates range from 4.0% to 4.86%. Final maturity is October 1, 2038.

On July 3, 2008 the City issued $3,425,000 Redevelopment Agency 2008 Tax Allocation Bonds for capital improvements with the Lakeport Redevelopment. Principal payments start March 1, 2009 and bi-annual interest payment start September 1, 2009. The interest rates range from 4.86% to 5.05%. Final maturity is September 1, 2038.

REQUIRED SUPPLEMENTARY INFORMATION

ADDITIONAL REPORTS

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

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

We have audited the financial statements of the City of Lakeport as of and for the year ended June 30, 2007, and have issued our report thereon dated , 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Lakeport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lakeport's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, City Council, federal awarding agencies, and the Office of the Controller of the State of California and is not intended to be and should not be used by persons other than these specified parties.

Marcello and Company

Certified Public Accountants
, 2008

CITY OF LAKEPORT
Schedule of Funding Progress (CalPERS cost sharing pool)
Defined Benefit Pension Plan
Year Ended June 30, 2007

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. Information for the year ending June 30 ,2008 has not been released by the Plan Actuary.