NEW ISSUE - BOOK-ENTRY ONLY

RATINGS: Moody's: "Aaa"
Standard & Poor's: "AAA"
(See "Ratings" herein)

$62,813,647.20
CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY
TAXABLE PENSION OBLIGATION BONDS
$27,985,000.00 2006 Series A-1 Bonds (Current Interest Bonds)
$34,828,647.20 2006 Series A-2 Bonds (Capital Appreciation Bonds)

(A Maturity Schedule Appears Inside following the Cover)

The Bonds are being issued pursuant to the terms of a Trust Agreement, dated as of June 1, 2006 (the "Trust Agreement") by and between the California Statewide Communities Development Authority (the "Authority") and Wells Fargo Bank, National Association, as trustee (the "Trustee") for the purpose of purchasing certain taxable pension obligation bonds (the "Obligations") in the same aggregate principal amount as the Bonds issued by the California cities identified herein (the "Local Agencies"). The Series A-1 Bonds and the Series A-2 Bonds are collectively referred to herein as the "Bonds".

Interest on the Series A-1 Bonds (Current Interest Bonds) (the "Series A-1 Bonds" or "Current Interest Bonds") is payable on June 1 and December 1, commencing December 1, 2006. The Current Interest Bonds will bear interest at the rates set forth on the inside front cover. The Series A-2 Bonds (Capital Appreciation Bonds) (the "Series A-2 Bonds" or "Capital Appreciation Bonds") will not pay periodic interest. Interest on the Capital Appreciation Bonds will be compounded semiannually each June 1 and December 1 through their maturity dates at the rates set forth on the inside front cover. The Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as owner of the Bonds and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Individual purchases and sales of the Bonds may be made in book-entry form only, in Authorized Denominations. Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal of and interest on the Bonds will be payable by wire transfer to DTC, which in turn is required to remit such principal and interest to DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds, as more fully described herein.

The Current Interest Bonds are subject to redemption prior to maturity as described herein.

The Obligations of each Local Agency are being issued pursuant to each Local Agency's authorizing resolution (each an "Obligation Resolution") and the terms of a Trust Agreement, dated as of June 1, 2006, (each a "Local Agency Trust Agreement") by and between such Local Agency and Wells Fargo Bank, National Association, as trustee (the "Local Agency Trustee"). The Obligations of the Local Agency are obligations of the Local Agency imposed by law and are absolute and unconditional, without any right of set-off or counterclaim. Each Obligation requires the related Local Agency to deposit or cause to be deposited with the Local Agency Trustee on or before August 1 of each Fiscal Year the amount which is sufficient to pay the Local Agency's Obligations payable during such Fiscal Year. The obligation of each Local Agency is a several and not a joint obligation and is strictly limited to such Local Agency's repayment obligation under its Local Agency Trust Agreement and Obligation.

THE BONDS ARE A LIMITED OBLIGATION OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY A PLEDGE AND ASSIGNMENT OF, THE PENSION OBLIGATION BONDS ISSUED BY CERTAIN LOCAL AGENCIES AND PAYMENTS WITH RESPECT THERETO, TO THE EXTENT PROVIDED IN THE TRUST AGREEMENT, SUBJECT TO THE PROVISIONS OF THE TRUST AGREEMENT PERMITTING THE DISBURSEMENT THEREOF FOR OR TO THE PURPOSES AND ON THE CONDITIONS AND TERMS SET FORTH THEREIN. THE BONDS ARE NOT A LIEN OR CHARGE UPON ANY FUNDS OR PROPERTY OF THE AUTHORITY (EXCEPT TO THE EXTENT OF THE AFOREMENTIONED PLEDGE AND ASSIGNMENT). THE BONDS ARE NOT A DEBT OF ANY LOCAL AGENCY OR ANY MEMBER OF THE AUTHORITY AND NO SUCH LOCAL AGENCY OR MEMBER IS LIABLE IN ANY MANNER FOR THE PAYMENT THEREOF.

Payment of principal of (or, in the case of the Capital Appreciation Bonds, the accreted value) and interest on the Bonds when due will be insured by an insurance policy for the Bonds (collectively, the "Insurance Policy") to be issued concurrently with the delivery of the Bonds by Ambac Assurance Corporation (the "Insurer"). See "The Insurance Policy and the Insurer" herein and APPENDIX E – "FORM OF INSURANCE POLICY" attached hereto.

Ambac

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT INTENDED AS A SUMMARY OF THE TRANSACTION. INVESTORS ARE ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

Interest on the Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, interest on the Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other federal or state tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "BOND COUNSEL OPINION" and "TAX MATTERS" herein.

The Bonds are offered when, as and if issued and delivered and accepted by the Underwriters, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, San Francisco, California. The Bonds in definitive form are expected to be available for delivery through the facilities of DTC in New York, New York or through the Euroclear System and Clearstream, in Luxembourg, Europe on or about June 29, 2006.

MORGAN STANLEY ***RBC CAPITAL MARKETS***

E. J. DE LA ROSA & CO., INC.

Dated: June 15, 2006

Maturity Schedule

$27,985,000.00 Series A-1 Current Interest Bonds

$2,475,000 5.69% Term Bonds due June 1, 2011 - Price 100% CUSIP*†: 130911 3A6 - ISIN†: US130911 3A61

$3,160,000 5.84% Term Bonds due June 1, 2016 - Price 100% CUSIP*†: 130911 3B4 - ISIN†: US130911 3B45

$5,760,000 5.90% Term Bonds due June 1, 2021 - Price 100% CUSIP*†: 130911 3C2 - ISIN†: US130911 3C28

$16,590,000 5.93% Term Bonds due June 1, 2036 - Price 100% CUSIP*†: 130911 3D0 - ISIN†: US130911 3D01

$34,828,647.20 Series A-2 Capital Appreciation Bonds

Maturity (June 1)	Initial Principal Amount	Accreted Value at Maturity	Yield to Maturity	CUSIP**† Base No. 130911	ISIN† Base No. US130911
2008	$1,252,849.50	$1,395,000.00	5.67%	3F5	3F58
2009	1,590,543.75	1,875,000.00	5.71	3G3	3G32
2010	2,263,811.40	2,820,000.00	5.68	3H1	3H15
2011	1,654,547.55	2,185,000.00	5.73	3J7	3J70
2012	2,200,593.00	3,075,000.00	5.73	3K4	3K44
2013	2,150,251.40	3,190,000.00	5.78	3L2	3L27
2014	2,094,675.95	3,305,000.00	5.84	3M0	3M00
2015	2,045,752.50	3,425,000.00	5.86	3N8	3N82
2016	1,475,662.60	2,620,000.00	5.87	3P3	3P31
2017	1,426,869.20	2,710,000.00	5.96	3Q1	3Q14
2018	1,393,535.20	2,810,000.00	5.97	3R9	3R96
2019	1,350,472.80	2,910,000.00	6.03	3S7	3S79
2020	1,310,975.40	3,010,000.00	6.06	3T5	3T52
2021	1,278,295.20	3,120,000.00	6.07	3U2	3U26
2022	1,246,542.55	3,235,000.00	6.08	3V0	3V09
2023	1,213,805.50	3,350,000.00	6.09	3W8	3W81
2024	832,864.80	2,445,000.00	6.10	3X6	3X64
2025	813,282.60	2,540,000.00	6.11	3Y4	3Y48
2026	789,862.50	2,625,000.00	6.12	3Z1	3Z13
2027	770,576.00	2,720,000.00	6.12	4A5	4A52
2028	752,150.40	2,820,000.00	6.12	4B3	4B36
2029	733,270.40	2,920,000.00	6.12	4C1	4C19
2030	799,133.40	3,380,000.00	6.12	4D9	4D91
2031	780,213.00	3,505,000.00	6.12	4E7	4E74
2032	667,480.45	3,185,000.00	6.12	4F4	4F40
2033	613,634.10	3,110,000.00	6.12	4G2	4G23
2034	597,250.55	3,215,000.00	6.12	4H0	4H06
2035	581,542.50	3,325,000.00	6.12	4J6	4J61
2036	148,203.00	900,000.00	6.12	4K3	4K35

* Copyright 2006, American Bankers Association.

† CUSIP and ISIN data herein are set forth herein for convenience of reference only. Neither the Authority nor the Underwriters assume responsibility for the accuracy of such information.

No broker, dealer, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Authority, the Local Agencies or the Underwriters. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Authority or any Local Agency since the date hereof. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information contained in this Official Statement has been obtained from the Local Agencies and other sources believed by the Authority and the Underwriters to be reliable. The Underwriters have reviewed the information in the Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with and as part of its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Neither the Authority nor the Local Agencies plan to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or opinions, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

In connection with this offering, the Underwriters may overallot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

Other than with respect to information concerning Ambac Assurance Corporation (the "Insurer") as the Insurer for the Bonds contained under the caption "SECURITY AND SOURCE OF PAYMENT – The Insurance Policy" and "– The Insurer" and Appendix F attached hereto, none of the information in this Official Statement has been supplied or verified by the Insurer and the Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY

CHRIS McKENZIE, Chairman

JAMES KEENE, Vice Chairman

DANIEL HARRISON, Secretary

NORMA LAMMERS, Treasurer

STEVE KEIL, Member

PAUL HAHN, Member

KEN NISHIMOTO, Member

PARTICIPATING LOCAL AGENCIES

CITY OF AUBURN

CITY OF BENICIA

CITY OF NOVATO

CITY OF PACIFIC GROVE

CITY OF PINOLE

SPECIAL SERVICES

Bond Counsel

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Trustee

Wells Fargo Bank, National Association
Los Angeles, California

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TABLE OF CONTENTS

TABLE OF CONTENTS (continued)

$62,813,647.20
CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY
TAXABLE PENSION OBLIGATION BONDS

$27,985,000.00 2006 Series A-1 Bonds (Current Interest Bonds)
$34,828,647.20 2006 Series A-2 Bonds (Capital Appreciation Bonds)

INTRODUCTION

This Official Statement, including the cover page and appendices hereto (the "Official Statement"), sets forth certain information concerning the California Statewide Communities Development Authority Taxable Pension Obligation Bonds, 2006 Series A-1 (Current Interest Bonds) (the "Series A-1 Bonds" or "Current Interest Bonds") in the aggregate principal amount of $27,985,000.00 and the California Statewide Communities Development Authority Taxable Pension Obligation Bonds, 2006 Series A-2 (Capital Appreciation Bonds) (the "Series A-2 Bonds" or "Capital Appreciation Bonds") in the aggregate principal amount of $34,828,647.20. The Series A-1 Bonds and the Series A-2 Bonds are referred to collectively herein as the "Bonds." Pursuant to the California Statewide Communities Development Authority Pension Obligation Bond Program (the "Program"), the California Statewide Communities Development Authority (the "Authority") is issuing the Bonds pursuant to the terms of a Trust Agreement, dated as of June 1, 2006 (the "Trust Agreement") by and between the California Statewide Communities Development Authority (the "Authority") and Wells Fargo Bank, National Association, as trustee (the "Trustee").

The net proceeds of the Bonds will be used to purchase taxable pension obligation bonds (the "Obligations") of participating cities (collectively, the "Local Agencies") in the State of California (the "State"). The Obligations purchased with the net proceeds of the Bonds will be assigned to the Trustee for the benefit of the registered owners and the Insurer of the Bonds, and the payments on such Obligations will be used for the payment of the principal of and interest on the Bonds or the reimbursement of drawings under or payments made pursuant to or from the Insurance Policy and the Obligations shall not be used for any other purpose while any of the Bonds remain Outstanding. For information on the Local Agencies, the Obligations of the Local Agencies and their allocation to the Bonds, see Appendices A, B and C hereto.

The Obligation of each Local Agency is issued under the authority of Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Division 2 of Title 5 of the Government Code of the State of California (the "Act") and pursuant to the terms of a Trust Agreement, dated as of June 1, 2006, by and between each such Local Agency and Wells Fargo Bank, National Association (the "Local Agency Trustee"), as trustee (each a "Local Agency Trust Agreement") and a resolution of issuance adopted by the legislative body of each such Local Agency (each an "Obligation Resolution"). The issuance of a Local Agency's Obligation will provide moneys to meet such Local Agency's obligation to pay the Local Agency's unfunded accrued actuarial liability ("UAAL") to the California Public Employees' Retirement System ("PERS"). The aggregate amount of Obligations issued in connection with the Bonds will equal the aggregate principal amount of the Bonds. Each Local Agency's Obligations are unconditional obligations of such Local Agency, payable from any legally available source of funds. The full faith and credit of the Local Agencies are not pledged to the repayment of the Obligations. See "SECURITY AND SOURCE OF PAYMENT" herein.

Payment of principal of and interest on the Bonds when due will be insured by an insurance policy (the "Insurance Policy") to be issued concurrently with the delivery of the Bonds by Ambac Assurance Corporation (the "Insurer"). See "THE INSURANCE POLICY AND THE INSURER" herein and APPENDIX H – "FORM OF INSURANCE POLICY" attached hereto.

THE BONDS ARE A LIMITED OBLIGATION OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY A PLEDGE AND ASSIGNMENT OF, THE PENSION OBLIGATION BONDS ISSUED BY CERTAIN LOCAL AGENCIES AND PAYMENTS WITH RESPECT THERETO, TO THE EXTENT PROVIDED IN THE TRUST AGREEMENT, SUBJECT TO THE PROVISIONS OF THE TRUST AGREEMENT PERMITTING THE DISBURSEMENT THEREOF FOR OR TO THE PURPOSES AND ON THE CONDITIONS AND TERMS SET FORTH THEREIN. THE BONDS ARE NOT A LIEN OR CHARGE UPON ANY FUNDS OR PROPERTY OF THE AUTHORITY (EXCEPT TO THE EXTENT OF THE AFOREMENTIONED PLEDGE AND ASSIGNMENT). THE BONDS ARE NOT A DEBT OF ANY LOCAL AGENCY OR ANY MEMBER OF THE AUTHORITY AND NO SUCH LOCAL AGENCY OR MEMBER IS LIABLE IN ANY MANNER FOR THE PAYMENT THEREOF.

Copies of the Trust Agreement and the standard form of the Local Agency Trust Agreement summarized herein and the standard form of the Obligation Purchase Agreement (as defined herein) are available upon request during the initial offering period from Wells Fargo Bank, National Association, Corporate Trust Services, 117 Wilshire Blvd., 17th Floor, Los Angeles, California, 90017.

All capitalized words, unless otherwise defined herein, shall have the meanings set forth in APPENDIX E - "DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF LOCAL AGENCY TRUST AGREEMENTS AND SUMMARY OF TRUST AGREEMENT" or, if not defined therein, in the Trust Agreement.

THE AUTHORITY AND THE PROGRAM

The Authority

The Authority is a public entity organized pursuant to an Amended and Restated Joint Exercise of Powers Agreement among a number of California counties, cities, and special districts entered into pursuant to the provisions relating to the joint exercise of powers contained in Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the California Government Code. The Authority is authorized to issue bonds and to finance working capital for local agencies within the State of California pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code.

The Program

The Authority's Pension Obligation Bond Program (the "Program") began in 2004. The Program provides unfunded pension obligation refinancing for California counties, cities and other local agencies meeting certain criteria.

DESCRIPTION OF THE BONDS

Denominations; Payment of Principal and Interest

The Bonds will be prepared in fully registered form and, when issued, will be registered in the name of CEDE & Co., as registered Owner of the Bonds and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases may be made in book-entry form only in denominations (a) with respect to Current Interest Bonds, $5,000 principal amount or any integral multiple thereof; and (b) with respect to Capital Appreciation Bonds, $5,000 Maturity Amount or any integral multiple thereof ("Authorized Denominations"). Purchasers will not receive certificates representing their interest in the Bonds purchased. So long as CEDE & Co. is the registered Owner of the Bonds, as nominee of DTC, references herein to the Owners of the Bonds shall mean Cede & Co. and shall not mean the actual purchasers (the "Beneficial Owners") of the Bonds.

The Bonds will be dated the date of initial delivery and execution thereof and mature on the dates set forth on the inside front cover. Interest on the Current Interest Bonds is payable on June 1 and December 1, commencing December 1, 2006. The Current Interest Bonds will bear interest at the rates set forth on the inside front cover. The Capital Appreciation Bonds will not pay periodic interest. Interest on the Capital Appreciation Bonds will accrete in value at the rates set forth on the inside front cover. So long as Cede & Co. is the registered Owner of the Bonds, the principal of and interest on the Bonds will be payable by wire transfer by the Trustee to Cede & Co., as nominee for DTC, which is expected, in turn, to remit such amounts to DTC Participants (as defined herein) for subsequent disbursement to the Beneficial Owners. See APPENDIX G - "BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES" Interest payable on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Registration and Transfer of Bonds

So long as the Bonds are subject to the DTC book-entry system, they will be registered, and may be transferred, as described in APPENDIX G – "BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES."

Redemption of Current Interest Bonds

Optional Redemption. The Current Interest Bonds maturing on or before June 1, 2016 will not be subject to optional redemption.

The Series A-1 Term Bonds maturing on June 1, 2021 (the "2021 Term Bonds") and the Series A-1 Term Bonds Maturing on June 1, 2036 (the "2036 Term Bonds" and collectively with the 2021 Term Bonds, the "Redeemable Term Bonds") are subject to optional redemption prior to their maturity at the option of the Authority, in whole or in part (and if in part, pro rata as described below) on any date, at a redemption price equal to the greater of: (1) 100 percent of the principal amount of the Redeemable Term Bonds to be redeemed; or (2) the sum of the present values of the remaining scheduled payments of principal and interest on the Redeemable Term Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (defined below) plus 12.5 basis points, plus accrued and unpaid interest on the Redeemable Term Bonds being redeemed to the date fixed for redemption.

"Comparable Treasury Issue" means, with respect to any redemption date for a particular Current Interest Term Bond, the US Treasury security or securities selected by the Independent Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the Current Interest Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Current Interest Term Bond to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date for a particular Current Interest Bond, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Deal Quotations, or (2) if the Trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Trustee in consultation with the Authority.

"Reference Treasury Dealer" means each of the dealers designated in the Trust Agreement and their respective successors and three other firms, specified by the Authority from time to time, that are primary U.S. Government securities dealers in the City of New York (each a "Primary Treasury Dealer"); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the Authority will substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for a Current Interest Bond, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business date preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date for a Current Interest Bond, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price.

No Optional Redemption for Capital Appreciation Bonds. The Capital Appreciation Bonds will not be subject to optional redemption.

Mandatory Sinking Fund Redemption. The 2011 Term Bonds are subject to mandatory sinking fund redemption on the dates and in the amounts designated below, upon notice pursuant to the Trust Agreement.

Redemption Date (June 1)	Principal Amount
2007	$ 575,000
2008	55,000
2009	730,000
2010	160,000
2011*	955,000

* Maturity.

Giving effect to the mandatory redemption set forth above, the average life of the 2011 Term Bonds calculated from the date of delivery is 3.272 years.

The 2016 Term Bonds are subject to mandatory sinking fund redemption on the dates and in the amounts designated below, upon notice pursuant to the Trust Agreement.

Redemption Date (June 1)	Principal Amount
2012	$ 285,000
2013	355,000
2014	440,000
2015	525,000
2016*	1,555,000

* Maturity.

Giving effect to the mandatory redemption set forth above, the average life of the 2016 Term Bonds calculated from the date of delivery is 8.780 years.

The 2021 Term Bonds are subject to mandatory sinking fund redemption on the dates and in the amounts designated below, upon notice pursuant to the Trust Agreement.

Redemption Date (June 1)	Principal Amount
2017	$1,735,000
2018	820,000
2019	940,000
2020	1,065,000
2021*	1,200,000

* Maturity.

Giving effect to the mandatory redemption set forth above, the average life of the 2021 Term Bonds calculated from the date of delivery is 12.779 years.

The 2036 Term Bonds are subject to mandatory sinking fund redemption on the dates and in the amounts designated below, upon notice pursuant to the Trust Agreement.

Redemption Date (June 1)	Principal Amount
2022	$1,340,000
2023	1,225,000
2024	1,365,000
2025	1,515,000
2026	1,685,000
2027	1,860,000
2028	2,050,000
2029	1,880,000
2032	455,000
2033	690,000
2034	765,000
2035	840,000
2036*	920,000

* Maturity.

Giving effect to the mandatory redemption set forth above, the average life of the 2036 Term Bonds calculated from the date of delivery is 21.656 years.

Selection of Bonds for Redemption. Redemption payments on the Current Interest Bonds, being redeemed in part will be made on a pro rata basis to each holder in whose name such Current Interest Bonds are registered at the close of business on the fifteenth day of the calendar month immediately preceding the redemption date (DTC so long as the book-entry System with DTC is in effect). "Pro rata" means, in connection with any mandatory sinking fund redemption or any optional redemption in part, with respect to the allocation of amounts to be redeemed, the application to such amounts of a fraction, the numerator of which is equal to the amount of the specific maturity of Current Interest Bonds held by a holder of such Current Interest Bonds, and the denominator of which is equal to the total amount of such maturity of Current Interest Bonds, then Outstanding. So long as there is a securities depository for the Current Interest Bonds, there will be only one registered owner and neither the Authority nor the Trustee will have responsibility for prorating partial redemptions among beneficial owners of the Current Interest Bonds.

Notice of Redemption. Notice of redemption shall be mailed by first-class mail by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the redemption date to (i) the respective Holders of the Current Interest Bonds designated for redemption at their addresses appearing on the registration books of the Trustee, (ii) the Securities Depositories and (iii) one or more Information Services. Notice of redemption to the Securities Depositories and the Information Services shall be given by registered mail or overnight delivery or facsimile transmission. Each notice of redemption shall state the date of such notice, the redemption price, if any, (including the name and appropriate address of the Trustee), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity is to be redeemed, the distinctive certificate numbers of the Current Interest Bonds of such maturity, to be redeemed and, in the case of Current Interest Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Current Interest Bonds the redemption price, if any, thereof and in the case of a Current Interest Bond to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Current Interest Bonds be then surrendered at the address of the Trustee specified in the redemption notice. Failure to receive such notice or any defect therein shall not invalidate any of the proceedings taken in connection with such redemption.

In the event of redemption of Current Interest Bonds (other than sinking fund redemptions), the Trustee shall mail a notice of redemption upon receipt of a Written Request of the Authority but only after the Authority shall file a Certificate of the Authority with the Trustee that on or before the date set for redemption, the Authority shall have deposited with or otherwise made available to the Trustee for deposit in the Principal Account the money required for payment of the redemption price, including accrued interest, of all Current Interest Bonds then to be called for redemption (or the Trustee determines that money will be deposited with or otherwise made available to it in sufficient time for such purpose), together with the estimated expense of giving such notice.

If notice of redemption has been duly given as aforesaid and money for the payment of the redemption price of the Current Interest Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice Current Interest Bonds so called for redemption shall become due and payable, and from and after the date so designated interest on such Current Interest Bonds shall cease to accrue, and the Holders of such Current Interest Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

ESTIMATED SOURCES AND USES OF BOND PROCEEDS

The table below sets forth the estimated sources and uses of the proceeds of the Bonds and other amounts.

	Series A-1	Series A-2	Total
Sources			
Principal Amount	$27,985,000.00	$34,828,647.20	$62,813,647.20
Total Sources	$27,985,000.00	$34,828,647.20	$62,813,647.20
Uses			
Deposit to Proceeds Fund	$27,246,176.74	$33,909,146.95	$61,155,323.69
Costs of Issuance[1]	738,823.26	919,500.25	1,658,323.51
Total Uses	$27,985,000.00	$34,828,647.20	$62,813,647.20

[1] Includes, among other things, Underwriters' discount and Insurance Policy premium.

SECURITY AND SOURCE OF PAYMENT

General

Each Obligation of a Local Agency will be purchased with proceeds of the Bonds and deposited with the Trustee, pursuant to the Trust Agreement. The Obligations are unconditional obligations of the Local Agencies payable from legally available funds. The Obligations are not voter-approved debt backed by the taxing power of the Local Agencies and the full faith and credit of the Local Agencies are not pledged to the repayment of the Obligations. The Local Agencies have other obligations payable from their General Funds. The Local Agency Trust Agreements impose no limits on the amount of General Fund obligations that the Local Agencies may incur. See Appendix A hereto for a listing of each Local Agency, the estimated principal amount of the Obligations and the allocation of each Obligation with respect to the Bonds.

Under the Trust Agreement, the Obligations and all right, title and interest of the Authority therein and to all payments thereon, are irrevocably assigned and pledged and transferred to the Trustee for the benefit of the Owners of the Bonds and the payments on the Obligations shall be used for the punctual payment of the interest on and principal of the Bonds and the Obligations shall not be used for any other purpose while any of the Bonds remain Outstanding. This assignment, transfer and pledge shall constitute a first lien on the principal and interest payments of and all other rights under the Obligations for the foregoing purpose in accordance with the terms of the Trust Agreement.

All principal and interest payments on the Obligations shall be paid directly by each Local Agency Trustee to the Trustee. All principal and interest payments on the Obligations received by the Trustee shall be held in trust by the Trustee under the terms of the Trust Agreement and shall be deposited by it, as and when received, in the Bond Fund, and all money in such fund shall be held in trust by the Trustee for the benefit and security of the Owners. If the Trustee receives Obligation repayments from a Local Agency Trustee which, together with other amounts on deposit in the Bond Fund allocable to such Local Agency, are in excess of the amounts required to pay the principal of and interest due on such Obligation, such excess amounts shall remain in the Bond Fund, and shall be transferred to such Local Agency following payment of the amount of Bonds corresponding to such Obligation.

Moneys received by the Trustee attributable to a Local Agency shall not be used in any manner (directly or indirectly) to make up any deficiency in repayment of any other Local Agency's Obligation.

Flow of Funds under the Trust Agreement

Pursuant to the Trust Agreement, the Trustee shall deposit the money contained in the Bond Fund at the following respective times in the following respective accounts in the manner and priority provided in the Trust Agreement, and the money in each of such funds shall be disbursed only for the purposes and uses authorized in the Trust Agreement:

(a) **Interest Account.** The Trustee, on the Interest Payment Date, shall deposit in the Interest Account that amount of money representing the interest due and payable on the Bonds on such date; and such money shall be used by the Trustee solely for the purpose of paying interest on the Bonds on such date.

(b) **Principal Account**. The Trustee, on the Principal Payment Date, shall deposit in the Principal Account that amount of money representing the principal becoming due and payable on the Bonds on such Principal Payment Date. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds on the Principal Payment Date.

Moneys held in the Bond Fund, the Principal Account or the Interest Account on each Interest Payment Date after the payment by the Trustee of all of the principal of and interest on the Bonds shall be (i) returned by the Trustee to each Local Agency (other than a Local Agency which is in default in the payment of the principal of and interest on its Obligation) by check in an amount equal to the proportion of the amount initially received from each Local Agency and deposited in the Bond Fund over all amounts received from all Local Agencies and deposited in the Bond Fund multiplied by the remaining balance in the Bond Fund, or (ii) applied by the Trustee as otherwise directed by the Authority.

Flow of Funds under the Local Agency Trust Agreements

The Local Agency Trust Agreements each provide that in order to meet each Local Agency's obligations, each Local Agency shall deposit or cause to be deposited with the Local Agency Trustee on or before August 1 of each Fiscal Year (or such other date as provided in a Supplemental Local Agency Trust Agreement) the amount which, together with moneys transferred pursuant to the related Local Agency Trust Agreement, is sufficient to pay such Local Agency's debt service obligations on the Obligations payable during such Fiscal Year.

All amounts payable by each Local Agency will be promptly deposited by the Local Agency Trustee upon receipt thereof in a special fund designated as the "Local Agency Bond Fund".

Interest Account. On or before each Interest Payment Date, the Local Agency Trustee shall set aside from the Bond Fund and deposit in the Interest Account that amount of money which is equal to the amount of interest becoming due and payable on all Outstanding Obligations on such Interest Payment Date.

No deposit need be made in the Interest Account if the amount contained therein is at least equal to the aggregate amount of interest becoming due and payable on all Outstanding Obligations on such Interest Payment Date.

All money in the Interest Account shall be used and withdrawn by the Local Agency Trustee for the purpose of paying the interest on the Obligations as it shall become due and payable (including accrued interest on any Obligations purchased or redeemed prior to maturity).

Principal Account. On or before each Principal Payment Date, the Local Agency Trustee shall set aside from the Local Agency Bond Fund and deposit in the Principal Account an amount of money equal to the amount of all sinking fund payments required to be made on such Principal Payment Date into the respective sinking fund accounts for all Outstanding Term Obligations and the principal amount or Accreted Value of all Outstanding Serial Obligations maturing on such Principal Payment Date.

No deposit need be made in the Principal Account if the amount contained therein is at least equal to the aggregate amount of the principal or Accreted Value of all Outstanding Serial Obligations maturing by their terms on such Principal Payment Date plus the aggregate amount of all sinking fund payments required to be made on such Principal Payment Date for all Outstanding Term Obligations.

The Local Agency Trustee shall establish and maintain within the Principal Account a separate subaccount for the Term Obligations of each series and maturity, designated as the "Sinking Account" (the "Sinking Account"), inserting therein the series and maturity (if more than one such account is established for such series) designation of such Obligations. With respect to each Sinking Account, on each mandatory sinking account payment date established for such Sinking Account, the Local Agency Trustee shall apply the mandatory sinking account payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Obligations of the series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Local Agency Trust Agreement; provided that, at any time prior to giving such notice of such redemption, the Local Agency Trustee may upon the Written Request of the related Local Agency, apply moneys in such Sinking Account to the purchase for cancellation of Term Obligations of such series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account), as may be directed by the Local Agency, except that the purchase price (excluding accrued interest) shall not exceed the redemption price that would be payable for such Obligations upon redemption by application of such Mandatory Sinking Account Payment. If, during the twelve-month period immediately preceding said mandatory sinking account payment date, the Local Agency Trustee has purchased Term Obligations of such series and maturity with moneys in such Sinking Account, such Obligations so purchased shall be applied, to the extent of the full principal amount to reduce said mandatory sinking account payment.

All money in the Principal Account shall be used and withdrawn by the Local Agency Trustee solely for the purpose of paying the principal or Accreted Value of the Obligations, as applicable, as they shall become due and payable, whether at maturity or redemption, except that any money in any sinking fund account shall be used and withdrawn by the Local Agency Trustee only to purchase or to redeem or to pay Term Obligations for which such sinking fund account was created.

Surplus Account. On the Business Day following the last Interest Payment Date of each Fiscal Year, or on such other date as provided in a Supplemental Local Agency Trust Agreement, any moneys remaining in the Bond Fund shall be deposited by the Local Agency Trustee in the Surplus Account. So long as no Event of Default has occurred and is continuing, moneys deposited in the Surplus Account shall be transferred by the Local Agency Trustee to or upon the order of the Local Agency, as specified in a Written Request of the Local Agency.

Issuance of Additional Bonds under the Local Agency Trust Agreements

Under the Local Agency Trust Agreements, each Local Agency may at any time issue Additional Bonds on a parity with the Obligations, but only subject to the following conditions:

(a) The Local Agency shall be in compliance with all agreements and covenants contained in the Local Agency Trust Agreement.

(b) The issuance of such Additional Obligations shall have been authorized pursuant to the Act and shall have been provided for by a Supplemental Local Agency Trust Agreement which shall specify the following:

(1) The purpose for which such Additional Obligations are to be issued; provided that such Additional Obligations shall be applied solely for (i) the purpose of satisfying any obligation of the Local Agency to make payments to PERS relating to pension benefits accruing to PERS's members, and/or for payment of all costs incidental to or connected with the issuance of Additional Obligations for such purpose, and/or (ii) the purpose of refunding any Obligations then Outstanding, including payment of all costs incidental to or connected with such refunding;

(2) Whether such Obligations are current interest fixed rate bonds, listed securities, index bonds, auction rate securities, variable rate bonds, tender option bonds, capital appreciation bonds or bonds bearing interest at such other interest rate modes as may be set forth in a Supplemental Local Agency Trust Agreement;

(3) The authorized principal amount and designation of such Additional Obligations;

(4) The date and the maturity dates of and the sinking fund payment dates, if any, for such Additional Obligations;

(5) The interest payment dates for such Additional Obligations;

(6) The denomination or denominations of and method of numbering such Additional Obligations;

(7) The redemption premiums, if any, and the redemption terms, if any, for such Additional Obligations;

(8) The amount, if any, to be deposited from the proceeds of sale of such Additional Obligations in the Interest Account hereinafter referred to; and

(9) Such other provisions (including the requirements of a book-entry bond registration system, if any) as are necessary or appropriate and not inconsistent herewith.

At any time after the sale of any Additional Obligations in accordance with the Act, the Local Agency shall execute such Additional Obligations for issuance pursuant to the Local Agency Trust Agreement and shall deliver them to the Local Agency Trustee, and thereupon such Additional Obligations shall be delivered by the Local Agency Trustee to the purchaser thereof upon the Written Request of the Local Agency, but only upon receipt by the Local Agency Trustee of the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Additional Obligations by the Local Agency Trustee:

(a) An executed copy of the Supplemental Local Agency Trust Agreement authorizing the issuance of such Additional Obligations;

(b) A Written Request of the Local Agency as to the delivery of such Additional Obligations;

(c) An Opinion of Counsel to the effect that (1) the Local Agency has executed and delivered the Supplemental Local Agency Trust Agreement, and the Supplemental Local Agency Trust Agreement is valid and binding upon the Local Agency and (2) such Additional Obligations are valid and binding obligations of the Local Agency;

(d) A Certificate of the Local Agency stating that all requirements of the provisions related to Additional Obligations with the Local Agency Trust Agreement have been complied with and containing any other such statements as may be reasonably necessary to show compliance with the conditions for the issuance of such Additional Obligations contained in the related Local Agency Trust Agreement; and

(e) Such further documents, money or securities as are required by the provisions of the Supplemental Local Agency Trust Agreement providing for the issuance of such Additional Obligations.

Other Obligations of the Local Agencies

All of the Local Agencies have other obligations payable from their respective general funds. See APPENDIX D – "EXCERPTS FROM FINANCIAL STATEMENTS OF THE LOCAL AGENCIES."

THE INSURANCE POLICY AND THE INSURER

The Insurer has supplied the following information for inclusion in this Official Statement. No representation is made by the Authority, the Local Agencies or the Underwriters as to the accuracy or completeness of this information.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee , Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Bond and will be fully subrogated to the surrendering Holder's rights to payment.

In the event that Ambac Assurance were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately $9,417,000,000 (unaudited) and statutory capital of approximately $5,879,000,000 (unaudited) as of March 31, 2006. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of a bond by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such bond and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Bonds. Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "THE INSURANCE POLICY AND THE INSURER".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company . These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and filed on March 13, 2006;

2. The Company's Current Report on Form 8-K dated and filed on April 26, 2006; and

3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2006 and filed on May 10, 2006.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

RISK FACTORS

In evaluating a purchase of the Bonds, potential investors should consider the following factors, together with all other information in this Official Statement.

Limited Obligations of the Authority

The Bonds are a limited obligation of the Authority, payable solely from and secured by a pledge and assignment of, the pension obligation bonds issued by certain Local Agencies and payments with respect thereto, to the extent provided in the Trust Agreement, subject to the provisions of the Trust Agreement permitting the disbursement thereof for or to the purposes and on the conditions and terms set forth therein. The Bonds are not a lien or charge upon any funds or property of the Authority (except to the extent of the aforementioned pledge and assignment). The Bonds are not a debt of any Local Agency or any member of the Authority and no such Local Agency or member is liable in any manner for the payment thereof.

Bankruptcy

The filing of bankruptcy by the Authority or one or more of the Local Agencies could delay or impair the payment of the Bonds. Further, the opinion of Bond Counsel as to the enforceability of the Bonds is expressly qualified by the declaration of bankruptcy.

No Joint Obligation

The obligation of a Local Agency to make payments on or in respect to its Obligation is a several and not a joint obligation and is strictly limited to such Local Agency's repayment obligation under its Local Agency Trust Agreement and its Obligation.

Risk of State or Local Legislation

The Local Agencies rely on a number of revenue sources that could be reduced or eliminated by State or local legislation, including, among others, sales and use taxes, license and permit fees, fines and penalties, and motor vehicle license fees. There can be no assurance that the State or local government will not adopt legislation to reduce or eliminate one or more of these revenue sources. See "State Budget Finances" below.

In addition, a number of statutes and constitutional amendments have been adopted as measures that qualified for the ballot through California's initiative process as described under "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS." There can be no assurance that other initiative measures will not be adopted affecting the revenues of the Local Agencies.

State Budget Finances

The following information concerning the State of California budgets has been obtained from publicly available information that the Local Agencies believe to be reliable; however, the Local Agencies take no responsibility as to the accuracy or completeness thereof and have not independently verified such information. Information about the State Budget is regularly available at various State-maintained websites. Text of the budget may be found at the Department of Finance website, www.dof.ca.gov, under the heading "California Budget." An analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the Local Agencies or the Authority and the Local Agencies or the Authority can take no responsibility for the continued accuracy of the internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated herein by these references.

State Budget for Fiscal Year 2005-06. The 2005-06 Budget Act was passed by the State Legislature on July 7, 2005 and signed by the Governor on July 11, 2005. The 2005-06 Budget Act authorized \$113 billion in spending, of which \$90 billion was from the General Fund and \$23 billion was from special funds, and reflected an improving State fiscal outlook resulting from better-than-expected growth in General Fund revenues.

Fiscal Year 2004-05 began with a prior-year balance of \$7.3 billion, which amount included approximately \$4 billion in amnesty-related payments. General Fund Revenues, including transfers, were estimated to total \$79.9 billion in Fiscal Year 2004-05 and \$84.5 billion in Fiscal Year 2005-06, which amounts assumed the approximately \$1 billion reduction in tax collections for each of Fiscal Year 2004-05 and Fiscal Year 2005-06. The 2005-06 Budget Act included \$525 million in one-time revenues from the refinancing of a previous tobacco-settlement backed bond, a \$428 million loan to fund a settlement relating to flood-related damage that occurred in 1986 and the retention of \$380 million in transportation-related sales tax proceeds in the General Fund. The 2005-06 Budget Act also included approximately \$6 billion in savings and related budget solutions, about one-half of which related to holding 2004-05 Proposition 98 funding at the level set forth in the 2004-05 Budget Act and \$450 million of which related to reductions in social services programs.

The 2005-06 Budget Act included projected expenditures of approximately \$81.7 billion in Fiscal Year 2004-05 and approximately \$90 billion in Fiscal Year 2005-06. The increase in projected expenditures partly reflected (1) the Proposition 42 transfers, which were deferred in Fiscal Year 2004-05 but fully funded in Fiscal Year 2005-06, (2) the prepayment of the \$1.2 billion local government loan in Fiscal Year 2005-06 and (3) increases in both kindergarten through twelfth grade and higher education. The excess of expenditures over revenues in both Fiscal Year 2004-05 and 2005-06 was expected to decrease the General Fund reserve to approximately \$1.3 billion by the end of Fiscal Year 2005-06.

According to the Legislative Analyst, the savings included in the 2005-06 Budget Act would address part of the State's ongoing structural budget shortfalls, but the legally-required expenditures would exceed projected revenues by approximately \$6.9 billion in Fiscal Year 2006-07, including an \$880 million transfer to the Budget Stabilization Account required by Proposition 58. Absent corrective actions, the remaining year-end shortfall projected for Fiscal Year 2006-07 would be approximately \$4.8 billion, which amount assumed the availability of the \$1.3 billion reserve projected for the end of Fiscal Year 2005-06.

Governor's Proposed Budget for Fiscal Year 2006-07. On January 10, 2006, Governor Schwarzenegger released his 2006-07 Proposed Budget (the "2006-07 Proposed Budget"). The 2006-07

Proposed Budget projects State General Fund revenues and transfers for Fiscal Year 2006-07 of $92 billion, an increase of approximately 5 percent above the anticipated revenues for Fiscal Year 2005-06, and State General Fund expenditures of $97.9 billion, an increase of approximately 8 percent above the anticipated expenditures for Fiscal Year 2005-06. The budget imbalance between the anticipated revenues and transfers and the proposed expenditures is expected to be addressed by Fiscal Year 2005-06's ending fund balance of $7 billion. The 2006-07 Proposed Budget projects a year-end reserve of $613 million, comprised of $521 million in a reserve for the liquidation of encumbrances and $153 million in a special fund for economic uncertainties. In addition, $920 million is expected to be deposited in the Budget Stabilization Account of the State General Fund in accordance with Proposition 58, of which $460 million will be allocated to a subaccount that is dedicated to the repayment of economic recovery bonds authorized by Proposition 57.

Three primary revenue sources constitute 95 percent of State General Fund revenues: personal income tax (53.2 percent); sales tax (30.9 percent); and bank and corporation tax (10.9 percent). Personal income tax revenues are projected to be $45.5 billion in Fiscal Year 2005-06 and $48.7 billion in Fiscal Year 2006-07. Sales and use tax revenue is forecast at $27.2 billion in Fiscal Year 2005-06 and $28.3 billion in Fiscal Year 2006-07. Taxable sales grew by 8.5 percent in Fiscal Year 2004-05, and are expected to increase by 5.3 percent in Fiscal Year 2005-06 and 4.9 percent in Fiscal Year 2006-07.

Revenues to local governments are expected to increase in Fiscal Year 2006-07. Certain of the features of the 2006-07 Proposed Budget affecting cities include the following:

1. The 2006-07 Proposed Budget does not include the shift of additional property taxes by local governments to the Educational Revenue Augmentation Fund (the "ERAF"). Chapter 211, Statutes of 2004, required local governments to shift $1.3 billion in property tax revenues to the ERAF in each of Fiscal Years 2004-05 and 2005-06. The elimination of these shifts in Fiscal Year 2006-07 pursuant to Proposition 1A is expected to lead to additional property tax revenues of $350 million for both cities and counties, $350 million for special districts and $250 million for redevelopment agencies. Local governments are also expected to receive revenues from additional property tax revenues to local governments to offset a reduced VLF rate and to compensate for a loss of sales tax revenues that were dedicated to the repayment of economic recovery bonds.

2. The 2006-07 Proposed Budget includes $255 million for local streets and roads maintenance. The funds are part of the proposed $920 million partial repayment to local governments of the Proposition 42 suspension effected in Fiscal Year 2004-05.

3. The 2006-07 Proposed Budget proposes to fund, on a one-time basis, Proposition 36 programs in Fiscal Year 2006-07 in the amount of $120 million. Proposition 36 is a measure approved by the voters in November 2000 to divert certain drug offenders from jail and prison to community drug treatment centers. The 2005-06 Budget Act provided $120 million for Proposition 36, of which $96 million was allocated to local governments. While the funding provided by Proposition 36 expires on June 30, 2006, the associated requirements are ongoing, but are not a state mandate. In connection therewith, the 2006-07 Proposed Budget includes a one-time grant to continue the State's allocation.

4. The 2006-07 Proposed Budget increases funding for the Juvenile Justice Crime Prevention Act by $73.9 million in Fiscal Year 2006-07. Funding for the Juvenile Justice Crime

Prevention Act was reduced by $73.9 million in Fiscal Year 2005-06 due to the availability to local governments of a like amount in carryover monies.

5. The 2006-07 Proposed Budget includes $98.1 million for the first of 15 annual repayments to local governments for reimbursable state-mandated programs, payments for which were deferred in some of the years prior to Fiscal Year 2004-05.

Governor's May Revision to 2006-07 Proposed State Budget. On May 12, 2006 the Governor released the May Revision to the 2006-07 Proposed Budget (the "May Revision"). The May Revision includes approximately $4.8 billion and $2.76 billion in additional State General Fund revenues for Fiscal Years 2005-06 and 2006-07, respectively, over what was assumed in the 2006-07 Proposed Budget. Much of this additional revenue is attributable to the May Revision's assumptions of an increase in personal income tax revenue and an increase in corporate taxes in Fiscal Year 2005-06. Personal income tax revenue forecasts have increased by 8.6% for Fiscal Year 2005-06 and by 4.5% for Fiscal Year 2006-07 from the forecasts set forth in the 2006-07 Proposed Budget due to higher than expected tax receipts from capital gains and stock options. Corporate tax revenues are expected to increase by 7.7% for Fiscal Year 2005-06 and by 4.8% for Fiscal Year 2006-07 from the forecasts set forth in the 2006-07 Proposed Budget. The increase is attributed to stronger corporate profits. Sales and use tax revenue forecasts have increased by 0.10% for Fiscal Year 2005-06 and decreased by 0.68% for Fiscal Year 2006-07 from the forecasts set forth in the 2006-07 Proposed Budget.

The May Revision posits a beginning General Fund balance for Fiscal Year 2006-07 of $9.368 billion and an $8.847 billion reserve. The May Revision projects Fiscal Year 2006-07 General Fund revenues of $93.866 billion, and expenditures of $100.985 billion, leaving a fiscal year end balance of $2.249 billion and a reserve of $2.2 billion.

From the increased State General Fund revenues, the May Revision provides for an additional $1.57 billion in pre-payments and repayments of the State's outstanding debt, including the prepayment of $1.0 billion in Economic Recovery Bonds. In addition, the May Revision proposes to increase the State General Fund reserve to $2.2 billion, an increase of $1.6 billion from the $613 million proposed in the 2006-07 Proposed Budget.

LAO Report. On January 12, 2006, the Legislative Analyst's Office ("LAO") released a report entitled "Overview of the Governor's Budget" (the "LAO Budget Overview"), which provides an analysis by the LAO of the 2006-07 Proposed Budget. The LAO Budget Overview is available on the LAO website at www.lao.ca.gov. Information on the website is not incorporated herein by reference.

In the LAO Budget Overview, the LAO states that the positive revenue assumptions included in the 2006-07 Proposed Budget were reasonable in light of recent positive cash revenue trends. However, the LAO concludes that the 2006-07 Proposed Budget should focus more on reducing existing debt before making what the LAO characterized as expansive new commitments, given the State's current structural budgetary shortfall. The LAO notes that over $4 billion in increased spending is proposed in the 2006-07 Proposed Budget, including over $2 billion for new or expanded programs and $920 million for the prepayment of a transportation loan due in Fiscal Year 2007-08. The LAO states that, even assuming the higher revenue trend underlying the 2006-07 Proposed Budget, the added ongoing spending would result in larger future fiscal imbalances. The LAO estimates that the implementation of the 2006-07 Proposed Budget would leave the State with an annual operating shortfall of over $5 billion in Fiscal Year 2007-08.

On May 15, 2006, the LAO released an analysis of the May Revision entitled "Overview of the 2006-07 May Revision" (the "LAO May Overview"). According to the LAO May Overview, the May Revision has a number of positive features, including its reliance on cautious revenue assumptions and its emphasis on debt prepayments, one-time spending and the build up of the year end reserve. The LAO May Overview states that even though the revenue outlook has improved by $7.5 billion from the estimates set forth in Governor's 2006-07 Budget, the State will continue to face operating budgetary shortfalls of approximately $3.5 billion in each of Fiscal Years 2007-08 and 2008-09 and $1 billion in Fiscal Year 2009-10 (assuming continued economic and revenue growth and excluding potential added costs associated with lawsuits and other factors). To place greater priority on regaining long-term fiscal balance, the LAO recommends that the State Legislature weigh the benefits associated with fully funding the Proposition 98 funding targets proposed in the May Revision against the economic shortfalls that such Proposition 98 funding is projected to create in Fiscal Years 2007-08 and 2008-09. The LAO further recommends that State Legislature not adopt the proposal to accelerate $1 billion of deficit-financing bond prepayments, based on the assumption that the added payment will not produce any benefits to the State General Fund until Fiscal Year 2009-10. Instead, the LAO states that more emphasis should be placed on debt prepayments and reserve build-up that provide benefits to the State General Fund in the next couple of years, when the projected shortfalls are the largest.

Continuing State Budget Shortfall. The Local Agencies cannot predict whether the State will continue to encounter budgetary problems in this or in any future fiscal years, and if it were to do so, it is unknown what measures would be taken by the State to balance its budget, as required by law. Accordingly, the Local Agencies cannot predict the final outcome of this or any future State budget negotiations, the impact that such budgets will have on the finances and operations of the State or the Local Agencies or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including economic downturns, over which the Local Agencies have no control.

In March 2004, the State's voters approved Proposition 57, the California Economic Recovery Bond Act, which allowed the State to issue bonds to reduce the State's budget deficit (the "Economic Recovery Bonds"). The Economic Recovery Bonds are authorized to be general obligations of the State, secured by a pledge of revenues available under the "Triple Flip." Beginning in Fiscal Year 2004-05, the Triple Flip shifts 0.25% of local governments' sales and use tax revenues to the State, shifts property tax revenues from the Educational Revenue Augmentation Fund to cities and counties to replace lost sales and use tax revenues on a dollar for dollar basis and reimburses the Educational Revenue Augmentation Fund for lost property tax revenues out of the State's General Fund. In general, the Triple Flip sunsets when the Economic Recovery Bonds are no longer outstanding.

The 2004-05 Budget Act proposed a constitutional amendment, which was approved by the voters in November 2004 and generally becomes effective in Fiscal Year 2006-07. Proposition 1A amended the State Constitution to, among other things, reduce the Legislature's authority over local government revenue sources by restricting the State from lowering the local sales tax rate or changing the allocation of local sales tax revenues without meeting certain conditions. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS - Proposition 1A" herein.

The Local Government Agreement

The 2004-05 Budget Act, related legislation and the approval of Proposition 1A (described herein) implemented an agreement negotiated between Governor Schwarzenegger and local government officials (the "Local Government Agreement"). Under the Local Government Agreement and implementing legislation, the VLF rate was reduced from 2 percent to 0.65 percent and this reduction in VLF revenues to cities and counties was replaced with an equivalent increase in the amount of property tax received by the cities and counties. However, in Fiscal Years 2004-05 and 2005-06, the replacement property taxes that cities and counties will receive are reduced by $700 million, comprised of $350 million from counties and $350 million from cities, which the State will retain.

Further, the Local Government Agreement provides that in Fiscal Years 2004-05 and 2005-06, special districts will contribute $350 million in property taxes and redevelopment agencies will contribute $250 million in property tax revenues.

The counties' $350 million reduction is allocated based on each county's proportional share of non-realignment VLF pursuant to California Revenue and Taxation Code Section 97.71. The cities' allocation consists of an amount based one-third on sales tax revenues, one-third on property tax revenues, and one-third on VLF revenues. City reductions are limited to no more than 4 percent of their general-purpose revenues and no less than 2 percent of their general-purpose revenues. Redevelopment agencies' property tax reductions will be allocated in a manner similar to that contained in Fiscal Years 2004-05 and 2005-06 budgets. The special districts' $350 million reduction is based upon the respective special district's allocation of property taxes. Enterprise special districts will collectively contribute $200 million and non-enterprise special districts will collectively contribute $150 million. For enterprise special districts, the reduction equates to 40% of each special district's net allocation of property taxes. For non-enterprise special districts, the reduction equates to 25% of each special district's net allocation of property taxes. Certain public safety districts, community services districts and healthcare districts will also be affected but not on as large a scale. These special districts will each contribute 3% of their net property tax allocation if such allocation exceeds $1 million. These special districts with a property tax allocation of $1 million or less will be exempt from the reduction. Further, the Local Government Agreement provides that fire districts are exempt from contributing property taxes.

Security

Military conflicts and terrorist activities may adversely impact the operation of the Local Agencies. In addition, the Local Agencies may experience a decrease with respect to their revenues because of any change in economic circumstances as a result of future military conflicts or terrorist activities. Such a reduction in revenues may include, but is not limited to, a decline in airport, transient occupancy tax, parking tax, business tax and sales tax revenues.

The Local Agencies are subject to safety and security measures and inspections on a continuing basis. The Local Agencies do not represent that any existing or additional safety and security measures will be adequate in the event that terrorist activities are directed against any of the Local Agencies or that costs of security measures will not be greater than presently anticipated.

Pension Benefit Liability

Many factors influence the amount of each Local Agency's pension benefit liabilities, including, without limitation, inflationary factors, changes in statutory provisions of PERS retirement system laws, changes in the levels of benefits provided or in the contribution rates of such Local Agency, increases or decreases in the number of covered employees, changes in actuarial assumptions or methods, and differences between actual and anticipated investment experience of PERS. Any of these factors could give rise to additional liability of a Local Agency to its pension plans as a result of which the Local Agency would be obligated to make additional payments to its pension plans over the amortization schedule for full funding of such Local Agency's obligation to its pension plans.

PARTICIPATING LOCAL AGENCIES INFORMATION

General

The Local Agencies participating in the Program are five cities.

Cities are either general law cities, established under California statutes, or charter cities, established under the California Constitution and their voter approved charters. Cities generally provide for the health, safety and welfare of their residents. Cities are governed by elected city councils. City revenues are generally composed of property taxes, other taxes, license, permit and use fees, and fines, forfeitures and penalties. Other taxes may include some or all of sales taxes, utility user taxes, business taxes, State motor vehicle license fees, transient occupancy taxes, State cigarette taxes, real property transfer taxes and other miscellaneous taxes.

Certain information regarding the individual Local Agencies participating in the Program is included in the appendices hereto. A table listing the participating Local Agencies, the principal amount of the Obligation being issued by each such Local Agency and the principal amount of the Obligation of such Local Agency as a percentage of the principal amount of Bonds and the debt service schedule for such Obligations is set forth in APPENDIX A - "DEBT SERVICE BY LOCAL AGENCY AND UAAL BY LOCAL AGENCY." Certain general information and a summary of certain budget and financial information for each Local Agency are set forth in APPENDIX B - "LOCAL AGENCY INFORMATION" and APPENDIX C - "SUMMARY HISTORICAL FINANCIAL INFORMATION."

The information contained herein regarding each Local Agency has been derived from information provided by such Local Agency. The Authority and the Underwriters have no reason to believe that any such information is incorrect; however, they have not verified the accuracy of such information and take no responsibility therefor. Each Local Agency has represented that the information relating to such Local Agency included herein does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements about such Local Agency contained herein, in light of the circumstances under which they were made, not misleading.

The information regarding the Local Agencies contained in the Appendices hereto is essential to making an informed investment decision with respect to the Bonds. Investors are advised to thoroughly and carefully review such information.

PERS Pension Plans

General. The following information concerning the California Public Employees' Retirement System ("PERS") is excerpted from publicly available sources, which the Local Agencies believe to be accurate. PERS is not obligated in any manner for payment of debt service on the Bonds, and the assets of PERS are not available for such payment. PERS should be contacted directly at CalPERS, Lincoln Plaza, 400 P Street Sacramento, California 95814 or (888) 225-7377 for other information, including information relating to its financial position and investments.

Each Local Agency provides retirement benefits to certain of their employees through contracts with PERS, a multiple-employer public sector employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to PERS members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State. PERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments.

PERS maintains more than one pension plan (each, a "PERS Plan") for each Local Agency based on type of employee (i.e. a Local Agency may have a PERS Plan for "Safety Employees" and a separate PERS Plan for "Miscellaneous Employees"). Each Local Agency contributes to PERS amounts equal to the recommended rates for the PERS Plans multiplied by the payroll of those employees of the Local Agency who are eligible under PERS.

Actuarial Valuations. The staff actuaries at PERS prepare annually an actuarial valuation which covers a Fiscal Year ending approximately 15 months before the actuarial valuation is prepared (thus, the actuarial valuation delivered to each Local Agency in September 2005 covered PERS's Fiscal Year ended June 30, 2004). The actuarial valuations express each Local Agency's required contribution rates in percentages of payroll, which percentages each Local Agency must contribute in the Fiscal Year immediately following the Fiscal Year in which the actuarial valuation is prepared (thus, each Local Agency's contribution rate derived from the actuarial valuation as of June 30, 2004, that was prepared in September 2005, will affect such Local Agency's Fiscal Year 2006-07). PERS rules require the PERS Local Agencies to implement the actuary's recommended rates.

In calculating the annual actuarially recommended contribution rates, the PERS actuary calculates on the basis of certain assumptions the actuarial present value of benefits that PERS will fund under the PERS Plans, which includes two components, the normal cost and the UAAL. The normal cost represents the actuarial present value of benefits that PERS will fund under the PERS Plans that are attributed to the current year, and the UAAL represents the actuarial present value of benefits that PERS will fund that are attributed to past years. The UAAL represents an estimate of the actuarial shortfall between assets on deposit at PERS and the present value of the benefits that PERS will pay under the PERS Plans to retirees and active employees upon their retirement. The UAAL, is based on several assumptions such as, among others, the rate of investment return, average life expectancy, average age of retirement, inflation, salary increases and occurrences of disabilities. In addition, the UAAL includes certain actuarial adjustments such as, among others, the actuarial practice of smoothing losses and gains over multiple years (which is described in more detail below). As a result, the UAAL may be considered an estimate of the unfunded actuarial present value of the benefits that PERS will fund under the PERS Plans to retirees and active employees upon their retirement and not as a fixed expression of the liability the PERS Local Agencies owe to PERS under their respective PERS Plans.

In each actuarial valuation, the PERS actuary estimates the actuarial value of the assets (the "Actuarial Value") of the PERS Plans at the end of the Fiscal Year (which assumes, among other things, that the rate of return during that Fiscal Year equaled the assumed rate of return of 7.75%). The PERS actuary uses a smoothing technique to determine Actuarial Value that is calculated based on certain policies. As described below, these policies changed significantly in April 2005, affecting the Actuarial Value calculation for Fiscal Year 2006-07 and beyond.

Actuarial Assumptions and Policies. On April 21, 2004, the PERS Board approved a change in the inflation assumption used in the actuarial valuations that set employer contribution rates. The inflation assumption was changed from 3.5 percent to 3 percent. The change impacted the inflation component of the annual investment return assumption, the long term payroll growth assumption and the individual salary increase assumptions as follows:

- The annual assumed investment return has decreased from 8.25 percent to 7.75 percent.
- The long term salary increase assumption has decreased from 3.75 percent to 3.25 percent.
- The inflation component of individual salary scales has decreased from 3.75 percent to 3.25 percent.

In April 2005, the PERS Board adopted new policies aimed at stabilizing rising employer costs. These policies will be used to set Fiscal Year 2006-07 employer contribution rates for each Local Agency. These policies include:

- Spreading PERS market value asset gains and losses over 15 years rather than three years.
- Widening the "corridor" limits for establishing the actuarial value of assets from 90 to 110 percent of market value to 80 to 120 percent of market value.
- Establishing a rolling 30-year amortization on all remaining net unamortized gains or losses, instead of amortizing 10% of the net unamortized gain or loss each year.
- Requiring a minimum employer contribution rate equal to the employer normal costs minus a 30-year amortization of surplus (but not less than 0%).

For complete updated inflation and actuarial assumptions, please contact PERS at the above-referenced address.

The Local Agencies have certain pension plans with less than 100 active members. PERS requires such pension plans to join a larger risk pool (a "Risk Pool") with other pension plans that have similar members receiving similar benefits (e.g. other plans for safety employees receiving a 3.0% at 55 benefits). In a Risk Pool, assets and liabilities across employers are combined to produce large groups where the impact of a catastrophic demographic event is shared among all employers of the same Risk Pool. To equalize funding status across agencies in each Risk Pool, at the time each Local Agency joined the Risk Pool, a side fund was created to account for the difference between the funded status of the Risk Pool and the funded status of the Local Agency's pension plan (a "Side Fund"). Risk Pools and Side Funds are subject to the Actuarial Assumptions and Policies described above.

PERS performs an actuarial analysis of the Risk Pool, and a separate valuation of the balance (positive or negative) of each Side Fund. Based on the actuarial report for the Risk Pool, PERS calculates the Risk Pool's "Required Base Employer Rate" as a percentage of payroll that each Local Agency must pay for those employees participating in the plan. The Required Base Employer Rate includes both a "normal cost" component and an "amortization base" component where the unfunded liability of the Risk Pool is amortized, as described under "Actuarial Valuations" above. For the funded status and other information for each of the Risk Pools with Local Agency participants, see "Applicable Risk Pools as of June 30, 2004" below.

Applicable Risk Pools as of June 30, 2004

	Safety 3.0% at 55[1]	Safety 3.0% at 50[2]	Misc. 2.0% at 55[3]
Entry Age Normal Accrued Liability	1,252,474,736	5,383,921,942	2,746,095,668
Actuarial Value of Assets	1,026,500,742	4,424,586,846	2,460,944,656
Unfunded Liability	225,973,994	959,335,096	285,151,012
Funded Ratio	82.0%	82.2%	89.6%
Active Members	2,047	8,073	15,107
Total Members[4]	5,015	22,154	35,921

(1) Participating Local Agencies: City of Pinole and City of Novato
(2) Participating Local Agencies: City of Benicia, City of Pacific Grove and City of Auburn
(3) Participating Local Agencies: City of Pinole, City of Pacific Grove and City of Auburn
(4) Includes active members, transferred members, separated members and members and beneficiaries receiving payments.
Source: CalPERS Annual Actuarial Valuations - June 30, 2004.

In addition, each Local Agency pays a contribution (a percentage of the payroll of participating employees) to the Risk Pool to amortize any negative balance in the Local Agency's Side Fund and/or if the Local Agency provides certain supplemental benefits to participating employees. For the valuation of each Local Agency's Side Fund, see Appendix A.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIIIA of the California Constitution

In 1978, California voters approved Proposition 13, adding Article XIIIA to the California Constitution. Article XIIIA was subsequently amended in 1986, as discussed below. Article XIIIA limits the amount of any ad valorem tax on real property to 1% of the full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters voting on such indebtedness. Article XIIIA defines full cash value to mean "the county assessor's valuation of real property as shown on the Fiscal Year 1975-76 tax bill under 'full cash' or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

Article XIIIA has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster.

Legislation has been enacted and amended a number of times since 1978 to implement Article XIIIA. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

Article XIIIB of the California Constitution

On November 6, 1979, California voters approved Proposition 4, known as the Gann Initiative, which added Article XIIIB to the California Constitution. Propositions 98 and 111, approved by the California voters in 1988 and 1990, respectively, substantially modified Article XIIIB. The principal effect of Article XIIIB is to limit the annual appropriations of the State and any city, county, school district, authority, or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living and population. The initial version of Article XIIIB provided that the "base year" for establishing an appropriations limit was the 1978-79 Fiscal Year, which was then adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by these public agencies. Proposition 111 revised the method for making annual adjustments to the appropriations limit by redefining changes in the cost of living and in population. It also required that beginning in Fiscal Year 1990-91, each appropriations limit must be recalculated using the actual 1986-87 appropriations limit and making the applicable annual adjustments as if the provisions of Proposition 111 had been in effect.

Appropriations subject to limitation of a local government under Article XIIIB include generally any authorization to expend during a fiscal year the proceeds of taxes levied by or for that entity and the proceeds of certain State subventions to that entity, exclusive of refunds of taxes. Proceeds of taxes include, but are not limited to, all tax revenues plus the proceeds to an entity of government from (1) regulatory licenses, user charges and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), (2) the investment of tax revenues, and (3) certain subventions received from the State. Article XIIIB permits any government entity to change the appropriations limit by a vote of the electors in conformity with statutory and constitutional voting effective for a maximum of four years.

As amended by Proposition 111, Article XIIIB provides for testing of appropriations limits over consecutive two-year periods. If an entity's revenues in any two-year period exceed the amounts permitted to be spent over such period, the excess has to be returned by revising tax rates or fee schedules over the subsequent two years. As amended by Proposition 98, Article XIIIB provides for the payment of a portion of any excess revenues to a fund established to assist in financing certain school needs.

Unitary Property

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization ("Unitary Property"), commencing with the Fiscal Year 1988-89, will be allocated as follows: (i) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (ii) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102% of the previous year's revenues, each jurisdiction will share the burden of the shortfall or excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, the valuation of which continues to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 adds Articles XIIIC and XIIID to the California Constitution and contains a number of interrelated provisions affecting the ability of local agencies to levy and collect both existing and future taxes, assessments, fees and charges. The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed below, and it is not possible at this time to predict with certainty the outcome of such determination.

Proposition 218 (Article XIIIC) requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of a Local Agency require a majority vote and taxes for specific purposes, even if deposited in such Local Agency's General Fund, require a two-thirds vote. Further, any general purpose tax which a Local Agency imposed, extended or increased without voter approval after December 31, 1994 may continue to be imposed only if approved by a majority vote in an election which must be held within two years of November 5, 1996.

Proposition 218 (Article XIIID) also adds several provisions making it generally more difficult for local agencies to levy and maintain fees, charges, and assessments for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments must confer a "special benefit," as defined in Article XIIID, over and above any general benefits conferred, (iii) a majority protest procedure for assessments which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected party, and (iv) a prohibition against fees and charges which are used for general governmental services, including police, fire or library services where the service is available to the public at large in substantially the same manner as it is to property owners.

Proposition 218 (Article XIIIC) also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of any Local Agency will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of such Local Agency's General Fund.

Proposition 62

Proposition 62, a statutory initiative that was adopted by the voters voting in the State at the November 4, 1986 general election, (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities be approved by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIIIA of the California Constitution, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, (f) required that any tax imposed by a local governmental entity on or after August 1, 1985 be ratified by a majority vote of the voters voting in an election on the tax within two years of November 5, 1986 or be terminated by November 15, 1988, and (g) requires a reduction of ad valorem property taxes allocable to the jurisdiction imposing a tax not in compliance with its provisions equal to one dollar for each dollar of revenue attributable to the invalid tax, for each year that the tax is collected.

Following its adoption by the voters, various provisions of Proposition 62 were declared unconstitutional at the appellate court level. For example, in *City of Woodlake v. Logan*, 230 Cal.App.3d 1058 (1991) (the "Woodlake Case"), the Court of Appeal held portions of Proposition 62 unconstitutional as a referendum on taxes prohibited by the California Constitution. In reliance on the Woodlake Case, numerous taxes were imposed or increased after the adoption of Proposition 62 without satisfying the voter approval requirements of Proposition 62.

On September 28, 1995, the California Supreme Court, in *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal. 4th 220 (1995) (the "Santa Clara Case"), upheld the constitutionality of the portion of Proposition 62 requiring a two-thirds vote in order for a local government or district to impose a special tax, and, by implication, upheld a parallel provision requiring a majority vote in order for a local government or district to impose any general tax. In deciding the Santa Clara Case on Proposition 62 grounds, the Court disapproved the decision in the Woodlake Case.

The decision in the Santa Clara Case did not address the question of whether it should be applied retroactively. On June 4, 2001, the California Supreme Court released *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* ("*La Habra*"). In this decision, the court held that a public agency's continued imposition and collection of a tax is an ongoing violation, upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

In connection with the sale of the Bonds, each Local Agency, has represented that Proposition 62 will not materially impact any existing or future taxes, fees and assessments collected by the Local Agency and that no revenues collected by the Local Agency have been challenged as a result of Proposition 62. See Appendix B for more information.

Proposition 1A

Proposition 1A, proposed by the Legislature in connection with the 2004-05 Budget Act and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the VLF rate currently in effect, 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 1A may result in increased and more stable revenues for the Local Agencies. The magnitude of such increase and stability is unknown and would depend on future actions by the State. However, Proposition 1A could also result in decreased resources being available for State programs. This reduction, in turn, could affect actions taken by the State to resolve budget difficulties. Such actions could include increasing State taxes, decreasing spending on other State programs or other action, some of which could be adverse to the Local Agencies.

Future Initiatives

Article XIIIA, Article XIIIB, Proposition 218 and Proposition 62 were each adopted as measures that qualified for the ballot through California's initiative process. From time to time other initiative measures could be adopted, further affecting Local Agency revenues.

BOND COUNSEL OPINION

Interest on the Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, interest on the Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other federal or state tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. The proposed form of opinion of Bond Counsel is contained in Appendix F – "PROPOSED FORM OF BOND COUNSEL OPINION."

TAX MATTERS

The following discussion is a brief summary of certain United States Federal income tax consequences of the acquisition, ownership and disposition of Bonds by original purchasers of the Bonds who are "U.S. Holders", as defined herein. This summary does not discuss all of the United States Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules.

Holders of Bonds should consult with their own tax advisors concerning the United States Federal income tax and other consequences with respect to the acquisition, ownership and disposition of the Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

Original Issue Discount

In general, if Original Issue Discount ("OID") is greater than a statutorily defined de minimis amount, a holder of a Bond must include in Federal gross income (for each day of the taxable year, or portion of the taxable year, in which such holder holds such Bond) the daily portion of OID, as it accrues (generally on a constant yield method) and regardless of the holder's method of accounting. "OID" is the excess of (i) the "stated redemption price at maturity" over (ii) the "issue price". "Issue price" means the first price at which a substantial amount of the Bond is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). "Stated redemption price at maturity" means the sum of all payments, other than "qualified stated interest", provided by such Bond. "Qualified stated interest" is stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate. A holder may irrevocably elect to include in gross income all interest that accrues on a Bond using the constant-yield method, subject to certain modifications.

Original Issue Premium

In general, if a Bond is originally issued for an issue price (excluding accrued interest) that reflects a premium over the sum of all amounts payable on the Bond other than "qualified stated interest" (a "Premium Bond"), that Premium Bond will be subject to Section 171 of the Code, relating to bond premium. In general, the holder of a Premium Bond may either deduct the bond premium under Section 171(a)(1) or may elect under Section 171(c) of the Code to amortize that premium as "amortizable bond premium" over the remaining term of the Premium Bond, determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the highest yield on such bond). Any such election is generally irrevocable and applies to all debt instruments of the holder (other than tax-exempt bonds) held at the beginning of the first taxable year to which the election applies and to all such debt instruments thereafter acquired. Under certain circumstances, the holder of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the holder's original acquisition cost.

Disposition and Defeasance

Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Bond, a holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such holder's adjusted tax basis in the Bond. The Authority may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the Bonds to be deemed to be no longer outstanding under the Indenture (a "defeasance"). For Federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the Bonds subsequent to any such defeasance could also be affected.

Backup Withholding and Information Reporting

In general, information reporting requirements will apply to non-corporate holders with respect to payments of principal, payments of interest and the proceeds of the sale of a Bond before maturity within the United States. Backup withholding may apply to holders of Bonds under Section 3406 of the Code. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner's United States Federal income tax provided the required information is furnished to the Internal Revenue Service (the "Service").

U.S. Holders

The term "U.S. Holder" means a beneficial owner of a Bond that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

IRS CIRCULAR 230 DISCLOSURE

To ensure compliance with requirements imposed by the Service, you are informed that (i) any U.S. federal tax advice contained in this offering material (including any attachments) is not intended to be used, and it cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer under the Code; (ii) such advice is written to support the promotion or marketing of the transaction(s) or matter(s) addressed by the written advice; and (iii) the taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

ERISA CONSIDERATIONS

Section 406 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and Section 4975 of the Internal Revenue Code (the "Code"), prohibit employee benefit plans ("Plans") subject to ERISA or Section 4975 of the Code from engaging in certain transactions involving "plan assets" with persons that are "parties in interest" under ERISA or "disqualified persons" under the Code (collectively, "Parties in Interest") with respect to the Plan. ERISA also imposes certain duties on persons who are fiduciaries of Plans subject to ERISA. Under ERISA, any person who exercises any authority or control respecting the management or disposition of the assets of a Plan is considered to be a fiduciary of such Plan (subject to certain exceptions not relevant here). A violation of these "prohibited transaction" rules may generate excise tax and other liabilities under ERISA and the Code for fiduciaries and Parties in Interest.

The Underwriters, as a result of their own activities or because of the activities of an affiliate, may be considered Parties in Interest, with respect to certain plans. Prohibited transactions may arise under Section 406 of ERISA and Section 4975 of the Code if Bonds are acquired by a Plan with respect to which the Underwriters or any of their affiliates are Parties in Interest. Certain exemptions from the prohibited transaction rules could be applicable, however, depending in part upon the type of Plan fiduciary making the decision to acquire a Bond and the circumstances under which such decision is made. Included among these exemptions are those transactions regarding securities purchased during the existence of an underwriting, investments by insurance company pooled separate accounts, investments by insurance company general accounts, investments by bank collective investment funds, transactions effected by "qualified professional asset managers," and transactions affected by certain "in-house asset managers." Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions. In order to ensure that no prohibited transaction under ERISA or Section 4975 of the Code will take place in connection with the acquisition of a Bond by or on behalf of a Plan, each prospective purchaser of a Bond that is a Plan or is acquiring on behalf of a Plan will be required to represent that either (i) no prohibited transactions under ERISA or Section 4975 of the Code will occur in connection with the acquisition of such Bond or (ii) the acquisition of such Bond is subject to a statutory or administrative exemption.

Any Plan fiduciary who proposes to cause a Plan to purchase Bonds should (i) consult with its counsel with respect to the potential applicability of ERISA and the Code to such investments and whether any exemption would be applicable and (ii) determine on its own whether all conditions have been satisfied. Moreover, each Plan fiduciary should determine whether, under the general fiduciary standards of investment prudence and diversification, an investment in the Bonds is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan's investment portfolio.

ABSENCE OF LITIGATION

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the execution or delivery of the Bonds, the Trust Agreement or in any way contesting or affecting the validity of the foregoing, or any action of the Authority taken with respect to any of the foregoing.

There is no litigation pending or, to the knowledge of the Authority, threatened, questioning the existence of the Authority, or the title of the officers of the Authority to their respective offices, or the power and authority of the Authority to issue the Bonds.

Each Local Agency will certify to the effect that, other than as described in the Official Statement, including all appendices hereto, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body pending or, to the best knowledge of the Local Agency, threatened (i) in any way questioning the existence of the Local Agency or the titles of the officers of the Local Agency to their respective offices; (ii) in any way contesting or affecting the validity of the legal documents relating to the Obligations entered into by the Local Agency or the consummation of the transactions contemplated thereby, (iii) which may result in any material adverse change relating to the finances or operations of the Local Agency; or (iv) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. See Appendix B for certain information related to any litigation affecting the Participants.

For information on litigation concerning the Local Agencies, see Appendix B attached hereto. For information on the judicial validation of the proceedings and transactions related to the issuance of the Obligations, see "VALIDATION" herein.

RATINGS

Moody's Investors Service, Inc. and Standard & Poor's Rating Services have assigned the ratings of "Aaa" and "AAA", respectively, to the Bonds. The ratings on the Bonds are conditioned on the issuance of the Insurance Policy. See "THE INSURANCE POLICY AND THE INSURER" The Authority and the Local Agencies supplied certain information to the rating agencies to be considered in evaluating the Bonds. Each rating reflects only the views of the rating agency issuing such rating, and any explanation of the significance of such rating on the Bonds should be obtained from such rating agency. There is no assurance that any rating will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by the rating agency issuing such rating if, in its judgment, circumstances so warrant. The Authority undertakes no responsibility to oppose any downward revision or withdrawal of any rating. Any such downward revision or withdrawal of any rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Authority and Morgan Stanley & Co. Incorporated, as representative of the underwriters (the "Underwriters"), have entered into a Bond Purchase Agreement pursuant to which the Bonds are to be purchased by the Underwriters at a discount of $622,705.85 from the offering price of the Bonds stated on the cover hereof (the "Bond Purchase Agreement"). The Bond Purchase Agreement provides that the Underwriters will purchase all of the Bonds if any are purchased, the obligations to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions.

RBC Dain Rauscher Inc. is doing business under the name RBC Capital Markets. The Underwriters may offer and sell the Bonds to certain dealers and others at a price lower than the offering prices stated on the cover hereof. The Underwriters may change the offering prices from time to time.

CONTINUING DISCLOSURE

The Local Agencies have covenanted in Continuing Disclosure Certificates for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to Local Agencies by not later than the 210 days following the end of the fiscal year (currently their fiscal years end on June 30) (the "Local Agencies Annual Reports"), commencing with the fiscal year ending June 30, 2006, and to provide notices of the occurrence of certain enumerated events, if material.

The Authority has covenanted in a Continuing Disclosure Certificate for the benefit of the holders and beneficial owners of the Bonds to provide notices of the occurrence of certain enumerated events, if material.

The Local Agencies Annual Reports and the notices of material events will be filed by the Trustee as Dissemination Agent with each Nationally Recognized Municipal Securities Information Repository. The specific nature of the information to be contained in the Annual Reports and the notice of material events is set forth in APPENDIX J—"FORMS OF CONTINUING DISCLOSURE CERTIFICATES" hereto. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934.

CERTAIN LEGAL MATTERS

At the time of the delivery of the Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel, will deliver its final approving opinion in the form set forth in Appendix F. A copy of such approving opinion will be available for delivery with each Bond. Bond Counsel undertakes no responsibility for the fairness, accuracy or completeness of this Official Statement. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, San Francisco, California.

FINANCIAL STATEMENTS

Excerpts from the audited financial information relating to each Local Agency are included as Appendix D. No such auditor was requested to consent to the inclusion of its report in Appendix D, nor has any such auditor undertaken to update its report or take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this official statement, and no opinion is expressed by any such auditor with respect to any event subsequent to the date of its report.

VALIDATION

Each Local Agency, acting pursuant to the provisions of Sections 860 et seq. of the California Code of Civil Procedure, has filed a complaint in the Superior Court of the State of California for such Local Agency seeking judicial validation of the proceedings and transactions relating to the adoption of the Obligation Resolution, the issuance of the Obligations, the execution and delivery of the Local Agency Trust Agreement and certain other matters. Each court has entered a default judgment to the effect, among other things, that the Local Agency Trust Agreement and the Obligations are valid, legal and binding obligations of such Local Agency and that the Obligations are valid and in conformity with all applicable provisions of law. In issuing the opinion as to the validity of the Obligations and the Bonds, Bond Counsel has relied upon the entry of the foregoing default judgments. The last day of the appeal periods for the Local Agencies was June 8, 2006. No appeals were filed prior to the last day of the appeal periods.

AUTHORIZATION AND APPROVAL

This Official Statement, and its distribution and use by the Underwriters, have been duly authorized and approved by the Authority.

CALIFORNIA STATEWIDE COMMUNITIES
DEVELOPMENT AUTHORITY

By: /s/ Daniel Harrison
Member of the Commission of the Authority

APPENDIX A

DEBT SERVICE BY LOCAL AGENCY AND UAAL BY LOCAL AGENCY

DEBT SERVICE TABLES

Following is a table listing the debt service payable by each Local Agency for each Series of Bonds.

City of Auburn

	Series A-1		Series A-2		
Fiscal Year Ending June 30	**Principal**	**Interest**	**Principal**	**Compounded Interest**	**Total Debt Service**
2007	$ 65,000.00	$269,487.17			$334,487.17
2008	55,000.00	288,516.50			343,516.50
2009	70,000.00	285,387.00			355,387.00
2010	90,000.00	281,404.00			371,404.00
2011	110,000.00	276,283.00			386,283.00
2012	125,000.00	270,024.00			395,024.00
2013	145,000.00	262,724.00			407,724.00
2014	175,000.00	254,256.00			429,256.00
2015	200,000.00	244,036.00			444,036.00
2016	230,000.00	232,356.00			462,356.00
2017	255,000.00	218,924.00			473,924.00
2018	285,000.00	203,879.00			488,879.00
2019	320,000.00	187,064.00			507,064.00
2020	360,000.00	168,184.00			528,184.00
2021	400,000.00	146,944.00			546,944.00
2022	440,000.00	123,344.00			563,344.00
2023	210,000.00	97,252.00			307,252.00
2024	230,000.00	84,799.00			314,799.00
2025	255,000.00	71,160.00			326,160.00
2026	285,000.00	56,038.50			341,038.50
2027	315,000.00	39,138.00			354,138.00
2028	345,000.00	20,458.50			365,458.50
2029	-	-			-
2030	-	-			-
2031	-	-			-
2032	-	-			-
2033	-	-			-
2034	-	-			-
2035	-	-			-
2036	-	-			-
TOTAL	4,965,000.00	4,081,658.67			9,046,658.67

City of Benicia

Fiscal Year Ending June 30	Series A-1 Principal	Series A-1 Interest	Series A-2 Principal	Series A-2 Compounded Interest	Total Debt Service
2007	$ 440,000.00	$401,276.88	-	-	$ 841,276.88
2008	-	410,083.50	$422,107.00	$ 47,893.00	880,083.50
2009	630,000.00	410,083.50	67,863.20	12,136.80	1,120,083.50
2010	-	374,236.50	710,451.45	174,548.55	1,259,236.50
2011	735,000.00	374,236.50	143,873.70	46,126.30	1,299,236.50
2012	-	332,415.00	722,796.40	287,203.60	1,342,415.00
2013	-	332,415.00	714,503.60	345,496.40	1,392,415.00
2014	-	332,415.00	700,337.95	404,662.05	1,437,415.00
2015	-	332,415.00	689,881.50	465,118.50	1,487,415.00
2016	935,000.00	332,415.00	154,888.25	120,111.75	1,542,415.00
2017	1,020,000.00	277,811.00	152,690.80	137,309.20	1,587,811.00
2018	-	217,631.00	151,255.60	153,744.40	522,631.00
2019	-	217,631.00	150,826.00	174,174.00	542,631.00
2020	-	217,631.00	150,261.30	194,738.70	562,631.00
2021	-	217,631.00	149,544.15	215,455.85	582,631.00
2022	-	217,631.00	148,352.05	236,647.95	602,631.00
2023	-	217,631.00	148,555.30	261,444.70	627,631.00
2024	-	217,631.00	146,475.20	283,524.80	647,631.00
2025	-	217,631.00	145,686.45	309,313.55	672,631.00
2026	-	217,631.00	142,927.50	332,072.50	692,631.00
2027	-	217,631.00	141,650.00	358,350.00	717,631.00
2028	-	217,631.00	140,028.00	384,972.00	742,631.00
2029	-	217,631.00	138,116.00	411,884.00	767,631.00
2030	-	217,631.00	137,129.40	442,870.60	797,631.00
2031	-	217,631.00	134,673.00	470,327.00	822,631.00
2032	455,000.00	217,631.00	37,722.60	142,277.40	852,631.00
2033	690,000.00	190,649.50	-	-	880,649.50
2034	765,000.00	149,732.50	-	-	914,732.50
2035	840,000.00	104,368.00	-	-	944,368.00
2036	920,000.00	54,556.00	-	-	974,556.00
TOTAL	7,430,000.00	7,673,573.88	6,542,596.40	6,412,403.60	28,058,573.88

City of Novato

Fiscal Year Ending June 30	Series A-1 Principal	Series A-1 Interest	Series A-2 Principal	Series A-2 Compounded Interest	Total Debt Service
2007	$ 30,000.00	$847,880.05	-	-	$ 877,880.05
2008	-	917,681.00	-	-	917,681.00
2009	30,000.00	917,681.00	-	-	947,681.00
2010	70,000.00	915,974.00	-	-	985,974.00
2011	110,000.00	911,991.00	-	-	1,021,991.00
2012	160,000.00	905,732.00	-	-	1,065,732.00
2013	210,000.00	896,388.00	-	-	1,106,388.00
2014	265,000.00	884,124.00	-	-	1,149,124.00
2015	325,000.00	868,648.00	-	-	1,193,648.00
2016	390,000.00	849,668.00	-	-	1,239,668.00
2017	460,000.00	826,892.00	-	-	1,286,892.00
2018	535,000.00	799,752.00	-	-	1,334,752.00
2019	620,000.00	768,187.00	-	-	1,388,187.00
2020	705,000.00	731,607.00	-	-	1,436,607.00
2021	800,000.00	690,012.00	-	-	1,490,012.00
2022	900,000.00	642,812.00	-	-	1,542,812.00
2023	1,015,000.00	589,442.00	-	-	1,604,442.00
2024	1,135,000.00	529,252.50	-	-	1,664,252.50
2025	1,260,000.00	461,947.00	-	-	1,721,947.00
2026	1,400,000.00	387,229.00	-	-	1,787,229.00
2027	1,545,000.00	304,209.00	-	-	1,849,209.00
2028	1,705,000.00	212,590.50	-	-	1,917,590.50
2029	1,880,000.00	111,484.00	-	-	1,991,484.00
2030	-	-	$487,045.80	$1,572,954.20	2,060,000.00
2031	-	-	475,251.00	1,659,749.00	2,135,000.00
2032	-	-	463,149.70	1,746,850.30	2,210,000.00
2033	-	-	451,839.90	1,838,160.10	2,290,000.00
2034	-	-	440,274.90	1,929,725.10	2,370,000.00
2035	-	-	428,505.00	2,021,495.00	2,450,000.00
2036	-	-	-	-	-
TOTAL	15,550,000.00	15,971,183.05	2,746,066.30	10,768,933.70	45,036,183.05

City of Pacific Grove

Fiscal Year Ending June 30	Series A-1 Principal	Series A-1 Interest	Series A-2 Principal	Series A-2 Compounded Interest	Total Debt Service
2007	$40,000.00	$2,098.98	-	-	$ 42,098.98
2008	-	-	$ 830,742.50	$ 94,257.50	925,000.00
2009	-	-	1,268,193.55	226,806.45	1,495,000.00
2010	-	-	1,240,279.65	304,720.35	1,545,000.00
2011	-	-	1,207,781.85	387,218.15	1,595,000.00
2012	-	-	1,180,806.00	469,194.00	1,650,000.00
2013	-	-	1,145,902.00	554,098.00	1,700,000.00
2014	-	-	1,115,470.40	644,529.60	1,760,000.00
2015	-	-	1,084,099.50	730,900.50	1,815,000.00
2016	-	-	1,056,056.25	818,943.75	1,875,000.00
2017	-	-	1,018,816.20	916,183.80	1,935,000.00
2018	-	-	991,840.00	1,008,160.00	2,000,000.00
2019	-	-	958,325.20	1,106,674.80	2,065,000.00
2020	-	-	927,700.20	1,202,299.80	2,130,000.00
2021	-	-	901,362.00	1,298,638.00	2,200,000.00
2022	-	-	876,625.75	1,398,374.25	2,275,000.00
2023	-	-	849,663.85	1,495,336.15	2,345,000.00
2024	-	-	478,599.20	926,400.80	1,405,000.00
2025	-	-	464,275.50	985,724.50	1,450,000.00
2026	-	-	451,350.00	1,048,650.00	1,500,000.00
2027	-	-	437,698.50	1,107,301.50	1,545,000.00
2028	-	-	425,418.40	1,169,581.60	1,595,000.00
2029	-	-	414,348.00	1,235,652.00	1,650,000.00
2030	-	-	-	-	-
2031	-	-	-	-	-
2032	-	-	-	-	-
2033	-	-	-	-	-
2034	-	-	-	-	-
2035	-	-	-	-	-
2036	-	-	-	-	-
TOTAL	40,000.00	2,098.98	19,325,354.50	19,129,645.50	38,497,098.98

City of Pinole

	Series A-1		Series A-2		
Fiscal Year Ending June 30	Principal	Interest	Principal	Compounded Interest	Total Debt Service
2007			-	-	-
2008			-	-	-
2009			$ 254,487.00	$ 45,513.00	$ 300,000.00
2010			313,080.30	76,919.70	390,000.00
2011			302,892.00	97,108.00	400,000.00
2012			296,990.60	118,009.40	415,000.00
2013			289,845.80	140,154.20	430,000.00
2014			278,867.60	161,132.40	440,000.00
2015			271,771.50	183,228.50	455,000.00
2016			264,718.10	205,281.90	470,000.00
2017			255,362.20	229,637.80	485,000.00
2018			250,439.60	254,560.40	505,000.00
2019			241,321.60	278,678.40	520,000.00
2020			233,013.90	301,986.10	535,000.00
2021			227,389.05	327,610.95	555,000.00
2022			221,564.75	353,435.25	575,000.00
2023			215,586.35	379,413.65	595,000.00
2024			207,790.40	402,209.60	610,000.00
2025			203,320.65	431,679.35	635,000.00
2026			195,585.00	454,415.00	650,000.00
2027			191,227.50	483,772.50	675,000.00
2028			186,704.00	513,296.00	700,000.00
2029			180,806.40	539,193.60	720,000.00
2030			174,958.20	565,041.80	740,000.00
2031			170,289.00	594,711.00	765,000.00
2032			166,608.15	628,391.85	795,000.00
2033			161,794.20	658,205.80	820,000.00
2034			156,975.65	688,024.35	845,000.00
2035			153,037.50	721,962.50	875,000.00
2036			148,203.00	751,797.00	900,000.00
TOTAL			6,214,630.00	10,585,370.00	16,800,000.00

UNFUNDED ACCRUED ACTUARIAL LIABILITY TABLE

Each Local Agency participates in a larger Risk Pool for its pension plans listed in the table below that will be refunded with proceeds of the Bonds. To equalize funding status across agencies in each Risk Pool, at the time each Local Agency joined the Risk Pool, a side fund was created to account for the difference between the funded status of the Risk Pool and the funded status of the Local Agency's pension plan. Following is a table listing the unfunded liability for each Local Agency's Side Fund. See "PARTICIPATING LOCAL AGENCIES INFORMATION – PERS Pension Plans – Risk Pools and Side Funds" in the Official Statement.

	Safety Plan - Side Fund		**Miscellaneous Plan - Side Fund**	
Local Agency	Negative Balance June 30, 2004	Projected Negative Balance June 30, 2006	Negative Balance June 30, 2004	Projected Negative Balance June 30, 2006
City of Auburn	2,753,732	2,819,326	1,890,827	1,981,696
City of Benicia	7,264,067	6,824,266	N/A	N/A
City of Novato	9,627,230	9,815,883	N/A	N/A
City of Pacific Grove	11,502,056	11,829,198	6,830,853	7,079,586
City of Pinole	3,733,080	3,691,671	2,174,452	2,313,699

Source: CalPERS Annual Actuarial Valuations - June 30, 2004.

The City of Benicia Miscellaneous Plan and the City of Novato Miscellaneous Plan are separate, stand-alone pension plans and are not part of a risk pool. Following is a table listing the accrued liability, actuarial value of assets and rolled forward unfunded liability for these plans. See "PARTICIPATING LOCAL AGENCIES INFORMATION – PERS Pension Plans" in the Official Statement.

	City of Benicia Miscellaneous Plan	**City of Novato Miscellaneous Plan**
Entry Age Normal Accrued Liability (6/30/04)	38,425,034	42,802,401
Actuarial Value of Assets (6/30/04)	31,733,986	35,077,039
Unfunded Accrued Liability (6/30/04)	6,691,048	7,725,362
6/30/2006 Rolled Forward Unfunded Liability	7,105,884	8,300,859
Certified Unfunded Actuarial Liability (6/29/06)	6,800,000	8,000,000

Source: CalPERS Annual Actuarial Valuations - June 30, 2004; Bartel Associates, LLC for " Certified Unfunded Actuarial Liability."

APPENDIX B

LOCAL AGENCY INFORMATION

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APPENDIX B

LOCAL AGENCY INFORMATION

This Appendix contains certain information on each Local Agency. Such information is intended to be reviewed in conjunction with the excerpts from the audited financial statements of each Local Agency in Appendix D and the summary financial information in Appendix C. The excerpts from the financial statements for each Local Agency are presented in Appendix D and should be read in their entirety.

Local Agency Certifications and Additional Information

In response to a written due diligence questionnaire, each Local Agency has certified, **subject to certain exceptions noted by such Local Agency described herein**, that the following statements are true and correct to the best knowledge of an officer of such Local Agency. See "Exceptions and Additional Information" below. Each Local Agency's Fiscal Year ends on June 30.

- The Local Agency has not defaulted on a lease or debt obligation in the last 10 years.
- The Local Agency has never failed to comply with any disclosure obligation with respect to securities, including any obligations under SEC Rule 15(c)(2)(12) or a written undertaking.
- There has been no material adverse change in the Local Agency's financial condition since June 30, 2005.
- The Local Agency does not have any sales tax or property tax payers which contribute in excess of 10% of the sales tax or property tax received by the Local Agency during the 2005-06 Fiscal Year.
- No issues exist concerning compliance with Proposition 218 and 62 with respect to existing or future taxes, fees and assessments collected by the Local Agency.
- No revenues collected by the Local Agency have been challenged under Proposition 218 or 62.
- The Local Agency does not have any funds invested in derivatives or reverse repurchase agreements and does not have a leveraged portfolio.
- No major taxpayers are currently delinquent, or expected to be delinquent, in the payment of property taxes, franchise taxes or other taxes to the Local Agency.
- Over the last two years, the Local Agency has not experienced any significant losses, realized or unrealized, in its investment portfolio as a result of a ratings downgrade, bankruptcy or decline in market value relating to such investments.
- The Local Agency has determined which fiscal year the Local Agency intends to comply with GASB Statement No. 45 ("GASB 45"), which establishes standards for

the measurement, recognition, and display of postemployment benefits other than pension benefits ("OPEB") expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

- The Local Agency has not taken any steps to comply with GASB 45, including the preparation of reports, actuarial studies or internal estimates of OPEB liability.

- The Local Agency does not anticipate any significant increase in its liabilities related to OPEBs as result of GASB 45.

- The Local Agency has not recently adopted, and does not plan to adopt, any significant changes in accounting practices for fiscal years 2005-06 and 2006-07 that may have a material adverse impact on its finances or the presentation of its finances in its financial statements, and the auditor's opinion for the financial statements of the Local Agency have not been qualified during the last 5 years.

- The Local Agency does not have any major ongoing or expected challenges to assessed property valuations within its boundaries (including any challenges to annual increases in assessed valuation in excess of 2%).

- Since June 30, 2005, the Local Agency has not entered into any long-term lease obligations or issued any debt.

- The Local Agency does not have any plans for future borrowing.

- No proposed item in the State's FY 2006-07 budget, would result in a significant reduction (greater than 10%) in the Local Agency's discretionary revenues.

- The Local Agency or its debt obligations have not been audited by the IRS within the last 10 years.

- There is no on-going or threatened litigation, proceeding, investigation or inquiry that may adversely affect the finances or operations of the Local Agency.

- There are no significant issues that exist with respect to the Local Agency's labor relations.

- No other conditions or events, including but not limited to hazardous materials, exist which may adversely affect the finances of the Local Agency.

- The Local Agency does not have any other information which is necessary to make the above statements, in the light of the circumstances under which such statements are made, not misleading.

- The Local Agency has not experienced any significant increase in its pension funding obligations or liability over the last two years, and does not anticipate any such increase in FY 2006-07.

- Since the last actuarial valuation, the Local Agency has not experienced any significant increase in its pension funding obligations as a result of pension benefit enhancements, changes in actuarial assumptions or other factors (other than market losses) that may result in increased pension costs in FY 2007-08, and does not anticipate any such increase in FY 2007-08.

- The Local Agency has not failed in the last ten (10) years to make its allocated pension funding obligation.

Exceptions and Additional Information. Certain of the Local Agencies have reported exceptions and additional information in connection with the matters described above. Such exceptions and additional information is described under the Local Agency sections below under the headings "Other Information."

CITY OF AUBURN

Set forth below is certain information with respect to the City of Auburn ("Auburn" or the "City"). Such information was provided by Auburn except as otherwise indicated.

General

Auburn is a general law city which was incorporated in 1888. Auburn is geographically located Northeast of Sacramento and Southwest of Lake Tahoe. There are approximately 7.5 square miles of land included in Auburn's boundary. Auburn is accessible by Interstate 80, State Highway 49 and several other state highways. Auburn is the county seat of Placer County.

Auburn operates under a Council-Manager form of government, whereby policies of the City Council are administered by a City Manager, who is appointed by the City Council. All municipal departments operate under the supervision of the City Manager. The Council consists of 5 members who are elected at large for 4-year overlapping terms. The Council elects one of the Council members to serve as Mayor each year. Municipal services provided by Auburn include police, fire, public works, general government, sanitary and storm sewer, community development, planning and public transportation.

Auburn owns and operates the Auburn Municipal Airport, and encourages industrial growth through its Airport Industrial Park and light industry in other parts of Auburn. Auburn's new Auburn Station has been completed and provides travel access for the Amtrak Capitol Corridor and local bus transportation.

Assessed Valuation

The following table shows the assessed valuations for Auburn for fiscal years 2001-02 to 2005-06.

City of Auburn
Assessed Valuations

	Secured	Utility	Unsecured	Total Before Rdv. Increment	Total After Rdv. Increment
2001-02	$897,209,324	$4,780,219	$153,696,529	$1,055,686,072	$1,022,366,397
2002-03	971,360,379	4,762,358	181,460,218	1,157,582,955	1,119,346,338
2003-04	1,067,654,687	4,827,977	184,765,294	1,257,247,958	1,210,988,129
2004-05	1,163,944,070	5,667,085	182,788,069	1,352,399,224	1,299,678,080
2005-06	1,306,316,411	5,622,810	158,691,320	1,470,630,541	1,408,472,479

Source: California Municipal Statistics, Inc.

Top Twenty Property Taxpayers

The following table shows the total tax levied against the twenty largest property taxpayers in Auburn for Fiscal Year 2005-06.

City of Auburn
Twenty Largest Local Secured Taxpayers
2005-06

Property Owner	Primary Land Use	2005-06 Assessed Valuation	Percent of Total [1]
Regal Cinemas Inc.	Movie Theater	$11,118,160	0.85%
Rim Property One LLC	Hotel	6,173,212	0.47
Jewel Food Stores Inc.	Commercial Store	5,623,466	0.43
Foothill Terrace Investors JV	Apartments	4,938,626	0.38
Auburn Town Square LLC	Commercial Store	4,769,207	0.37
Auburn Creekside LLC	Office Building	4,314,452	0.33
Marven W. Stroh	Office Building	3,608,320	0.28
Esperanca Family Trust	Shopping Center	3,505,226	0.27
Persimmon Terrace Apartments Partnership	Apartments	3,285,452	0.25
Suzanne Wagner	Apartments	3,198,610	0.24
Ik Soo and Kyung Hee Hwang	Apartments	3,020,976	0.23
AMMM LP	Office Building	3,002,414	0.23
Taghi Alereza	Commercial	2,817,782	0.22
Auburn Promenade Ltd.	Office Building	2,750,601	0.21
Placer Title Company	Office Building	2,741,198	0.21
Cataliss LLC	Residential	2,543,847	0.19
Janice L. Forbes	Commercial	2,454,377	0.19
701 Auburn Ravine LLC	Apartments	2,391,512	0.18
Richard J. and Jennifer F. Tibbs	Commercial Store	2,386,784	0.18
Longs Drug Stores Inc.	Commercial Store	2,370,362	0.18
		$77,014,584	5.90%

(1) 2005-06 Local Secured Assessed Valuation: $1,306,316,411
Source: California Municipal Statistics, Inc.

Population

As of January 1, 2006, Auburn 's population was estimated to be 12,975, an increase of 3.1% from the 2002 population of 12,587. The following table shows the population for Auburn for the years 2002 to 2006.

City of Auburn
Population
As of January 1

Year	Estimated Population
2002	12,587
2003	12,605
2004	12,845
2005	12,972
2006	12,975

Source: State of California, Department of Finance.

Labor Market and Unemployment Rate

For 2005, the civilian labor force in Auburn reached an estimated annual average of 8,300. This is an increase of 12.2% from the 2002 annual average civilian labor force of 7,400. The annual average unemployment rate decreased from 3.9% to 3.3% over the same period. The table below lists figures for the civilian labor force and comparative unemployment rates for the years 2002 to April 2006.

City of Auburn
Civilian Labor Force, Employment and Unemployment
Annual Average[(1)]

	2002	2003	2004	2005	April 2006[(2)]
Labor Force	7,400	7,800	8,100	8,300	8,300
Employment	7,100	7,500	7,800	8,000	8,000
Unemployment	300	300	300	300	300
Unemployment Rate	3.9%	4.0%	3.7%	3.3%	3.3%

(1) Benchmark March 2005; data not seasonally adjusted.
(2) Preliminary data for April 2006 only, not annual average.
Source: State of California, Employment Development Department.

Major Employers

The following table shows the major employers in Auburn.

City of Auburn
Major Employers
2006

Company	Number of Employees
Nella Oil Company	530
Coherent	305
Placer County Water Agency	166
Pacific Bell Telephone	160
Pride Industries	141
Auburn Courthouse Gym	120
Auburn Journal	110

Source: City of Auburn.

Litigation

Auburn is a defendant in various lawsuits and is a party to various claims. The City Attorney estimates that the potential claims against Auburn resulting from such litigation would not materially affect the financial condition of Auburn.

Plans for Future Borrowing

Auburn is in the process of updating the Auburn Development Authority Implementation plan and is evaluating a proposed expansion of the existing redevelopment plan area. Upon completion of these activities, the Auburn Urban Development Authority expects to issue bonds secured by tax increment revenues generated from the redevelopment project area.

Other Information

Auburn estimates that it will receive pursuant to a Sales Tax Sharing Agreement with Nella Oil Corporation's Card Lock Operation approximately $690,000, which is equal to approximately 19% of Auburn's sales tax receipts for Fiscal Year 2005-06.

Since June 30, 2005, Auburn has entered into a 4-year capital financing lease with Wells Fargo Institutional Securities, LLC for the purchase of a Type I Fire Engine. Debt service payments over the 4-year term will be $96,858 annually and will be paid from Auburn's Facilities and Equipment Replacement Fund (a special revenue fund).

Auburn has determined that it is not subject to GASB 45 due to the fact that Auburn does not provide post-employment benefits to its retirees other than a minimal amount for health care required by PERS in order to be in PERS managed pension plans.

CITY OF BENICIA

Set forth below is certain information with respect to the City of Benicia ("Benicia" or the "City"). Such information was provided by Benicia except as otherwise indicated.

General

Benicia is a general law city which was incorporated in 1847. Surrounded by water on two sides and miles of open space to the north, Benicia is located in the southernmost section of Solano County, overlooking the Carquinez Strait, which connects San Pablo Bay to the West and the Sacramento Delta to the East. Benicia encompasses 13 square miles, and is located 35 miles northeast of San Francisco and 57 miles southwest of Sacramento. Benicia is accessible by Interstate 80 and 680 and 780, and several state highways.

Benicia operates under a Council-Manager form of government, whereby policies of the City Council are administered by a City Manager, who is appointed by the City Council. All municipal departments operate under the supervision of the City Manager. The Council consists of five members who are elected at large for 4-year overlapping terms. The Council elects one of the Council members to serve as Mayor each year. Municipal services provided by Benicia include police, fire, public works, general government, parks and recreation, sanitary sewer, water, community development, planning, public transportation and library.

The Benicia Industrial Park, located adjacent to Interstate 680 corridor, and to I-80 via I-780, with close proximity to three international airports, industrial rail service and a deep water port.

Assessed Valuation

The following table shows the assessed valuations for Benicia for fiscal years 2001-02 to 2005-06.

City of Benicia
Assessed Valuations

	Secured	Utility	Unsecured	Total
2001-02	$3,062,066,745	$1,280,072	$178,013,190	$3,241,360,007
2002-03	3,436,787,658	1,231,662	179,959,785	3,617,979,105
2003-04	3,592,582,790	1,968,965	190,108,523	3,784,660,278
2004-05	3,784,267,489	2,088,104	201,105,380	3,987,460,973
2005-06	4,110,704,635	2,026,665	209,567,413	4,322,298,713

Source: California Municipal Statistics, Inc.

Top Twenty Property Taxpayers

The following table shows the total tax levied against the twenty largest property taxpayers in Benicia for Fiscal Year 2005-06.

City of Benicia
Twenty Largest Local Secured Taxpayers
2005-06

Property Owner	Primary Land Use	2005-06 Assessed Valuation	Percent of Total [1]
Valero Refining Company California	Industrial	$1,005,995,634	24.47%
Calwest Industrial Holdings	Industrial	80,734,856	1.96
Benicia CS Developers LLC	Residential Properties	45,307,910	1.10
Benicia Industries Inc.	Industrial	29,045,632	0.71
Tulloch Construction Inc.	Industrial	26,328,817	0.64
Shea Homes LP	Residential Properties	24,991,167	0.61
WRI Golden State LLC	Commercial	23,390,586	0.57
Cal-Midwest Properties Company	Apartments	20,284,269	0.49
SPK-Industrial Portfolio LLC	Industrial	17,767,240	0.43
PPF Ind 401-4799 Ind Way LP	Industrial	14,076,000	0.34
Centex Homes	Residential Properties	13,718,560	0.33
Cambridge Circle Investment Co.	Condominiums	13,317,060	0.32
MP Benicia Logistics LLC	Industrial	12,728,281	0.31
Prime Waterview LLC	Apartments	12,375,758	0.30
Sequoia Glen Partners	Apartments	10,965,766	0.27
Benicia Fleetside Business Center LLC	Industrial	9,518,109	0.23
5001 LLC	Industrial	7,888,487	0.19
Belle Haven Realty Co. Inc.	Industrial	7,407,942	0.18
Insight Properties LLC	Industrial	6,662,000	0.16
Dinesh Sawhney	Apartments	6,296,602	0.15
		$1,388,800,657	33.78%

[1] 2005-06 Local Secured Assessed Valuation: $4,110,704,635
Source: California Municipal Statistics, Inc.

Population

As of January 1, 2005, Benicia 's population was estimated to be 27,319, an increase of 0.4% from the 2002 population of 27,207. The following table shows the population for Benicia for the years 2002 to 2006.

City of Benicia
Population
As of January 1

Year	Estimated Population
2002	27,207
2003	27,130
2004	27,030
2005	27,209
2006	27,319

Source: State of California, Department of Finance.

Labor Market and Unemployment Rate

For 2005, the civilian labor force in Benicia reached an estimated annual average of 16,900. This is an increase of 3.7% from the 2002 annual average civilian labor force of 16,300. The annual average unemployment rate decreased from 3.5% to 3.3% over the same period. The table below lists figures for the civilian labor force and comparative unemployment rates for the years 2002 to April 2006.

City of Benicia
Civilian Labor Force, Employment and Unemployment
Annual Average[1]

	2002	2003	2004	2005	April 2006[2]
Labor Force	16,300	16,500	16,700	16,900	16,800
Employment	15,700	15,900	16,100	16,300	16,300
Unemployment	600	600	600	600	500
Unemployment Rate	3.5%	3.8%	3.6%	3.3%	3.0%

[1] Benchmark March 2005; data not seasonally adjusted.
[2] Preliminary data for April 2006 only, not annual average.
Source: State of California, Employment Development Department.

Major Employers

The following table shows the major employers in Benicia.

City of Benicia
Major Employers
2006

Company	Number of Employees
Valero Refining Company - CA	480
Institutional Financing Service	170
Bio-Rad Laboratories, Inc.	168
CytoSport	150
Radiator Express Warehouse, Inc.	147
Coca-Cola Bottling Co.	142
The Pepsi Bottling Group	134
Dunlop Manufacturing, Inc.	130
Henry Wine Group	116
APS West Coast, Inc.	115

Source: City of Benicia.

Litigation

Benicia is a defendant in various lawsuits and is a party to various claims. The City Attorney estimates that the potential claims against Benicia resulting from such litigation would not materially affect the financial condition of Benicia.

Other Information

On May 16, 2006, Benicia entered into a 10-year capital lease financing totaling $2.2 million secured by Benicia's Police Building. The proceeds of the financing are being used to remodel the Police Building.

The Valero Energy Corporation ("Valero") has a refinery in Benicia with an assessed value of over $1.0 billion. This accounted for 23.64% of Benicia's property tax revenues or $2,718,283 for Fiscal Year 2005-06.

Valero has challenged the assessed valuation of its refinery and the Solano County Appeals Board is considering the appeal. If successful, the assessed value of Valero's refinery could be reduced by up to $300 million, resulting in a decrease of up to $1 million per year in property tax revenues for Benicia.

Benicia expects to obtain an actuarial estimate of its OPEB obligation for its financial statement for Fiscal Year ending June 30, 2008.

Benicia expects a 2.75% increase in its pension liabilities due to various salary increases. On September 6, 2005, the City Council approved an increase of 1.5% retroactive to July 1, 2005 and an increase of 1.5% effective January 1, 2006 for all employee groups except fire employees. On April 18, 2006, the City Council approved (i) market adjustments with a 6.8% increase for fire employees and an approximate 3.0% increase to other miscellaneous groups and (ii) salary increases of 2% for fire employees to take effect on each of July 1, 2006 and July 1, 2007.

CITY OF NOVATO

Set forth below is certain information with respect to the City of Novato ("Novato" or the "City"). Such information was provided by Novato except as otherwise indicated.

General

Novato is a general law city which was incorporated in 1960. Novato is located in northern Marin County, approximately 29 miles from San Francisco and 37 miles from Oakland. There are approximately 28 square miles of land included in Novato's boundary. Novato is accessible by State Highway 101 and 37, which connects to Interstate 80.

Novato operates under a Council-Manager form of government, whereby policies of the City Council are administered by a City Manager, who is appointed by the City Council. All municipal departments operate under the supervision of the City Manager. The Council consists of five members who are elected at large for 4-year overlapping terms. The Council elects one of the Council members to serve as Mayor each year. Municipal services provided by Novato include police, public works, general government, parks and recreation, community development and planning. Fire services are provided by the Novato Fire Protection District; wastewater services are proided by the Novato Sanitary District; water services are provided by the North Marin Water District; public transit services are provided by the Golden Gate Bridge, Highway and Transportation District and library services are provided by the Marin County Free Library.

Assessed Valuation

The following table shows the assessed valuations for Novato for fiscal years 2001-02 to 2005-06.

City of Novato
Assessed Valuations

	Secured	Utility	Unsecured	Total Before Rdv. Increment	Total After Rdv. Increment
2001-02	$4,996,270,959	$2,662,047	$224,374,907	$5,223,307,913	$4,690,548,877
2002-03	5,389,426,406	2,662,047	231,132,538	5,623,220,991	5,013,846,561
2003-04	5,724,487,376	1,117,778	244,406,260	5,970,011,414	5,270,504,082
2004-05	6,273,976,715	1,117,778	231,805,476	6,506,899,969	5,617,436,382
2005-06	6,954,982,129	1,117,778	217,615,935	7,173,715,842	6,139,917,060

Source: California Municipal Statistics, Inc.

Top Twenty Property Taxpayers

The following table shows the total tax levied against the twenty largest property taxpayers in Novato for Fiscal Year 2005-06.

City of Novato
Twenty Largest Local Secured Taxpayers
2005-06

Property Owner	Primary Land Use	2005-06 Assessed Valuation	Percent of Total [1]
San Marin Assurance Co. Inc., Trust	Commercial	$108,750,000	1.56%
Estate of James Campbell, W.H. McVay, Trustee	Commercial	50,979,165	0.73
Steven J. Scarpa	Apartments	48,890,459	0.70
Hamilton Marin LLC	Commercial	41,294,627	0.59
Lexington Wood Hollow	Commercial	39,780,000	0.57
Professional Security Investors Funds	Apartments	30,137,800	0.43
Riggs National Bank of Washington	Commercial	28,397,891	0.41
Condiotti Enterprises Inc.	Industrial	25,590,859	0.37
Marion Park Associates	Apartments	14,172,479	0.20
Karen and Debra Pell	Commercial	23,500,000	0.34
CB Ventures-Napa Two LLC	Commercial	22,750,000	0.33
Bayview Ignacio LLC	Commercial	20,764,771	0.30
Fairfield Wyndover LP	Apartments	20,455,386	0.29
Novato Fair Shopping Center	Commercial	19,345,320	0.28
Woodside Office Center LLC	Commercial	17,475,250	0.25
California Newspapers Partnership	Commercial	17,394,370	0.25
Davidon Homes	Residential Properties	15,517,190	0.22
Novato Redwood Properties	Commercial	15,421,856	0.22
Dayton Hudson Corp. LLC	Commercial	15,063,061	0.22
Shea Homes LP	Residential Properties	14,963,870	0.22
		$590,644,354	8.49%

[1] 2005-06 Local Secured Assessed Valuation: $6,954,982,129
Source: California Municipal Statistics, Inc.

Population

As of January 1, 2005, Novato 's population was estimated to be 51,130, an increase of 4.8% from the 2002 population of 48,798. The following table shows the population for Novato for the years 2002 to 2006.

City of Novato
Population
As of January 1

Year	Estimated Population
2002	48,798
2003	48,732
2004	49,585
2005	50,448
2006	51,130

Source: State of California, Department of Finance.

Labor Market and Unemployment Rate

For 2005, the civilian labor force in Novato reached an estimated annual average of 25,300. This is a decrease of 4.2% from the 2002 annual average civilian labor force of 26,400. The annual average unemployment rate decreased from 5.9% to 4.7% over the same period. The table below lists figures for the civilian labor force and comparative unemployment rates for the years 2002 to April 2006.

City of Novato
Civilian Labor Force, Employment and Unemployment
Annual Average(1)

	2002	2003	2004	2005	April 2006(2)
Labor Force	26,400	25,600	25,400	25,300	25,200
Employment	24,800	24,100	24,000	24,100	24,100
Unemployment	1,600	1,500	1,400	1,200	1,100
Unemployment Rate	5.9%	5.9%	5.4%	4.7%	4.3%

(1) Benchmark March 2005; data not seasonally adjusted.
(2) Preliminary data for April 2006 only, not annual average.
Source: State of California, Employment Development Department.

Major Employers

The following table shows the major employers in Novato.

City of Novato
Major Employers
2006

Company	Number of Employees
Fireman's Fund	2,500
Harris Corp.	400
Broderbund	387
Marin Independent Journal	315
Mindscape	200

Source: Novato Chamber of Commerce and San Francisco Bay Area Times.

Litigation

Novato is a defendant in various lawsuits and is a party to various claims. The City Attorney estimates that the potential claims against Novato resulting from such litigation would not materially affect the financial condition of Novato.

Other Information

Costco represents approximately 10% of total sales tax revenues received by Novato.

Novato pays the PERS health care premiums for its retired employees on an annual basis. This amount is $32,558 for Fiscal Year 2005-06, and is projected by PERS to be $43,632 for Fiscal Year 2006-07 and $55,872 for Fiscal Year 2007-08. Novato has determined that it is not subject to GASB 45 due to the fact that Novato does not provide post-employment benefits to its retirees other than a minimal amount for health care required by PERS in order to be in PERS managed pension plans.

CITY OF PACIFIC GROVE

Set forth below is certain information with respect to the City of Pacific Grove ("Pacific Grove" or the "City"). Such information was provided by Pacific Grove except as otherwise indicated.

General

Pacific Grove is a charter city which was incorporated in 1889. Pacific Grove is located on the Monterrey peninsula next to the City of Monterey, approximately 74 miles from San Jose and approximately 114 miles from San Francisco. There are approximately 2.86 square miles of land included in Pacific Grove's boundary. Pacific Grove is accessible by State Highway 1 and several other state highways.

Pacific Grove operates under a Council-Manager form of government, whereby policies of the City Council are administered by a City Manager, who is appointed by the City Council. All municipal departments operate under the supervision of the City Manager. The Council consists of seven members, including the Mayor. The Mayor is directly elected to a two year term and the six other council members are elected at-large for 4-year overlapping terms. Municipal services provided by Pacific Grove include police, fire, public works, general government, parks and recreation, community development and library. Pacific Grove also operates a municipal golf course and a museum.

Assessed Valuation

The following table shows the assessed valuations for Pacific Grove for fiscal years 2001-02 to 2005-06.

City of Pacific Grove
Assessed Valuations

	Secured	Utility	Unsecured	Total
2001-02	$1,460,955,164	$715,941	$41,380,677	$1,503,051,782
2002-03	1,565,386,964	702,333	41,362,751	1,607,452,048
2003-04	1,681,412,401	751,721	35,734,618	1,717,898,740
2004-05	1,813,935,621	848,075	36,965,240	1,851,748,936
2005-06	1,998,157,044	816,598	37,928,808	2,036,902,450

Source: California Municipal Statistics, Inc.

Top Twenty Property Taxpayers

The following table shows the total tax levied against the twenty largest property taxpayers in Pacific Grove for Fiscal Year 2005-06.

City of Pacific Grove
Twenty Largest Local Secured Taxpayers
2005-06

Property Owner	Primary Land Use	2005-06 Assessed Valuation	Percent of Total [1]
FPA Country Club Associates LP	Shopping Center	$22,300,500	1.12
WGA Grove Acres LP	Apartments	13,091,700	0.66
Lighthouse Lodge LLC	Hotel	11,619,773	0.58
Kirkwood Village Associates Ltd.	Apartments	9,798,179	0.49
Foursome Development Company	Commercial Building	9,759,285	0.49
Villa Del Mar Apartments Partnership	Apartments	7,604,519	0.38
Holman Building Associates LP	Commercial Store	7,552,083	0.38
Waterloo Associates LLC	Apartments	5,563,702	0.28
Pebble Beach Company	Warehouse	5,243,599	0.26
California-American Water Co.	Water Company	4,970,271	0.25
Jeffrey R. and Janet E. Cohen	Residential	4,810,879	0.24
Wesley N. and Janice M. Callahan	Apartments	4,410,563	0.22
Monarch Pines Homeowners Association	Mobilehome Park	4,267,884	0.21
Nam Long 1 LP	Apartments	4,132,588	0.21
H. James Griggs	Hotel	3,746,720	0.19
Mahroom Family Partnership LP	Hotel	3,730,239	0.19
Amrish G. and Jignasa Patel	Hotel	3,672,000	0.18
Pacific Grove Real LLC	Apartments	3,500,000	0.18
Maureen Chodosh	Apartments	3,441,865	0.17
Raphael Cohen	Warehouse	3,134,603	0.16
		$136,350,952	6.82%

[1] 2005-06 Local Secured Assessed Valuation: $1,998,157,044
Source: California Municipal Statistics, Inc.

Population

As of January 1, 2006, Pacific Grove 's population was estimated to be 15,305, a decrease of 1.9% from the 2002 population of 15,597. The following table shows the population for Pacific Grove for the years 2002 to 2006.

City of Pacific Grove
Population
As of January 1

Year	Estimated Population
2002	15,597
2003	15,601
2004	15,608
2005	15,429
2006	15,305

Source: State of California, Department of Finance.

Labor Market and Unemployment Rate

For 2005, the civilian labor force in Pacific Grove reached an estimated annual average of 10,200. This is an increase of 2.0% from the 2002 annual average civilian labor force of 10,000. The annual average unemployment rate decreased from 3.2% to 3.0% over the same period. The table below lists figures for the civilian labor force and comparative unemployment rates for the years 2002 to April 2006.

City of Pacific Grove
Civilian Labor Force, Employment and Unemployment
Annual Average[(1)]

	2002	2003	2004	2005	April 2006[(2)]
Labor Force	10,000	10,100	10,100	10,200	10,200
Employment	9,700	9,800	9,800	9,900	9,900
Unemployment	300	300	300	300	300
Unemployment Rate	3.2%	3.2%	3.0%	3.0%	2.5%

(1) Benchmark March 2005; data not seasonally adjusted.
(2) Preliminary data for April 2006 only, not annual average.
Source: State of California, Employment Development Department.

Major Employers

The following table shows the major employers in Pacific Grove.

City of Pacific Grove
Major Employers
2006

Company	Number of Employees (range)
Asilomar Conference Grounds	250-499
Pacific Grove Unified School District	250-499
City of Pacific Grove	100-249
Canterbury Woods	100-249
Central Coast Senior Services	100-249

Source: City of Pacific Grove.

Litigation

Pacific Grove is a defendant in various lawsuits and is a party to various claims. The City Attorney estimates that the potential claims against Pacific Grove resulting from such litigation would not materially affect the financial condition of Pacific Grove.

Other Information

Hayward Lumber contributed approximately 17% of Pacific Grove's sales tax revenues for the four quarters ending September 30, 2005.

Pacific Grove has determined that they are not subject to GASB 45 due to the fact that Pacific Grove does not provide post-employment benefits to its retirees other than a minimal amount for health care required by PERS in order to be in PERS managed pension plans.

CITY OF PINOLE

Set forth below is certain information with respect to the City of Pinole ("Pinole" or the "City"). Such information was provided by Pinole except as otherwise indicated.

General

Pinole is a general law city which was incorporated in 1903. Pinole is located in the San Francisco Bay Area, on the shores of San Pablo Bay in west Contra Costa County. Interstate-80, which traverses Pinole, connects the San Francisco/Oakland metropolitan area with Sacramento and points east. Pinole is linked to central Contra Costa County including the cities of Martinez, Concord, and Pleasant Hill by State Route 4, which begins just north of Pinole and connects with Interstate-680. There are approximately four square miles of land included in Pinole's boundary.

Pinole operates under a Council-Manager form of government, whereby policies of the City Council are administered by a City Manager, who is appointed by the City Council. All municipal departments operate under the supervision of the City Manager. The Council consists of five members who are elected at large for 4-year overlapping terms. The Council elects one of the Council members to serve as Mayor each year. Municipal services provided by Pinole include police, fire, public works, general government, parks and recreation, community development, planning, and library. Water service is provided by the East Bay Municipal Utilities District and wastewater service is provided by the West County Wastewater District.

Assessed Valuation

The following table shows the assessed valuations for Pinole for fiscal years 2001-02 to 2005-06.

City of Pinole
Assessed Valuations

	Secured	Utility	Unsecured	Total Before Rdv. Increment	Total After Rdv. Increment
2001-02	$1,220,380,857	$659,555	$45,936,743	$1,266,977,155	$683,389,981
2002-03	1,298,159,079	768,553	44,780,139	1,343,707,771	716,828,402
2003-04	1,396,733,426	591,535	44,043,542	1,441,368,503	762,501,123
2004-05	1,499,169,605	596,515	48,227,256	1,547,993,376	823,993,322
2005-06	1,621,658,736	614,803	47,422,224	1,669,695,763	881,609,508

Source: California Municipal Statistics, Inc.

Top Twenty Property Taxpayers

The following table shows the total tax levied against the twenty largest property taxpayers in Pinole for Fiscal Year 2005-06.

City of Pinole
Twenty Largest Local Secured Taxpayers
2005-06

Property Owner	Primary Land Use	2005-06 Assessed Valuation	Percent of Total [1]
Pinole Vista LLC	Shopping Center	$ 21,592,398	1.33%
Dayton Hudson Corp.	Shopping Center	15,535,076	0.96
F & F Bayside Willow Associates	Apartments	14,148,640	0.87
George F. Crispo, Trust	Apartments	13,800,000	0.85
Thomas J. Fitzgerald, Trust	Motel/Hotel	12,470,299	0.77
Pinole Ridge LLC	Shopping Center	11,967,855	0.74
Appian Associates	Professional Medical and Dental	11,246,961	0.69
John M. and Nancy L. Donkonics	Office Building	10,940,441	0.67
MDS Realty II LLC	Shopping Center	10,083,930	0.62
Pinole Medical Development	Institutional	10,042,614	0.62
Best Buy of Pinole Inc.	Shopping Center	9,974,815	0.62
Pinole Associates Ltd.	Shopping Center	8,266,497	0.51
Public Storage Properties	Industrial	7,474,229	0.46
Pinole Retirement Residence	Institutional	7,308,542	0.45
Peter L. Thigpen	Apartments	5,937,116	0.37
OSH Acquisition Corp.	Shopping Center	5,891,291	0.36
Louise Partners	Shopping Center	5,609,596	0.35
Paul and Koula Pries	Shopping Center	5,275,000	0.33
Gerald R. and Barbara A. White	Apartments	4,779,599	0.29
Yun Cheung and Ngan Chee Y. Sum	Apartments	4,300,291	0.27
		$196,645,190	12.13%

[1] 2005-06 Local Secured Assessed Valuation: $1,621,658,736
Source: California Municipal Statistics, Inc.

Population

As of January 1, 2006, Pinole's population was estimated to be 19,465 from the 2002 population of 19,476. The following table shows the population for Pinole for the years 2002 to 2006.

City of Pinole
Population
As of January 1

Year	Estimated Population
2002	19,476
2003	19,562
2004	19,632
2005	19,579
2006	19,465

Source: State of California, Department of Finance.

Labor Market and Unemployment Rate

For 2005, the civilian labor force in Pinole reached an estimated annual average of 10,500. This is unchanged from the 2002 annual average civilian labor force of 10,500. The annual average unemployment rate decreased from 3.6% to 3.0% over the same period. The table below lists figures for the civilian labor force and comparative unemployment rates for the years 2002 to April 2006.

City of Pinole
Civilian Labor Force, Employment and Unemployment
Annual Average[1]

	2002	2003	2004	2005	April 2006[2]
Labor Force	10,500	10,400	10,500	10,500	10,500
Employment	10,100	10,000	10,100	10,200	10,200
Unemployment	400	400	400	300	300
Unemployment Rate	3.6%	3.9%	3.4%	3.0%	2.6%

[1] Benchmark March 2005; data not seasonally adjusted.
[2] Preliminary data for April 2006 only, not annual average.
Source: State of California, Employment Development Department.

Major Employers

The following table shows the major employers in Pinole.

City of Pinole
Major Employers

Company	Description
Doctor's Hospital	Hospital
West Contra Costa Unified School District	Public School
City of Pinole	Local Government
Target	General Merchandise
Albertson's	Grocery Store
Mervyn's	Department Store
Kmart	General Merchandise
Safeway	Grocery Store
Round Table Pizza	Restaurant
Orchard Supply Hardware	Hardware Store

Source: City of Pinole website.

Litigation

Pinole is a defendant in various lawsuits and is a party to various claims. The City Attorney estimates that the potential claims against Pinole resulting from such litigation would not materially affect the financial condition of Pinole.

Plans for Future Borrowing

In late August or early September 2006, Pinole expects to issue tax-exempt bonds in the range of approximately $4.5 to 5.5 million to finance improvements to a wastewater treatment plant. These bonds would be solely payable from revenues of Pinole's wastewater system.

Other Information

Pinole has determined that it is required to implement GASB 45 beginning with Fiscal Year 2008-09. However, Pinole intends to implement GASB 45 prior to Fiscal Year 2008-09. Pinole is currently negotiating with an actuary to prepare an actuarial valuation of Pinole's post employment benefit program. If such valuation is completed in time, Pinole plans to implement GASB 45 beginning in Fiscal Year 2006-07.

Since June 30, 2005, Pinole has entered into two capital lease obligations, one in the amount of $222,318 to finance the acquisition of cable television equipment and the other in the amount of $249,915 to finance the replacement of certain public works maintenance equipment. Pinole has also borrowed $300,000 from the Contra Costa Redevelopment Agency to make improvement to a water pollution control plant.

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APPENDIX C

SUMMARY HISTORICAL FINANCIAL INFORMATION

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SUMMARY HISTORICAL FINANCIAL INFORMATION
GENERAL FUND

	Auburn, City of			
	06/30/03 Audited	06/30/04 Audited	06/30/05 Audited	06/30/06 Estimated
INCOME STATEMENT				
Total Revenues	7,553,597	7,458,401	8,825,554	9,161,961
Total Expenditures	7,148,410	7,546,983	8,164,847	9,055,107
Total Other Financing Sources	114,356	67,663	169,921	177,551
Net Income	519,543	(20,919)	830,628	284,405
Beginning Fund Balance	4,520,680	4,819,234	4,063,092	4,873,274
Adjustments + Transfers	(220,989)	(735,223)	(20,446)	
Ending Fund Balance	4,819,234	4,063,092	4,873,274	5,157,679
BALANCE SHEET				
Total Assets	5,271,611	4,629,121	5,247,333	
Total Liabilities	452,377	566,029	554,060	
Total Fund Equity	4,819,234	4,063,092	4,873,273	
Total Liabilities + Fund Equity	5,271,611	4,629,121	5,427,333	

	Benicia, City of			
	06/30/03 Audited	06/30/04 Audited	06/30/05 Audited	06/30/06 Estimated
INCOME STATEMENT				
Total Revenues	22,216,519	23,611,855	25,465,643	26,167,770
Total Expenditures	21,358,539	23,874,408	26,700,067	26,025,575
Total Other Financing Sources	581,869	11,465	26,851	2,210,900
Net Income	1,439,849	(251,088)	(1,207,573)	2,353,095
Beginning Fund Balance	7,008,700	8,993,859	9,288,436	9,679,358
Adjustments + Transfers	545,310	545,665	1,598,495	(381,805)
Ending Fund Balance	8,993,859	9,288,436	9,679,358	11,650,648
BALANCE SHEET				
Total Assets	10,716,352	12,252,617	12,316,602	
Total Liabilities	1,722,493	2,964,181	2,637,244	
Total Fund Equity	8,993,859	9,288,436	9,679,358	
Total Liabilities + Fund Equity	10,716,352	12,252,617	12,316,602	

	Novato, City of			
	06/30/03 Audited	06/30/04 Audited	06/30/05 Audited	06/30/06 Estimated
INCOME STATEMENT				
Total Revenues	26,945,548	26,242,364	28,216,654	28,391,770
Total Expenditures	25,410,174	27,468,890	28,338,295	28,466,681
Total Other Financing Sources	1,788,673	7,969,191	1,744,329	1,546,706
Net Income	3,324,047	6,742,665	1,622,688	1,471,795
Beginning Fund Balance	4,380,027	6,971,543	13,408,242	14,467,292
Adjustments + Transfers	(732,531)	(305,966)	(563,638)	(2,488,595)
Ending Fund Balance	6,971,543	13,408,242	14,467,292	13,450,492
BALANCE SHEET				
Total Assets	10,984,997	18,870,844	20,740,601	
Total Liabilities	4,013,454	5,462,602	6,273,309	
Total Fund Equity	6,971,543	13,408,242	14,467,292	
Total Liabilities + Fund Equity	10,984,997	18,870,844	20,740,601	

	Pacific Grove, City of			
	06/30/03 Audited	06/30/04 Audited	06/30/05 Audited	06/30/06 Estimated
INCOME STATEMENT				
Total Revenues	12,252,319	12,724,284	13,885,121	14,904,930
Total Expenditures	12,199,947	12,468,796	12,748,784	14,849,188
Total Other Financing Sources	29,000	4,000	4,000	
Net Income	81,372	259,488	1,140,337	55,742
Beginning Fund Balance[1]	2,136,660	1,688,114	1,179,902	1,407,139
Adjustments + Transfers	(381,612)	(767,700)	(913,100)	
Ending Fund Balance	1,836,420	1,179,902	1,407,139	1,462,881
BALANCE SHEET				
Total Assets	2,147,069	1,829,762	1,912,783	
Total Liabilities	310,649	649,860	505,644	
Total Fund Equity	1,836,420	1,179,902	1,407,139	
Total Liabilities + Fund Equity	2,147,069	1,829,762	1,912,783	

	Pinole, City of			
	06/30/03 Audited	06/30/04 Audited	06/30/05 Audited	06/30/06 Estimated
INCOME STATEMENT				
Total Revenues	9,380,569	9,498,162	10,366,365	11,291,374
Total Expenditures	8,767,852	9,995,789	10,717,873	11,690,479
Total Other Financing Sources	620,277	416,793	495,000	
Net Income	1,232,994	(80,834)	143,492	(399,105)
Beginning Fund Balance	3,714,767	4,230,568	3,217,598	3,061,379
Adjustments + Transfers	(717,193)	(932,136)	(299,711)	
Ending Fund Balance	4,230,568	3,217,598	3,061,379	2,662,274
BALANCE SHEET				
Total Assets	4,751,845	4,258,797	3,752,592	
Total Liabilities	521,277	1,041,199	691,213	
Total Fund Equity	4,230,568	3,217,598	3,061,379	
Total Liabilities + Fund Equity	4,751,845	4,258,797	3,752,592	

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APPENDIX D

EXCERPTS FROM FINANCIAL STATEMENTS OF LOCAL AGENCIES

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CITY OF AUBURN
ANNUAL FINANCIAL REPORT
AS OF JUNE 30, 2005
WITH
INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To The Honorable Mayor and Members of the City Council
City of Auburn
Auburn, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Auburn as of and for the year ended June 30, 2005 which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City of Auburn's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Auburn as of June 30, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 21, 2005 on our consideration of the City of Auburn's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 15 and 45 through 47, 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

PRINCIPALS
Chris A. Mann, CPA, CFP • John R. Urrutia, CPA • Michelle O. Nelson, CPA, CFE, CVA • Christine L. Collins, EA • Fatis Ann Mann, CPA, CCPS

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Auburn's basic financial statements. The introductory section, and the combining and individual nonmajor fund financial statements 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 basic financial stamens and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Mann, Urrutia, Nelson CPAs

Sacramento, CA
October 21, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of City of Auburn's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's basic financial statements, which begin on page 16.

FINANCIAL HIGHLIGHTS

- The City's net assets used for governmental activities increased by approximately $2.9 million during Fiscal Year 2004-05, reflecting the capitalization of transportation infrastructure related to: roadway overlay work, installation of traffic signals on Nevada Street and Fulweiler Avenue, continued parking lot improvements at the Multimodal Rail Station (located on Nevada Street), relocation and subsequent development of the Auburn School Park Preserve, and Highway 49 operational improvements.
- The City's net assets used for business-type activities increased by approximately $250,000 during Fiscal Year 2004-05, reflecting the capitalization of sewer lift station repairs, land acquisition at the Auburn Airport; and increases in Airport rents received.
- The City's governmental funds reported combined ending fund balances of $9.2 million, an increase of $800,000 during fiscal year 2004-05.
- Citywide reserve levels increased by more than $1.0 million as a result of prudent expenditure management and an increase in tax receipts due to the effects of regional growth in property resale values and continuing expansion in regional development.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of five components; 1) Government-wide Financial Statements; 2) Fund Financial Statements; 3) Notes to the Basic Financial Statements; 4) Budgetary Information; and 5) Supplemental Information.

D-3

Government-wide Financial Statements

Government-wide Financial Statements are designed to provide readers with a broad overview of City finances, in a manner similar to a private-sector business.

The ***statement of net assets*** presents financial information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The ***statement of activities*** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or in part a portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include safety services, health services, environmental and development, transportation services, and administrative services (of general government). The business-type activities of the City include an airport and wastewater treatment operating facility. The government-wide financial statements include not only the City itself

(known as the primary government), but also the legally separate Auburn Urban Development (redevelopment) Authority.

Fund Financial Statements

Fund Financial Statements are designed to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like any other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the City of Auburn can be divided into three categories: *governmental funds*, *proprietary funds*, and *fiduciary funds*.

Governmental funds are designed to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund and Transportation Fund, which are considered to be major funds. The City maintains several individual governmental funds organized according to their type (special revenue, debt service, and capital projects funds). Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in the report.

Proprietary funds are generally used to account for services for which the City charges customers – either outside customers, or internal units of departments within the City. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses proprietary funds to account for the Auburn Airport and the Wastewater Treatment Facility.

Fiduciary funds are used to account for resources held for the benefit of the City's employees and parties outside the City. The City's private purpose trust and agency funds are reported under the fiduciary funds. Since the resources of these funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Basic Financial Statements

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Budgetary Information

Budgetary Information is presented concerning the City's General Fund and Transportation Fund. The City adopts an annual appropriated budget for its General Fund and Transportation Fund. A budgetary comparison schedule has been provided for the General Fund and Transportation Fund to demonstrate compliance with this budget.

Supplemental Information

Supplemental Information, including the combining and individual fund statements and schedules referred to earlier, provides information for non-major governmental funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Assets: As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $37.1 million. The City's combined net assets for the year ending June 30, 2005 are summarized as follows:

Statement of Net Assets
June 30, 2005
(in thousands)

	Governmental Activities		Business-Type Activities		Totals	
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
Assets:						
Current and other assets	$10,644	9,602	5557	5,794	16,201	15,396
Capital assets	11,996	10,109	19,531	19,914	31,527	30,023
Total assets	22,640	19,711	25,088	25,708	47,728	45,419
Liabilities:						
Current and other liabilities	1,450	1,290	364	920	1,814	2,210
Long-term liabilities	3,436	3,615	5,406	5,722	8,842	9,337
Total liabilities	4,886	4,905	5,770	6,642	10,656	11,547
Net assets:						
Invested in capital assets, net of related debt	11,456	9,220	14,150	14,206	25,606	23,426
Restricted net assets	4,906	3,615	1,995	1,995	6,901	5,610
Unrestricted net assets	1,392	1,971	3,173	2,864	4,565	4,835
Total net assets	$ 17,754	14,806	19,318	19,065	37,072	33,871

At the end of the current fiscal year, the City reported positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities.

The largest portion of the City's net assets at $25.6 million reflects its investment in capital assets (e.g. infrastructure, land, buildings, improvements other than buildings, and vehicles and equipment); less any related debt used to acquire those assets that is still outstanding. It should be mentioned that the amount reported for net assets of governmental activities does not include the value of the City's infrastructure constructed prior to July 1, 2002. The amount reported for the "net value" of these assets will increase significantly (possibly by as much as $16 million) once estimates of the value of these improvements have been determined. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Of the City's net assets, $11.5 million represents unrestricted net assets which may be used to meet the City's ongoing obligations to citizens and creditors. For governmental activities, the City reported a positive balance of $6.3 million in unrestricted net assets and for business-type activities, the City reported a positive balance of $5.2 million in unrestricted net assets.

The City's net assets increased by $3.2 million during the current fiscal year.

Key changes in the statement of net assets are as follows:

The City's investment in capital assets net of related debt increased by $2.2 million. Governmental capital assets increased by $2.2 million, offset by a decrease in business-type capital assets of $50,000. The increase in governmental capital assets was mainly the result of including as part of the City's infrastructure costs for Roadway Overlay Projects, a traffic signal at Nevada Street and Fulweiler Avenue, improvements to the Multi-modal Rail Station Parking Lot, and the relocation and subsequent development of the Auburn School Park Preserve. The slight decrease in business-type capital assets was mainly the result of depreciation on major infrastructure assets.

The City's current and other assets increased by $0.8 million. This increase is the result of a $1.0 million increase in governmental activities offset by a $0.2 million decrease in business-type activities. The increase in governmental activities is primarily the result of increased development and tax receipts resulting from the upswing in regional development activity. The decrease in business-type activities can be attributed to outflows of current resources to satisfy debts payable.

Long-term liabilities for the City decreased by $0.5 million. This is mainly due to the effect of paying down debt related to the City's General Obligation Bonds and the Wastewater Treatment Plant Upgrade Loans.

Current and other liabilities decreased by approximately $0.4 million. The $0.4 million decrease can be attributed to a business-type activities decrease of $0.6 million, the result of a reduction in the Airport's amount due to the General Fund, offset by and increase of $0.2 million for governmental activities resulting from an increase in accounts payable.

Statement of Activities
For the Year Ended June 30, 2005
(in thousands)

	Governmental Activities		Business-Type Activities		Totals	
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
Revenues:						
Program Revenues:						
Charges for services	$ 1,871	1,876	2,878	3,013	4,749	4,689
Operating grants	1,484	2,028	-	-	1,484	2,028
Capital grants and contributions	202	1,935	61	612	263	2,547
General revenues:						
Property taxes	3,256	2,258	53	44	3,309	2,302
Sales taxes	2,605	2,776	-	-	2,605	2,776
Other taxes	1,051	294	-	-	1,051	294
Licenses and permits	211	206	-	-	211	206
Franchises	599	593	-	-	599	593
Use of money & property	471	369	422	373	893	742
Other revenues	-	-	-	-	-	-
Total revenues	11,750	12,135	3,414	4,042	15,164	16,177

D-5

	Governmental Activities		Business-Type Activities		Totals	
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
Program Expenses:						
General government	2,057	1,836	-	-	2,057	1,836
Public safety & health	4,841	4,591	2,326	2,489	7,167	7,080
Public ways & facilities	1,136	1,713	701	611	1,837	2,324
Environment & development	852	622	-	-	852	622
Interest on long-term debt	45	173	-	-	45	173
Total expenses	8,931	8,936	3,027	3,100	11,958	12,035
Excess (deficiency) before transfers and special items	2,819	3,200	387	942	3,206	4,142
Transfers	129	37	(135)	(37)	(6)	-
Increase (decrease) in net assets	2,948	3,237	252	905	3,200	4,142
Net assets – beginning of year	14,806	11,569	19,066	18,160	33,872	29,729
Net assets – end of year	17,754	14,806	19,318	19,065	37,072	33,871

The increase in net assets for governmental activities reflects the continued use of capital funding combined with the use of an accumulation of transportation development act moneys (TDA taxes) and development fees used for roadway and traffic control (traffic signal) infrastructure improvements completed during the current fiscal period. The slight increase in net assets for business-type activities reflects an accumulation of sewer user fees to be used for collection system maintenance and repairs and future contributions to the funding of a regional wastewater treatment facility.

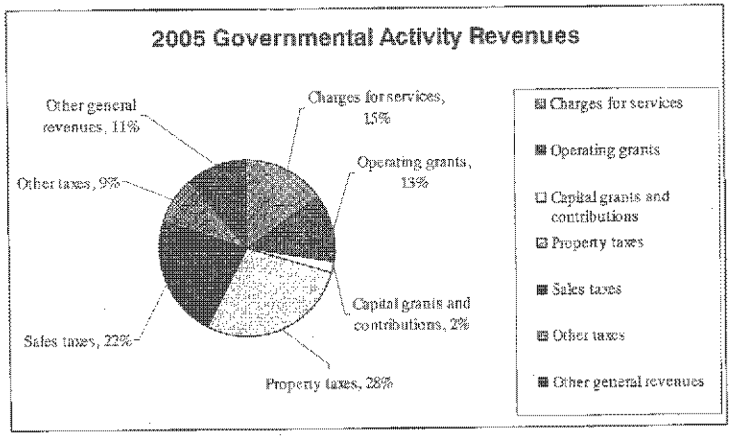
Key elements of the $2.9 million increase in net assets for governmental actvities are as follows:

- Property taxes increased by $1.0 million as a result of increased regional development and an upswing in property values ($325,000); and the receipt of property tax in-lieu of motor vehicle license fees related to the State's *"Triple Flip"* Budget Balancing solution enacted last year ($675,000). Essentially, the majority of motor vehicle license fees are now received with property tax distributions in January and June of each fiscal year.
- Sales taxes, although they appear to have decreased by $100,000, as a whole have actually risen by $585,000. Beginning with fiscal year 2004-05, one-quarter of sales tax receipts are distributed twice annually with property tax (similar to the motor vehicle license fee payments mentioned above). Had the $685,000 in sales tax received in fiscal year 2004-05 been classified as sales tax (rather than other taxes), the amount for sales tax would have indicated a $585,000 increase. Sales taxes have increased as a result of securing Nella Oil's Gasoline Cardlock Operation in the City.
- The other taxes received by the City have Increased $750,000, primarily as a result of the shift in sales tax receipts received via a property tax distribution (as discussed above).

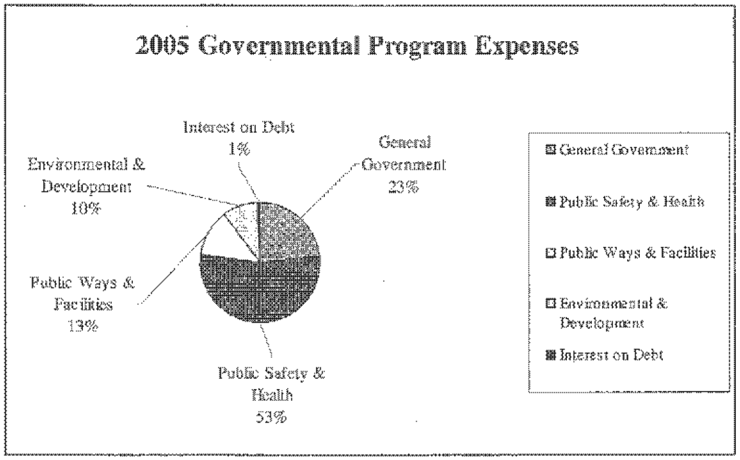
Governmental Activities

Tax revenues (as presented in the following chart) account for 59.46% of governmental activity revenues. Property and sales taxes represent approximately 85.94% of all taxes collected. Grant and entitlement transfers from other governments account for 15% of governmental activity revenues, and are primarily comprised of transportation and gas taxes, park development grants, motor vehicle license fees paid directly by the State and repayments of loans made through the City's Community Development Block Grant Program. Other general revenues include licenses, permits, land lease and

franchise payments, and account for 11% of governmental activity revenues. Charges for services account for 15.18% of governmental activity revenues.

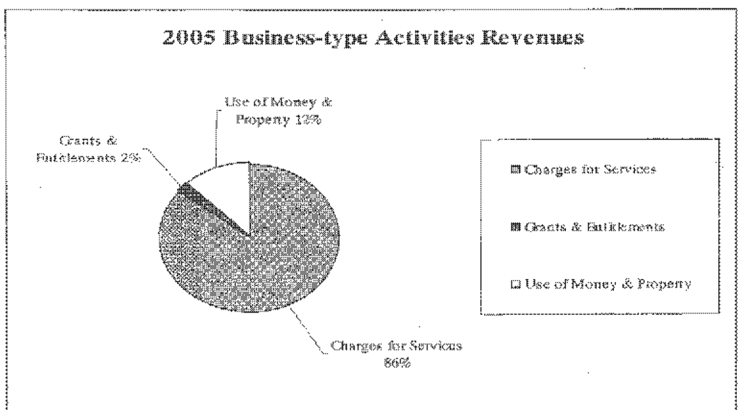


The largest (53%) governmental program expense category is Public Safety and Health, which is comprised primarily of Police ($3.0 million) and Fire ($1.2 million) protection services. The General Government category includes support operations for the Community Development Department, Finance Department and Insurance Programs (approximately $1.1 million) and the offices of the: City Manager, City Attorney and City Clerk (approximately $500,000). Operations of the Public Works department makes up the majority of the Public Ways & Facilities category, comprising both general and building maintenance (approximately $1.1 million) and engineering ($320,000) services. The Interest on Debt category reflects financing costs related to the City's outstanding portion of General Obligation Bonds used to finance the acquisition and construction of improvements to the City of Auburn Civic Center.

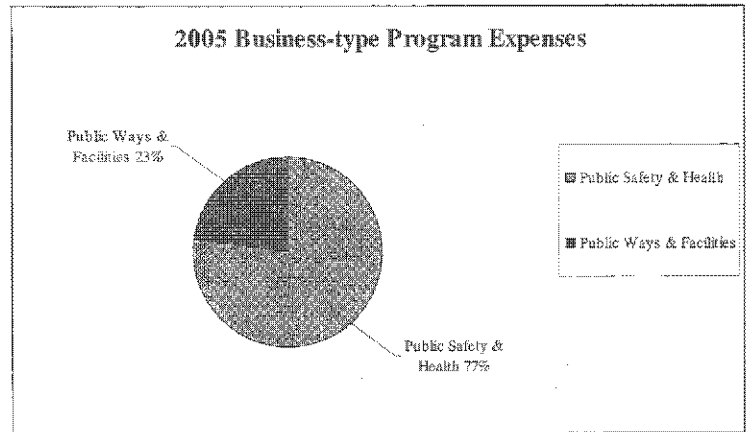


Business-type Activities

Revenue in the City's business-type activities decreased by $600,000 during this fiscal period, reflecting a reduction in federal grant funding for improvements at the Auburn Municipal Airport. A summary of business-type revenues is presented in the following chart:



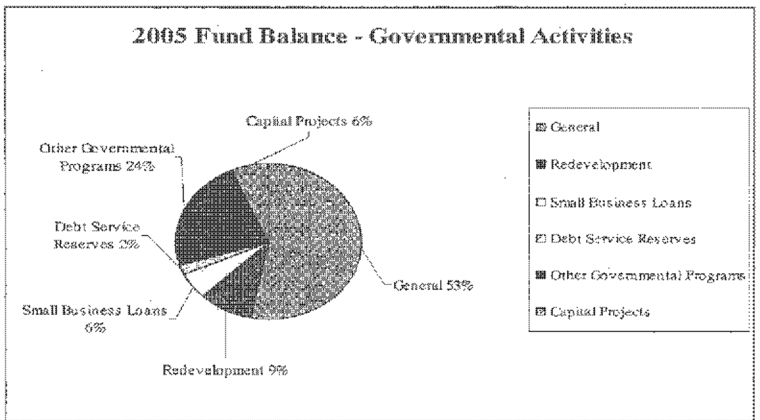
A summary of business-type activity expenses is presented in the following chart:



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

As the City completed the last fiscal year (2004-05), its governmental funds (as presented in the balance sheet on page 18) reported a *combined* fund balance of $9.2 million. A graphical summary of these amounts follows:



D-7

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of resources that are available for spending. Such information is useful in assessing the City's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds.

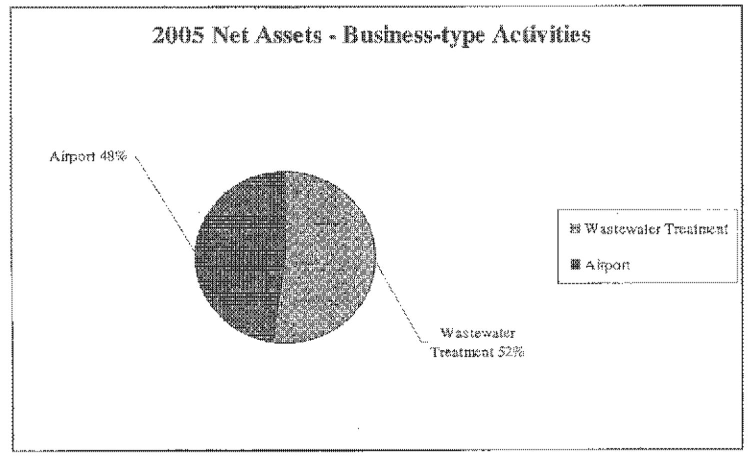
As of the end of the current fiscal year, the City's governmental funds reported combined fund balances of $9.2 million, an increase of approximately $700,000 over the previous year. Approximately $6.9 million of this total amount constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has been committed: 1) to pay for future project commitments ($1.5 million for Auburn School Park Preserve Project prepaid expenses), and 2) to pay for potential insurance requirements ($700,000 insurance banking fund balance).

Business-type funds

The City's Business-type Funds consist of the Wastewater Treatment Facility and Airport Operation Funds. The basic financial statements for these funds are included in this report. Because the focus on business-type funds is a cost of service measurement (or capital maintenance), an analysis to report return on ending assets and return on ending net assets is provided, as follows:

Analysis on Return on Net Assets
(in thousands)

	Airport		Sewer	
	2005	2004	2005	2004
Total Assets	$ 10,617	11,396	14,471	14,311
Net Assets	9,215	9,364	10,103	9,701
Change in Net Assets	$ (149)	156	402	475
Return on Ending Total Assets	(1.4%)	1.4%	2.8%	3.3%
Return on Ending Net Assets	(1.6%)	1.7%	4.0%	4.9%



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the City had $31.5 million invested in a broad range of capital assets, including police, fire and public works equipment, buildings, roads, airport facilities, wastewater treatment facilities and sewer lines (See table below):

Capital Assets at Year-end
(in thousands)

	Governmental Activities		Business-Type Activities		Totals	
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
Land	$ 350	350	2,827	2,765	3,177	3,115
Improvements	9,001	8,482	17,958	17,852	26,959	26,334
Equipment	3,480	3,269	1,043	928	4,510	4,197
Construction in Progress	2,823	1,224	2,223	2,197	5,046	3,421
Totals:	15,654	13,325	24,051	23,742	39,692	37,067
Depreciation	(3,658)	(3,216)	(4,420)	(3,827)	(8,078)	(7,043)
Net Capital Assets:	$ 11,996	10,109	19,531	19,915	31,527	30,024

This year's major capital asset additions included (in thousands):

Improvements:	
Roadway Overlays	$ 13
Wastewater Treatment Lift Station Repairs	106
Traffic Signals	
Nevada @ Fulweiler	177
Transportation Facilities	
Multimodal Railstation	309
Land Acquisition – Auburn Municipal Airport	82
Sewer Fund Equipment	97
Construction-in-Progress:	
East End Hangar Construction – Auburn Municipal Airport	26
AUESD Park Preserve Project	1,313
Highway 49 Operational Improvements	294

The City's Fiscal Year 2005-06 budget anticipates a spending level of $7.0 million for capital projects, as follows:

Airport Hangar Project	$ 850,000
Airport Master Plan	120,000
Airport Land Acquisition	50,000
Sewer Collection System Improvements	2,100,000
Annual Street Overlay	1,100,000
Traffic Signal and Roadway Improvements	920,000
Corporation Yard Remodel	400,000
Multimodal Facility – additional parking	340,000
Facilities and Equipment Replacement	700,000
Other government-wide equipment purchases	420,000
Total	$ 7,000,000

The City has no plans to issue additional debt to finance these projects. It is anticipated that all of the funding for the Airport projects will be reimbursed by Federal and State grants. The improvements for the Wastewater Treatment Plant and the Sewage Collection System will be funded out of current period service fees and reserves. The multimodal transportation facility, sidewalk and traffic sign improvements will be funded out of current period revenues (taxes and grants) generated by the City's Transportation and Transit funds. State grants and private-party contributions are the primary funding

source for the Park Preserve Project. More detailed information about the City's capital assets is presented in Note 4 to the financial statements.

Debt Administration

At year-end, the City had $6.1 million in bonds and notes outstanding, as compared to a total of $6.6 million last year, decrease of 8.2% ($500,000) – as shown in Table 5, below:

Outstanding Debt at Year-end
(in thousands)

	Governmental Activities		Business-Type Activities		Totals	
	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004
General obligation bonds	$ 540	650	-	-	540	650
Notes payable	199	240	5,374	5,707	5,573	5,947
Totals:	$ 739	890	5,374	5,707	6,113	6,597

The City's general obligation bond rating is A from Moody's Investment Services. An explanation of this rating may be obtained from directly from Moody's at: Moody's Investors Service, 99 Church Street, New York, New York 10007, (212) 553-0300. There is no assurance that such rating will continue for any given period of time, or that it will not be revised downward or withdrawn if circumstances so warrant.

The City is obligated to other long-term debt, including: compensated absences due employees for accrued vacation and sick leave pay, capital leases for equipment and Post Closure expenses related to the City's closed landfill site, as described in Notes 5 and 12 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

With the exception of the fiscal year ending June 30, 2002, the City's General Fund has sustained substantial gains in sales tax revenues generated over the past ten fiscal years. Our overall assessment is that Sales Tax revenue collections have, and will continue to, improve in future fiscal periods. Similarly, robust residential housing development has resulted in historically high regional growth in property tax revenues during the past three fiscal years. Indications are that this growth in property tax assessed valuation will continue into the foreseeable future. Together these two tax revenues account for 63% of the operating revenues available to the City's General Fund.

As part of their strategy to balance the State Budget, the Legislature, in July 2004, enacted a "tax swap" plan whereby one-quarter of sales taxes due to local municipalities (like the City) would be retained by the State of California, in exchange for equal amounts of property tax revenues that would otherwise have been used to fund local school districts (Education Revenue Augmentation Funding). This plan has been labeled the *"Triple Flip."* Notwithstanding the "revenue neutrality" design of this tax exchange plan, the City will continue to exchange one-quarter of the monthly (sales tax) revenue collections for semi-annual (property tax) revenue payments. Depending on the ongoing operating requirements of the City, this change in funding sources could result in an adverse impact on the City's "cash flows" necessary to provide basic services. The genesis of the tax exchange was tied directly to the State's issuance of "deficit funding" bonds to balance the State's budget for fiscal year 2003-04.

At this time, the City's overall financial condition remains sound, and adequate cash reserves are maintained to meet the long term debt service and equipment replacement requirements.

D-9

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances, and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Finance, City of Auburn, 1225 Lincoln Way, Auburn, California 95603.

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BASIC FINANCIAL STATEMENTS

CITY OF AUBURN
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	$ 5,845,346	$ 4,642,442	$ 10,487,788
Restricted cash	1,510,732	40,890	1,551,622
Accounts receivable	731,206	125,078	772,098
Interest receivable	953	-	953
Taxes receivable	41,119	-	41,119
Due from other funds	250,196	52,971	303,167
Deferred interest	-	695,336	695,336
Prepaid expense	1,552,458	-	1,552,458
Prepaid self-insurance equity	712,214	-	712,214
Capital assets			
Land, improvements and construction in progress	3,173,389	17,103,478	20,276,867
Other capital assets, net of depreciation	8,822,283	2,427,714	11,249,997
Total capital assets	11,995,672	19,531,192	31,526,864
Total Assets	$ 22,639,898	$ 25,087,909	$ 47,727,807
LIABILITIES			
Accounts payable	$ 567,463	$ 83,656	$ 651,119
Due to other funds	52,971	250,196	303,167
Deposits	142,138	29,990	172,128
Deferred revenue	686,891	-	686,891
Long-term liabilities (Note 5):			
Due within one year	151,431	348,778	500,209
Due in more than one year	1,524,456	5,057,373	6,581,829
Landfill closure costs	1,759,932	-	1,759,932
Total Liabilities	4,885,282	5,769,993	10,655,275
NET ASSETS			
Invested in capital assets, net of related debt	11,455,672	14,150,118	25,605,790
Unrestricted	6,298,944	5,167,798	11,466,742
Total Net Assets	17,754,616	19,317,916	37,072,532
Total Liabilities and Net Assets	$ 22,639,898	$ 25,087,909	$ 47,727,807

See accompanying notes to the basic financial statements.

CITY OF AUBURN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets — Primary Government: Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT							
Governmental activities:							
General government	$ 2,058,232	$ 500,591	$ 348,742	$ -	$ (1,208,899)	$ -	$ (1,208,899)
Public safety	4,745,520	642,003	18,339	-	(4,085,178)	-	(4,085,178)
Health services	96,251	-	-	-	(96,251)	-	(96,251)
Environment and development	852,264	413,458	279,044	173,138	13,376	-	13,376
Transportation services	1,136,527	315,400	837,533	28,635	45,041	-	45,041
Interest on long-term debt	48,009	-	-	-	(48,009)	-	(48,009)
Total government activities	8,936,803	1,871,452	1,483,658	201,773	(5,379,920)	-	(5,379,920)
Business-type activities:							
Auburn Municipal Airport	641,157	104,233	-	61,586	-	(475,338)	(475,338)
Wastewater Treatment	2,276,665	2,773,504	-	-	-	496,839	496,839
Total business-type activities	2,917,822	2,877,737	-	61,586	-	21,501	21,501
Total primary government	$ 11,854,625	$ 4,749,189	$ 1,483,658	$ 263,359	$ (5,379,920)	$ 21,501	$ (5,358,419)
General revenues:							
Taxes:							
Sales taxes					$ 2,605,488	$ -	$ 2,605,488
Property taxes					3,256,499	53,456	3,309,955
Other taxes					1,050,935	-	1,050,935
Franchise fees					599,725	-	599,725
Licenses, permits and fees					210,514	-	210,514
Rents					316,959	347,803	664,762
Interest					153,018	(35,130)	117,888
Transfers					135,186	(135,186)	-
Total general revenues and transfers					8,328,324	230,943	8,559,267
Change in net assets					2,948,404	252,444	3,200,848
Net assets - beginning					14,806,212	19,065,472	33,871,684
Net assets - ending					$ 17,754,616	$ 19,317,916	$ 37,072,532

See accompanying notes to the basic financial statements.

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D-12

CITY OF AUBURN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General Fund	Transportation Fund	Other Governmental Funds	Total Government Funds
ASSETS				
Cash and investments	$ 2,114,667	$ 158,017	$ 3,572,662	$ 5,845,346
Restricted cash	140,820	-	1,369,912	1,510,732
Accounts receivable	656,025	6,969	68,214	731,208
Interest receivable	953	-	-	953
Taxes receivable	-	-	41,119	41,119
Due from other funds	250,196	-	-	250,196
Prepaid expenses	1,552,458	-	-	1,552,458
Prepaid self insurance equity	712,214	-	-	712,214
Total Assets	$ 5,427,333	$ 164,986	$ 5,051,907	$ 10,644,226
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	$ 360,269	$ 6,006	$ 201,188	$ 567,463
Accrued wages and benefits	-	-	-	-
Deposits	140,820	-	1,318	142,138
Due to other funds	52,971	-	-	52,971
Deferred revenue	-	156,980	527,311	686,891
Total liabilities	554,060	164,986	730,417	1,449,463
FUND BALANCES				
Unreserved: Designated for:				
Insurance programs	712,214	-	-	712,214
Debt service	-	-	168,566	168,566
General reserve	2,990,550	-	-	2,990,550
Unreserved: Undesignated	1,170,509	-	-	1,170,509
Unreserved: Reported in nonmajor:				
Special revenue funds	-	-	3,571,328	3,571,328
Capital projects funds	-	-	581,596	581,596
Total fund balances	4,873,273	-	4,321,490	9,194,763
Total liabilities and fund balances	$ 5,427,333	$ 164,986	$ 5,051,907	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of $3,658,486	11,995,672
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Compensated absences	(937,016)
Bonds payable	(540,000)
Landfill closure costs	(1,759,932)
Other long term liabilities	(198,871)
Net assets of governmental activities	$ 17,754,616

See accompanying notes to the basic financial statements.

CITY OF AUBURN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	Transportation Fund	Other Governmental Funds	Total Government Funds
REVENUES				
Taxes and assessments	$ 6,270,277	$ 353,163	$ 873,809	$ 7,497,249
Franchises	467,557	-	132,168	599,725
Licenses, permits and fees	547,834	-	58,635	606,469
Fines and forfeitures	134,882	-	-	134,882
Use of money and property	387,247	(3,337)	87,177	471,087
Intergovernmental	671,616	-	911,694	1,583,310
Charges for service	334,879	-	507,724	842,603
Other revenues	11,262	-	14,426	25,688
Total Revenues	8,825,554	349,826	2,585,633	11,761,013
EXPENDITURES				
Current operations:				
Safety services	4,490,965	-	115,253	4,606,218
Health services	-	-	260,582	260,582
Environment and development	594,031	-	207,466	801,497
Transportation	1,254,858	40,565	804,855	2,100,278
Administrative services	1,635,448	-	69,797	1,705,245
Debt service:				
Principal	-	10,976	135,306	146,282
Interest and other charges	-	2,644	45,365	48,009
Capital outlay	189,545	589,781	565,789	1,345,115
Total Expenditures	8,164,847	643,966	2,204,413	11,013,226
Excess (deficiency) of revenues over expenditures	660,707	(294,140)	381,220	747,787
OTHER FINANCING SOURCES (USES)				
Transfers in	169,921	294,140	314,538	778,599
Transfers out	(20,446)	-	(622,968)	(643,414)
Total other financing sources (uses)	149,475	294,140	(308,430)	135,185
Net change in fund balances	810,182	-	72,790	882,972
Fund balances, beginning	4,063,091	-	4,248,700	8,311,791
Fund balances - ending	$ 4,873,273	$ -	$ 4,321,490	$ 9,194,763

See accompanying notes to the basic financial statements.

CITY OF AUBURN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

Reconciliation of the change in fund balances - total governmental funds to the change in net assets of governmental activities:

Net change in fund balances - total governmental funds	882,972
Governmental funds report capital outlays as expenditures while governmental activities report depreciation as expense to allocate those expenditures over the life of the assets:	
Capital asset purchases capitalized	2,328,905
Depreciation expense	(442,418)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:	
Capital lease obligation principal payments	4,470
Bond principal payments	120,976
Due to Other Agencies debt payment for AUDA deferred tax increments	25,306
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Accrued compensated absences	(136,138)
Reduction in accrued landfill closure costs	164,331
Change in net assets of governmental activities	$ 2,948,404

See accompanying notes to the basic financial statements.

CITY OF AUBURN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	Business-type Activities		
	Airport	Sewer	Totals
ASSETS			
Current Assets			
Cash and investments	$ -	$ 4,642,442	$ 4,642,442
Accounts receivable	2,419	122,659	125,078
Interest receivable	-	-	-
Restricted cash	40,890	-	40,890
Due from other funds	52,971	-	52,971
Deferred interest	-	695,336	695,336
Total Current Assets	96,280	5,460,437	5,556,717
Fixed Assets, Net of Accumulated Depreciation	10,520,250	9,010,942	19,531,192
Total Fixed Assets	10,520,250	9,010,942	19,531,192
Total Assets	10,616,530	14,471,379	25,087,909
LIABILITIES			
Current Liabilities			
Accounts payable	21,873	61,783	83,656
Deposits	29,990	-	29,990
Due to General Fund	250,196	-	250,196
Compensated absences - current portion	3,854	5,988	9,842
Note payable - current portion	56,702	282,234	338,936
Total Current Liabilities	362,615	350,005	712,620
Long-Term Liabilities			
Compensated absences - long-term portion	12,552	2,683	15,235
Note payable - long-term portion	1,026,014	4,016,124	5,042,138
Total Long-Term Liabilities	1,038,566	4,018,807	5,057,373
Total Liabilities	1,401,181	4,368,812	5,769,993
NET ASSETS			
Invested in capital assets, net of related debt	9,437,534	4,712,584	14,150,118
Unrestricted	(222,185)	5,389,983	5,167,798
Total Net Assets	$ 9,215,349	$ 10,102,567	$ 19,317,916

See accompanying notes to the basic financial statements.

CITY OF AUBURN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Activities		
	Airport	Sewer	Totals
OPERATING REVENUES			
Licenses, permits, and fees	$ -	$ 301,682	$ 301,682
Charges for services	99,165	2,471,822	2,570,987
Other revenues	5,068	-	5,068
Total Operating Revenues	104,233	2,773,504	2,877,737
OPERATING EXPENSES			
Salaries and benefits	102,275	133,689	235,964
Operations	200,544	1,463,400	1,663,944
Maintenance	62,047	262,158	324,205
Depreciation	276,291	417,418	693,709
Total Operating Expenses	641,157	2,276,665	2,917,822
Operating Income (Loss)	(536,924)	496,839	(40,085)
NON-OPERATING REVENUES (EXPENSES)			
Taxes	53,456	-	53,456
Intergovernmental	61,586	-	61,586
Rental income	347,803	-	347,803
Interest income (expense)	(12,166)	86,398	74,232
Interest expense on debt	(59,893)	(49,469)	(109,362)
Total Non-Operating Revenues (Expenses)	390,786	36,929	427,715
Net Income (Loss) Before Operating Transfers	(146,138)	533,768	387,630
Transfers In	6,176	-	6,176
Transfers Out	(8,242)	(133,120)	(141,362)
Change in net assets	(148,204)	400,648	252,444
Total Net Assets - Beginning of Year	9,363,553	9,701,919	19,065,472
Total Net Assets - End of Year	$ 9,215,349	$ 10,102,567	$ 19,317,916

See accompanying notes to the basic financial statements.

CITY OF AUBURN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Activities		
	Airport	Sewer	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	$ 103,641	$ 2,657,211	$ 2,760,852
Cash deposits received (refunded)	(1,910)	-	(1,910)
Cash paid to suppliers	(255,369)	(1,686,550)	(1,941,919)
Cash paid to employees	(92,136)	(131,337)	(223,473)
Net Cash Provided (Used) by Operating Activities	(245,774)	839,324	593,550
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Taxes received	53,456	-	53,456
Cash received from other funds	97,039	(133,120)	(36,081)
Cash paid to other funds	(651,550)	-	(651,550)
Net Cash Provided (Used) for Noncapital Financing Activities	(501,055)	(133,120)	(634,175)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Operating grants	663,086	-	663,086
Principal paid on debt	(44,633)	(282,234)	(326,867)
Interest payments on debt	(59,893)	(2,462)	(62,355)
Acquisition of fixed assets	(106,478)	(203,990)	(310,468)
Net Cash Provided (Used) for Capital and Related Financing Activities	452,082	(488,686)	(36,604)
CASH FLOWS FROM INVESTING ACTIVITIES			
Rental income	347,803	-	347,803
Interest on investments	(12,166)	117,473	105,307
Net Cash Provided (Used) by Investing Activities	335,637	117,473	453,110
Net Increase (Decrease) in Cash and Cash Equivalents	40,890	334,991	375,881
Cash and Cash Equivalents at Beginning of Year	-	4,307,451	4,307,451
Cash and Cash equivalent at End of Year	$ 40,890	$ 4,642,442	$ 4,683,332

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

	Airport	Sewer	Totals
Operating Income (Loss)	$ (536,924)	$ 496,839	$ (40,085)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	276,291	417,418	693,709
Interest	-	-	-
Changes in assets and liabilities:			
(Increase) Decrease in accounts receivable	(592)	(116,293)	(116,885)
Increase (Decrease) in accounts payable	8,254	39,008	47,262
Increase (Decrease) in deferred interest	-	-	-
Increase (Decrease) in compensated absences	9,107	2,352	11,459
Increase (Decrease) in deposits	(1,910)	-	(1,910)
Net Cash Provided (Used) by Operating Activities	$ (245,774)	$ 839,324	$ 593,550

See accompanying notes to the basic financial statements.

CITY OF AUBURN
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Private-purpose Trust	Agency Funds
ASSETS		
Cash and investments	$ 21,883	$ 300,522
Accounts receivable	-	2,256
Interest receivable	-	-
Total assets	$ 21,883	$ 302,778
LIABILITIES		
Accounts Payable	-	$ 49,870
Agency Obligation	-	252,908
Total liabilities	$ -	$ 302,778
NET ASSETS		
Held in trust	$ 21,883	

See accompanying notes to the basic financial statements.

CITY OF AUBURN
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Private-purpose Trust
ADDITIONS	
Interest	$ 467
Total additions	467
DEDUCTIONS	
Reimbursement	31,597
Total deductions	31,597
Change in net assets	(31,130)
Net assets, beginning	53,013
Net assets, ending	$ 21,883

See accompanying notes to the basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

The notes provided in the Financial Section of this report are considered an integral and essential part of adequate disclosure and fair presentation of this report. The notes include a Summary of Significant Accounting Policies for the City and other necessary disclosure of pertinent matters relating to the financial position of the City. The notes provide significant insight into the financial statements and are conjunctive to understanding the rational for presentation of the financial statements and information contained in this document.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The City operates under a Council-Manager form of government and provides the following services: Public safety (police and fire), highways and streets, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City of Auburn have been prepared in conformity with general accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

The accounting methods and procedures adopted by the City conform to generally accepted accounting principles as applied to government entities. These financial statements present the government and its component units, entities for which the government is considered to be financially accountable under the criteria set by Governmental Accounting Standards Board (GASB) Statement No. 14.

Reporting for component units on the City's financial statements can be blended or discretely presented. Blended component units, although legally separate entities, are, in substance, part of the government's operation. Blended component units are an extension of the City and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the City. Each component unit has a June 30th year end.

Blended Component Unit - the following entity is governed by the City's Council. The component unit's governing body is substantially the same as the primary government, hence, this unit is presented by blending it with the primary government.

Auburn Urban Development Authority

The Auburn Urban Development Authority is a public instrumentality, organized and existing pursuant to the laws of the State of California for the purpose of eliminating blight through the process of redevelopment. All powers of the Authority are vested with its five members, the Auburn City Council. The Authority exercises governmental functions in carrying out projects and has sufficiently broad authorities to acquire, develop, administer and sell or lease property, and the right to issue bonds or incur other types of indebtedness and expend proceeds.

Although the City and Development Authority are legally separate entities, the City exercises oversight responsibility over the Development Authority. The following criteria were used in determining that the City exercises oversight:

1. The City Council also acts as the Board of Directors of the Development Authority.

2. The City and the Development Authority are financial interdependent.

Complete audited financial statements of the Auburn Urban Development Authority can be obtained from the City of Auburn, 1225 Lincoln Way, Auburn, CA 95603

Discretely Presented Component Units - There are no component units of the City which meet the criteria for discrete presentation.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation

The City's basic financial statements include both government-wide and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's police and fire protection, recreation, and general and administrative services are classified as governmental activities. The City's sewer and airport services are classified as business-type activities.

Government-wide Financial Statements:

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. The City's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Program revenues must be directly associated with the function (police, public works, etc.) or a business type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and

b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Fund - Debt Service Funds are used to account for the accumulation of financial resources for the payment of interest and principle on the general long-term debt of the City other than debt service payments made by enterprise funds.

Capital Project Fund - Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities other than those financed by enterprise funds.

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Funds (not included in government-wide statements)

Agency Fund - Agency Funds are clearing type funds for the collection of taxes or deposits held in trust, on behalf of individuals, private organizations and other governments. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-purpose Trust Fund - Private-purpose Trust Funds report trust arrangements under which the principal or interest benefit specific individuals, private organizations or other governments. The City reports the Southwest Specific Plan, Signature Theater Sewer District and APOA Medical Savings Plan Funds as Private-purpose Trust Funds.

Major Funds

Fund	Brief Description
Transportation	Supports the City's network of street projects that serve vehicular traffic. These projects include streets, bridges, interchanges, intersections, street lights sound walls and many other street related projects.
Airport	General aviation airport serving recreation, commuter, limited air cargo and public safety needs. Revenues generated off the easterly 40 acres of the City's Industrial Park (Phase I) are included in the Airport Enterprise Fund.
Sewer	Builds, operates and maintains Auburn's sewer treatment plant and collection system.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

a. All Governmental Funds are accounted for using a "current financial resources" measurement focus. With this measurement focus, only current assets and current liabilities generally are included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

b. All Proprietary Funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and all liabilities (whether current or noncurrent) associated with the operation of these funds are reported. Proprietary fund equity is classified as net assets.

c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City defines available to be within 60 days of year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

D. Cash and Investments

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as cash and investments.

For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments with a maturity of three months or less and pooled cash when purchased to be cash equivalents.

E. Inventory

The City does not record an inventory of expendable supplies. The cost is recorded as an expenditure at the time individual inventory items are purchased. Any amounts on hand at June 30, 2005 are not material.

F. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Receivables are recorded in the financial statements net of any allowance for doubtful accounts. Any doubtful accounts at June 30, 2005, were not considered material. Major receivable balances for the governmental activities include sales and use taxes, franchise taxes, grants, police fines and other fees. Business-type activities report utilities and interest earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and interest earnings compose the majority of proprietary fund receivables. Any doubtful accounts at June 30, 2005, were not considered material.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Fixed Assets

The accounting treatment over property, plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statement, fixed assets with an historical cost over $5,000 are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	40 years
Improvements	40 years
Office and Shop Equipment	5 years
Vehicles - heavy	10 years
Vehicles - light	7 years
Infrastructure	40 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

H. Accumulated Compensated Absences

It is the City's policy to permit employees to accrue earned but unused vacation and sick leave, which will be paid to employees upon separation from City services. Employees receive cash compensation for accrued and unused vacation and for accrued and unused sick leave in excess of forty days. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In governmental funds, the cost of vacation and sick leave is recognized when payments are made to employees, while proprietary funds report the liability as it is incurred.

I. Interfund Transactions

Following is a description of the four basic types of interfund transactions made during the year and the related accounting policies:

1. Quasi-external charges for current services - transactions for services rendered or facilities provided. These transactions are recorded as revenues in the receiving fund and expenditures in the disbursing fund.

2. Reimbursements (expenditure transfers) - transactions to reimburse a fund for specific expenditures incurred for the benefit of another fund. These transactions are recorded as expenditures in the disbursing fund and a reduction of expenditures in the receiving fund.

3. Residual equity transfers - transactions recording equity contributions and distributions between funds. The receiving fund records such transactions as an addition to fund balance, if it is a Governmental Fund, or a capital contribution, if it is a Proprietary Fund. The disbursing fund records the transfer as a reduction of fund balance, retained earnings, or contributed capital.

4. Operating Transfers - all other interfund transactions which allocate resources from one fund to another fund. These transactions are recorded as operating transfers in and out.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

b. Restricted net assets - Consists of net assets with constraints place on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

The City records reserves to indicate that a portion of the fund equity is legally segregated for a specific future use. Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or debt service. Such plans or intent care are subject to change and may never be legally authorized or result in expenditures. As of June 30, 2005, the City Council has designated general reserves of $2,996,550 and $2,050,000 in the General Fund and Sewer Fund, respectively.

K. Property Tax Revenues

Property taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on July 1st and are payable in two installments on December 10th and April 10th. All general property taxes are allocated by the County Auditor-Controller's office to the various taxing entities in installments during the year.

The County of Placer has elected into the Teeter Plan for property tax distributions. Therefore, the City receives 100 percent of the secured property tax levies to which it is entitled, whether or not collected. Unsecured delinquent taxes are considered fully collectible and no allowance for uncollectible taxes is provided.

Property taxes are accrued as receivables in the period when they are levied. Property tax revenues are recognized when they become available. "Available" means due, or past due, and receivable within the current period and collected or expected to be collected soon enough thereafter to be used to pay liabilities for the current period. This period was 60 days from the end of the fiscal year.

L. Grant Revenues

Certain grant revenues are recognized when specific related expenditures have been incurred. In other grant programs, monies are virtually unrestricted as to purpose of expenditure and are only revocable for failure to comply with prescribed compliance requirements. These revenues are recognized at the time of receipt, or earlier if susceptible to accrual criteria is met. Cash received prior to incurrence of the related expenditure is recorded as deferred revenue.

Deferred revenues of $158,980 are recorded in the Transportation capital project fund and $527,911 in the Transit special revenue fund.

CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Operating Revenues

Operating revenues for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue not related to capital and related financing, noncapital financing or investing activities.

N. Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds - By Character:
Current (further classified by function)
Debt Service
Capital Outlay

Proprietary Fund - By Operating and Non-operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

NOTE 2: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the fiscal year ended June 30, 2005, the City has excess expenditures over appropriations as follows:

Fund	Appropriations	Expenditures & Transfers Out	Excess
General Fund	$ 8,037,841	$ 8,185,293	$ 147,452

Excess expenditures over appropriations for the General Fund reflects under-estimating costs for the following unanticipated events:

- Professional services costs in the Community Development Department associated with building inspection activities due to department vacancies.
- Professional services costs in the Finance Department due to vacancy of Finance Director position.
- Unanticipated legal costs.
- Public Safety overtime costs.

NOTE 3: CASH AND INVESTMENTS

Cash and investments including cash on hand, at June 30, 2005, consisted of the following:

General Fund	$ 2,255,487
Special Revenue Funds	4,204,343
Debt Service Funds	155,315
Capital Projects	740,931
Enterprise Funds	4,683,332
Trust and Agency Funds	322,405
Total Cash and Investments	$ 12,361,813

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

Cash and investments were comprised of the following at June 30, 2005.

Cash on hand	$ 250
Deposits	4,629,200
Investments	7,732,363
Total Cash and Investments	$ 12,361,813

The City follows the practice of pooling cash and investments of all funds except for restricted funds required to be held by outside fiscal agents.

Interest income from pooled cash and investments is allocated on a quarterly basis based on the month end cash balance in each fund.

Deposits

The California Government Code requires California banks and savings and loan association to collateralize a City's deposits by pledging government securities. The market value of pledged securities must equal at least 110 percent of a City's deposits. California law also allows financial institutions to collateralize City deposits by pledging first trust deed mortgage notes having a value of 150 percent of a City's total deposits. The City may waive collateral requirements for deposits which are fully insured up to $100,000 by Federal Deposit Insurance.

At year end the carrying amount of the City's cash deposits (including amounts in checking and savings accounts) was $4,971,106. All of the cash in banks and savings and loans was insured by federal depository insurance or collateralized with securities held by the City by its agent in the City's name.

D-20

At June 30, 2005, restricted cash was held as follows:

General Fund	
Security Deposit	$ 140,820
Capital Projects	
Security Deposit	1,318
Enterprise	
Security Deposit	40,890
Special Revenue	
Post Closure	1,368,594
Total Restricted Cash	$ 1,551,622

Investments

In accordance with Government Code Section 53601, the City may invest in the following types of investments:

Bonds issued by the State of California and/or any local agency within the State of California
Securities of the U.S. Government, or its agencies
Certificates of Deposit (or Time Deposit) placed with commercial banks and/or savings and loan companies
Negotiable Certificates of Deposit
Bankers Acceptances
Commercial Acceptances
Local Agency Investment Fund (State Pool) Demand Deposits
Repurchase Agreements (Repos)
Passbook Savings Account Demand Deposits
Reverse Repurchase Agreements
Medium Term Corporate Notes
Mutual Funds Holding the above allowable investments

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

As of June 30, 2005, the City had the following investments in debt securities.

Investment	Fair Value	Investment Maturities (in Years) Less Than 1	1-5
Governmental obligation	$ 2,969,380	-	$ 2,969,380
Municipal bonds	461,485	461,485	-
Corporate bonds	3,510,200	-	3,510,200
Total	$ 6,941,065	$ 461,485	$ 6,479,580

Interest Rate Risk

The City does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As of June 30, 2005, the City had no significant interest rate risk related to cash and investment held.

Credit Risk
As of June 30, 2005, the City's investment in governmental bonds and notes were rated Aaa by Standard & Poor's. The ratings of the City's investment in corporate bonds ranged from A1 to Aa3 by Standard & Poor's.

Concentration of Credit Risk
The City does not place limits on the amount it may invest in any one issuer. At June 30, 2005, the City had no concentration of credit risk.

Participation in External Investment Pools

The City's fair value investment in the State of California's Local Agency Investment Fund (LAIF) was $130,514 at June 30, 2005. The total fair value of investment made by all public agencies in LAIF was $60,635,664,345, which was managed by the State Treasurer. Of this amount, 100 percent was invested in non-derivative financial products. Derivative financial products are contracts whose value depends on, or derives from, the value of an underlying assets, reference rate, or index. Rates are directly or inversely tied to various indexes. Therefore, the interest rate realized on these investments may lag or be inverse to market conditions and may cause a subsequent decline in market value. The Local Investment Advisory Board (LAIF Board) has oversight responsibility for LAIF. The LAIF Board consists of five members as designated by state statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the City's position in the pool.

The City's investment in the Placer County Treasurer Pool (County Pool) was $467,942 at June 30, 2005. The Placer County Treasurer manages investments of the County Pool and the County Treasury Oversight Committee is responsible for the regulatory oversight of its pool. The value of the County Pool shares, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the City's position in the County Pool.

Reverse Repurchase Agreements

State statutes permit the City to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. However, at no time during the fiscal year did the City borrow funds through the use of reverse repurchase agreements.

NOTE 4: FIXED ASSETS

	Balance at July 1, 2004	Additions	Retirements and Adjustments	Balance at June 30, 2005
Governmental activities:				
Land	$ 350,000	$ -	$ -	$ 350,000
Buildings	5,230,205	-	-	5,230,205
Machinery and equipment	3,269,123	210,457	-	3,479,580
Infrastructure	3,251,633	519,351	-	3,770,984
Construction-in-progress	1,224,292	1,607,960	(8,863)	2,823,389
Totals at historical cost	13,325,253	2,337,768	(8,863)	15,654,158
Less accumulated depreciation				
Buildings	(1,403,113)	(109,343)	-	(1,512,456)
Machinery and equipment	(1,802,094)	(333,075)	-	(2,135,169)
Infrastructure	(10,861)	-	-	(10,861)
Total accumulated depreciation	(3,216,068)	(442,418)	-	(3,658,486)
Governmental activities capital assets, net	10,109,185	1,895,350	(8,863)	11,995,672
Business-type activities:				
Land	2,764,740	62,690	-	2,827,430
Improvements to land	17,851,839	106,022	-	17,957,861
Machinery and equipment	928,422	100,948	13,990	1,043,360
Construction-in-progress	2,196,514	26,818	-	2,223,332
Totals at historical cost	23,741,515	296,478	13,990	24,051,983
Less accumulated depreciation				
Improvements to land	(3,137,421)	(544,392)	-	(3,681,813)
Machinery and equipment	(689,664)	(148,372)	(942)	(838,978)
Total accumulated depreciation	(3,827,085)	(692,764)	(942)	(4,520,791)
Business-type capital assets, net	$ 19,914,430	$ (396,286)	$ 13,048	$ 19,531,192

D-21

Depreciation was charged to functions as follows:

Governmental Activities:	
General government	$ 56,140
Public safety	262,829
Transportation services	123,449
Total governmental activities depreciation expense	$ 442,418
Business-type Activities	
Auburn Municipal Airport	$ 275,356
Sewer	417,408
Total business-type activities depreciation expense	$ 692,764

CITY OF AUBURN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 5: LONG-TERM DEBT

Governmental Activities

The following is a summary of long-term debt transactions related to governmental activities of the City for the year ended June 30, 2005:

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds and notes payable:				
General obligation bonds	$ 650,000	$ -	$ (110,000)	$ 540,000
Capital leases	14,031	-	(4,475)	9,556
Loans payable	90,864	-	(10,976)	79,888
Due to other agencies	134,733	-	(25,306)	109,427
Total bonds and notes payable	889,628	-	(150,757)	738,871
Other liabilities:				
Compensated absences	800,878	136,138	-	937,016
Landfill closure costs	1,924,263	-	(164,331)	1,759,932
Total other liabilities	2,725,141	136,138	(164,331)	2,696,948
Governmental activities long-term liabilities	$ 3,614,769	$ 136,138	$ (315,088)	$ 3,435,819

A description of the long-term liabilities related to governmental activities at June 30, 2005 follows:

General Obligation Bonds:

The Civic Center general obligation bonds of $2,330,000 at 6.5 to 9.25 percent interest mature annually through August 1, 2009. Bond proceeds were used to finance the acquisition and construction of improvements to the City of Auburn Civic Center, including a Police Station, City Administrative offices, and related facilities.

The annual requirements to amortize the general obligation bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2006	120,000	27,810	147,810
2007	130,000	27,370	157,370
2008	140,000	26,560	166,560
2009	150,000	16,500	166,500
Total	$ 540,000	$ 98,240	$ 638,240

Capital Leases:

Xerox Corporation, Inc. lease - Capital lease dated May 10, 2002 for $22,181 for a digital copier. Payments of $447 including interest for 60 months. The lease includes a $1 bargain purchase option at the end of the lease term. The balance at June 30, 2005 was $9,556.

The total cost of assets under capital leases at June 30, 2005 was $22,181. The minimum capital lease payments under capital lease together with the present value as of June 30, 2005 is as follows:

NOTE 5: LONG-TERM DEBT (CONTINUED)

Year Ending June 30,	Total
2006	5,363
2007	4,916
Total minimum lease payments	10,279
Less amount representing interest	(723)
Present value of minimum lease payments	$ 9,556

Loans Payable

In April 2002, the City completed the LED Signal Conversion project for which it received a loan in the amount of $112,060 from the California Energy Commission. The loan bears an interest rate of 3% and requires 19 semiannual payments beginning on December 22, 2002.

A schedule of principal payments is as follows:

Year Ending June 30,	Principal	Interest	Total
2006	$ 11,308	$ 2,312	$ 13,620
2007	11,649	1,971	13,620
2008	11,997	1,623	13,620
2009	12,364	1,256	13,620
2010	12,738	882	13,620
2011	19,832	598	20,430
Total	$ 79,886	$ 8,642	$ 88,530

D-22

Due to Other Agencies:

The Auburn Urban Development Authority has agreed to pass through to Placer County Library, Park, and Cemetery Districts seven percent of the amount of tax increments it receives from property within the redevelopment area. The Agencies have agreed to defer this amount for ten years at which time, beginning in 1998-1999, the Authority is to commence making ten equal annual payments. The balance at June 30, 2005 was $ 109,427 .

Year Ending June 30,	Principal	Interest	Total
2006	$ 25,306	$ -	$ 25,306
2007	25,306	-	25,306
2008	25,306	-	25,306
2009	2,234	-	2,234
2010	2,234	-	2,234
2011 - 2015	11,170	-	11,170
2016 - 2020	11,170	-	11,170
2021 - 2023	6,701	-	6,701
Total	$ 109,427	$ -	$ 109,427

Compensated absences:

The liability for compensated absences is the accrued liability for earned but unused vacation and sick leave which will be paid to employees upon separation from the City's service. There is not a fixed payment schedule for compensated absences, however, the City has estimated the portion of compensated absences due within one year at $239,243. At June 30, 2005, the total balance was $ 937,916 .

NOTE 5: LONG-TERM DEBT (CONTINUED)

Landfill Closure Costs:

As of June 30, 2005, the estimated liability for post closure cost was $1,759,932. See Note 12 for more information on landfill closure costs.

Business-type Activities

The following is a summary of long-term debt transactions related to business-type activities of the City for the year ended June 30, 2005

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds and notes payable:				
Airport (East Hanger Project) note payable	$ 960,000	$	$ (42,222)	$ 917,778
Airport note payable	167,349	6,932	(9,343)	164,938
Sewer (Phase 1A) note payable	1,630,365	-	(108,691)	1,521,674
Sewer (Phase 1B) note payable	2,950,227	-	(173,543)	2,776,684
Total bonds and notes payable	5,707,941	6,932	(333,799)	5,381,074
Other liabilities:				
Compensated absences	13,618	11,459	-	25,077
Total other liabilities	13,618	11,459	-	25,077
Business-type activities long-term liabilities	$ 5,721,559	$ 18,391	$ (333,799)	$ 5,406,151

A description of the long-term debt related to business-type activities at June 30, 2005 is as follows:

Bonds and Notes Payable:

A loan agreement in the amount of $1,000,000 at 4.68% for the East Hanger Project at the Auburn Municipal Airport was entered into at November 14, 2002.

The annual requirements to amortize the note is as follows:

Year Ending June 30,	Principal	Interest	Total
2006	$ 46,667	$ 42,984	$ 89,651
2007	51,111	40,798	91,909
2008	55,556	38,405	93,961
2009	60,000	35,803	95,803
2010	64,444	32,993	97,437
2011- 2015	388,889	115,526	504,415
2016- 2018	251,111	22,273	273,384
Total	$ 917,778	$ 328,782	$ 1,246,560

NOTE 5: LONG-TERM DEBT (CONTINUED)

A loan agreement in the amount of $200,000 at 4.78 percent for a fuel facility at the Auburn Municipal Airport was entered into at June 30, 2005.

The annual requirements to amortize the note is as follows:

Year Ending June 30,	Principal	Interest	Total
2006	$ 10,035	$ 7,553	$ 17,588
2007	10,727	7,073	17,800
2008	11,419	6,560	17,979
2009	12,111	6,014	18,125
2010	12,803	5,435	18,238
2011 - 2016	91,350	18,603	109,953
2017	9,561	457	10,018
Total	$ 158,006	$ 51,695	$ 209,701

A State Revolving Fund Local Match Loan was entered for the construction of the water waste treatment plant (Phase 1B). The Federal government funded the City $1,811,509. The City is to match $362,311 for the Phase 1A project. Total loan payable of $2,173,820 is to be repaid to the State Water Resources Control Board. The annual requirements to amortize the note is a follows:

Year Ending June 30,	Principal	Interest	Total
2006	$ 108,691	$ -	$ 108,691
2007	108,691	-	108,691
2008	108,691	-	108,691
2009	108,691	-	108,691
2010	108,691	-	108,691
2011 - 2015	543,455	-	543,455
2016-2019	434,764	-	434,764
Total	$ 1,521,674	$ -	$ 1,521,674

Additionally a second State Revolving Fund Local Match Loan was entered in November, 1999. The Federal government funded the City $2,892,368. The City is to match $578,487 for the project. Total loan payable of $3,470,855 is to be repaid to the State Water Resources Control Board. The annual requirements to amortize the note is a follows:

Year Ending June 30	Principal	Interest	Total
2006	$ 173,543	$ -	$ 173,543
2007	173,543	-	173,543
2008	173,543	-	173,543
2009	173,543	-	173,543
2010	173,543	-	173,543
2010 - 2015	1,041,256	-	1,041,256
2015 - 2020	867,713	-	867,713
Total	$ 2,776,684	$ -	$ 2,776,684

Compensated absences:

The liability for compensated absences is the accrued liability for earned but unused vacation and sick leave which will be paid to employees upon separation from City service. There is not a fixed payment schedule for compensated absences. At June 30, 2005, the balance was $25,077.

D-23

NOTE 6: DEFINED BENEFITS PENSION PLAN

A. 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 statute. Copies of PERS' annual financial report may be obtained from their executive office - 400 P Street - Sacramento, CA 95814.

B. Funding Policy

Active plan members in PERS are required to contribute 7% (9% for safety employees) of their annual covered salary. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. The required employer contribution rate for fiscal year 2004/2005 was 24.750% for miscellaneous employees and 24.750% for safety employees. The contribution requirements of the plan are established by statute. The City is required to contribute the remaining amounts necessary to fund the benefits of its members using the actuarial basis adopted be the PERS Board of Administrators.

C. Annual Pension Cost

For fiscal year 2004/2005, the City's annual pension cost of $1,016,112 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2002, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases ranging from 3.75% to 14.20% depending on age, service and type of employment. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short term volatility in the market value of investments over a four-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

D. Three Year Trend Information for PERS

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2003	$ 721,122	100%	-
June 30, 2004	864,404	100%	-
June 30, 2005	1,016,112	100%	-

E. Funded Status of Plan

Miscellaneous Plan:

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL As a % of Payroll
June 30, 2001	$ 8,107,368	$ 9,588,105	$ (1,480,737)	118.3%	$ 2,003,783	(73.9%)
June 30, 2002	8,781,679	8,656,713	124,966	98.6%	2,271,891	5.5%
June 30, 2003	10,394,072	8,766,936	1,627,136	84.3%	2,678,967	60.7%

NOTE 6: DEFINED BENEFITS PENSION PLAN (CONTINUED)

Safety Plan:

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL As a % of Payroll
June 30, 2001	$ 9,305,310	$ 8,668,384	$ 636,926	93.2%	$ 1,546,555	41.2%
June 30, 2002	10,359,774	8,284,132	2,075,642	80.0%	1,713,661	121.1%
June 30, 2003	11,544,038	8,888,229	2,655,809	77.0%	1,810,720	146.7%

NOTE 7: INTERFUND TRANSACTIONS

Operating Transfers

The following is a summary of operating transfers by fund type as of June 30, 2005.

	Operating Transfers In	Operating Transfers Out
General	$ 169,921	$ 20,446
Special Revenue	229,537	328,826
Debt Service	-	-
Capital Projects	379,140	294,140
Enterprise	6,176	141,362
Total	$ 784,774	$ 784,774

D-24

Interfund Receivables and Payables

All interfund receivable and payable balances are reflected in the financial statements as due to/from other funds for current balances and as advances to/from for non-current balances.

	Due From Other Funds	Due To Other Funds
General	$ 250,196	$ 52,971
Enterprise	52,971	250,196
Total	$ 303,167	$ 303,167

NOTE 8: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Segment information for the year ended June 30, 2005, was as follows:

Enterprise funds are established to account for the City operations that are financed and operated in a manner similar to private businesses; where the cost of goods and services to the general public is financed primarily through user charges. The funds included are:

Airport Operating - to account for the operation and management of the City Airport.

Sewer Operating - to account for the operations and management of the City sewer operations.

NOTE 8: SEGMENT INFORMATION FOR ENTERPRISE FUNDS (CONTINUED)

	Airport	Sewer	Total
Operating Revenue	$ 104,233	$ 2,773,504	2,877,737
Depreciation	276,291	417,418	693,709
Operating Income (Loss)	(536,924)	496,839	(40,085)
Operating Transfers In	6,176	-	6,176
Operating Transfers Out	(8,242)	(133,120)	(141,362)
Tax and intergovernmental revenues	115,042	-	115,042
Net Income (Loss)	(148,204)	400,648	252,444
Property, Plant, and Equipment Additions	1,699,068	43,327	1,742,395
Net Working Capital (Deficit)	(266,335)	5,110,432	4,844,097
Net Cash Provided (Used) by Operating Activities	(245,774)	839,324	593,550
Total Assets	10,616,530	14,471,379	25,087,909
Bonds and Other Long-term Liabilities:			
Current Portion	56,702	282,234	338,936
Long-Term Portion	1,038,566	4,018,807	5,057,373
Total Equity	9,215,349	10,102,567	19,317,916

NOTE 9: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

There is no claims liability to be reported based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount for the loss can be reasonably estimated.

There are no significant reductions in insurance coverage from prior years and there have been no settlements exceeding the insurance coverage for each of the past three years.

The City has joined together with other Cities in the State to participate in Northern California Cities Self Insurance Fund (NCCSIF). This joint venture is a public entity risk pool which serves as a common risk management and insurance program for liability and workers compensation coverage for member cities. The NCCSIF is composed of 18 member cities and is governed by a board of directors appointed by the member cities. The governing board has authority over budgeting and financing.

General Liability Coverage: Annual deposits are paid by member cities and are adjusted retrospectively to cover costs. Each member city, including Auburn, self-insures for the first $25,000 of each loss. Participating cities share in loss occurrences in excess of $25,000 up to a maximum of $500,000. Premiums accrue based on the ultimate cost of the experience of the group of Cities.

Workers' Compensation Coverage: Annual deposits are paid by member cities and are adjusted retrospectively to cover costs. The City self-insured for the first $25,000 of each loss and has purchased excess coverage with limits of $5,000,000 per occurrences.

Upon termination of the JPA agreement, all property of the Authority will vest in the respective parties which theretofore transferred, conveyed or leased said property to the Authority. Any surplus of funds will be returned to the parties in proportion to actual balances to each equity.

NOTE 9: RISK MANAGEMENT (CONTINUED)

The Authority establishes claims liabilities based on estimates of the ultimate costs of claims (including future claims settlement expenses) that have been reported but not settled, plus estimates of claims that have been incurred but not reported. Because actual claim costs depend on various factors, the claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision of inflation is implicit in the calculation of estimated future claims costs. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

The participants at June 30, 2005 were as follows:

Anderson	Folsom	Marysville	Rocklin
Auburn	Galt	Oroville	Willows
Colusa	Gridley	Paradise	Yuba City
Corning	Jackson	Red Bluff	
Dixon	Lincoln	Rio Vista	

The City's equity investment in the NCCSIF of $712,214 is recorded in the general fund as a prepaid self insurance equity.

The following is a summary of the latest audited financial information of the NCCSIF for the liability and workers' compensation program for the fiscal year ended June 30, 2005:

	Total Joint Venture	City of Auburn's Share
Total Revenues	$ 16,232,892	$ 307,416
Total Expenses	(14,441,788)	(277,046)
Excess of Revenue Over Expenses	1,791,104	30,370
Fund Equity - July 1, 2004	9,615,256	681,844
Fund Equity - June 30, 2005	$ 1,791,104	$ 30,370

D-25

NOTE 10: JOINT AGENCIES

The Northern California Cities Self Insurance Fund (NCCSIF) is a joint powers authority organized to provide for a banking plan whereby the member cities can share in the administrative costs of providing liability and workers' compensation insurance. The NCCSIF is governed by the Board of Directors appointed by the member cities.

Complete audited financial statements can be obtained from the Claims Administrator, 574 Manzanita Avenue, Suite 12, Chico, California 95926.

The California Joint Powers Insurance Risk Management Authority (CJPRMA) is a joint power authority organized to provide excess coverage for its members. The CJPRMA is governed by a board of directors representing its member cities.

Complete audited financial statements can be obtained from the Claims Administrator, 574 Manzanita Avenue, Suite 12, Chico, California 95926.

The California Transit Insurance Pool (CTIP) is a joint powers authority organized to provide liability coverage for its members. The CTIP is governed by a board of directors representing its member agencies. CTIP is composed of 32 member agencies.

Completed audited financial statements can be obtained from the Claims Administrator, 574 Manzanita Avenue, Suite 12, Chico, California 95926.

NOTE 11: COMMITMENTS AND CONTINGENCIES

Contingencies

The City has received state grants for specific purposes that are subject to review and audit by the state government. Although such audits could result in expenditure disallowances under grant terms, any required reimbursements are not expected to be material.

Construction Commitments

At June 30, 2005, the City had construction contracts outstanding of approximately $126,698. These projects should be completed within the next year and the cost will be recorded at that time.

NOTE 12: POST CLOSURE

The City of Auburn has post closure responsibility for one landfill site (located on the Auburn Municipal Airport). State and federal laws and regulations require that the City of Auburn place a final cover over its closed landfill and perform certain maintenance and monitoring functions at the landfill site for thirty years following its closure. Closure procedures have been performed and post closure activity is recorded in a trust fund. Post closure maintenance activities are funded by a 4.71 percent surcharge on refuse collection fees. The estimated liability for post closure care costs is estimated to be $1,759,932, as of June 30, 2005. The estimate of post closure care costs is based on the amount that would be paid if all equipment, facilities, and services required to monitor and maintain the landfill were acquired as of June 30, 2005. However, the actual costs may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The City of Auburn is required by state and federal laws and regulations to make annual contributions to finance post closure care costs. The costs of these procedures is funded on a pay as you go basis. The City has not adopted a pledge of revenue to fund these costs. At June 30, 2005, the City was holding bank deposits and federal securities in the amount of $1,368,594 for this purpose. It is anticipated that future costs will be financed in part from earnings on these investments, and the continuation of the franchise fee surcharge. The net present value of the estimated future surcharge fees and interest is $1,245,747. The remaining portion of estimated post closure maintenance costs and any additional costs that might arise from changes in post closure requirements (due to changes in technology or more rigorous environmental regulations) may need to be covered by an increase in the rate of the franchise surcharge assessed against refuse collection fees.

Additionally , the City recognizes that there is a risk of future landfill gas migration or groundwater contamination, which could result in bodily injury and/or property damage liability claims against the City. Accordingly, the City has secured a "third party pollution liability" insurance agreement (underwritten by United Capital Insurance Company) to pay for any damages arising out of claims which might result from future pollution conditions that might result from the landfill site. This insurance coverage applies to groundwater contamination from leachates, but excludes remediation of landfill gas that might migrate from the closed landfill site. The aggregate coverage limit is $1,500,000, and there is a policy deductible of $100,000 for each pollution condition.

CITY OF BENICIA, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2005

Prepared by

FINANCE DEPARTMENT

MAZE & ASSOCIATES

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INDEPENDENT AUDITOR'S REPORT ON
BASIC FINANCIAL STATEMENTS

To the City Council
City of Benicia, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Benicia, California as of and for the year ended June 30, 2005, 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 generally accepted auditing standards in the United States of America and the standards for financial audits contained in *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to 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.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Benicia, California as of June 30, 2005 and the respective changes in the financial position and cash flows, where applicable, thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended in conformity with generally accepted accounting principles in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Benicia, California. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section listed in the Table of Contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly we express no opinion on them.

Maze & Associates

November 30, 2005

A Professional Corporation

This management's discussion and analysis provides an overview of financial activities of the City of Benicia (City) for the fiscal year ended June 30, 2005. Please read this discussion and analysis in conjunction with the accompanying transmittal letter, the basic financial statements and the accompanying notes to the basic financial statements.

The City has issued these financial statements in accordance with Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government" (GASB 34), and its successor statements.

The Government-Wide Financial Statements present the financial position of the City using the economic resources measurement focus and the accrual basis of accounting. These statements present governmental activities and business-type activities separately. Also, these statements include the City's assets, consisting of land, structures, construction in progress, equipment and two sub-systems of infrastructure, streets and streetlights, as well as all liabilities, including long-term debt. Other infrastructure in place at June 30, 2002, but not included in these financial statements, will be added by June 30, 2007, as required by GASB 34, as the historic cost and depreciation are determined. Additionally, in accordance with GASB 34, certain eliminations have been made related to interfund activity, payables and receivables.

The Fund Financial Statements include governmental, proprietary and fiduciary funds. The governmental funds are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The proprietary funds are prepared using the economic resources measurement focus and the accrual basis of accounting. The fiduciary funds consist of agency and trust funds, which only report a balance sheet and do not have a measurement focus. A reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach under GASB 34.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about the City as a whole and its activities. These statements include the assets and liabilities of the City using the accrual basis of accounting, which is similar to the accounting used by most private-sector entities. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which liability is incurred.

These statements report the City's net assets. Net assets are the difference between assets and liabilities, which is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors to consider are changes in the City's property tax base and economic trends, such as expansion and development. In the Statement of Net Assets and the Statement of Activities, the City's activities are categorized as either governmental or business-type activities.

Governmental Activities

Most of the City's basic services are reported in this category, including the general governmental activities, such as fire, police, public works, community development, parks, recreation, and library services. Sales, utility and property taxes, user fees, interest income, franchise fees, and state and federal grants finance these activities.

Business-Type Activities

The City charges a fee to customers to pay for the cost of certain services provided. The City's water, wastewater, marina, and transit operations are reported in the category.

Reporting the City's Most Significant Funds

Fund Financial Statements

The Fund Financial Statements provide detailed information about the City's major funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City establishes many other funds to help control and manage money for a particular purpose or to show that the City is meeting legal responsibilities for using certain taxes, grants, and other funds. There are six major funds reported at June 30, 2005 including the General Fund, McAllister Area Capital Project Fund and four proprietary funds, the Marina, Transit, Water and Wastewater Funds.

Governmental Funds

Most of the City's basic services are reported in governmental funds. These funds focus on reporting the flow of money into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used. The governmental fund financial statements provide a detailed short-term view of the City's general government operations and the basic services provided. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences between the Governmental Fund Financial Statements and the Government-Wide Financial Statements are explained in a reconciliation following the Government-Wide Financial Statements.

D-28

Proprietary Funds

When the City charges customers for services, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets. The City's enterprise funds are the same as the business-type activities reported in the Government-Wide Financial Statements, but provide more detail and additional information, such as cash flows for each enterprise fund.

Fiduciary Funds

The City is the trustee, or fiduciary, for certain funds established to account for assets held by the City in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. The City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. These activities are excluded from the City's Government-Wide Financial Statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their specified purposes.

Government-Wide Financial Analysis

The total net assets of the City as of June 30, 2005 are summarized in Table 1 below.

Table 1
Government-Wide Net Assets

Net Assets	2005	2004	Increase (Decrease)	Percent Change
Invested in Capital Assets, Net of Related Debt	$ 158,135,092	$ 157,851,879	$ 283,213	0.2%
Restricted For:				
Capital Projects	5,475,119	3,713,033	1,762,086	47.5%
Debt Service	2,228,999	1,456,995	772,004	53.0%
Special Revenue	1,627,734	1,814,245	(186,511)	-10.3%
Unrestricted	45,433,123	33,965,750	11,467,373	33.8%
Total Net Assets	$ 212,900,067	$ 198,801,902	$ 14,098,165	7.1%

The total net assets of the City have increased by 7.1 percent from $198,801,902 at June 30, 2004 to $212,900,067 at June 30, 2005. The increase of $14,098,165 derives from the change in net assets, as recorded in the Statement of Activities, which flows through to the Statement of Net Assets.

Governmental Activities Analysis

The financial position of the City's governmental activities as of June 30, 2005 is summarized in Table 2 below.

Table 2
Governmental Financial Position

Balance Sheet	2005	2004	Increase (Decrease)	Percent Change
Current Assets	$ 26,997,280	$ 19,900,421	$ 7,096,859	35.7%
Capital Assets, Net of Accumulated Depreciation	115,610,281	112,761,317	2,848,964	2.5%
Other Assets	1,296,888	1,305,436	(8,548)	-0.7%
Total Assets	143,904,449	133,967,174	9,937,275	7.4%
Current Liabilities	4,970,197	3,533,904	1,436,293	40.6%
Long Term Liabilities	8,885,000	9,312,432	(427,432)	-4.6%
Total Liabilities	13,855,197	12,846,336	1,008,861	7.9%
Net Assets:				
Invested in Capital Assets, Net of Related Debt	106,131,111	103,928,682	2,202,429	2.1%
Restricted	8,273,480	6,542,947	1,730,533	26.4%
Unrestricted	15,644,661	10,649,209	4,995,452	46.9%
Total Governmental Net Assets	$ 130,049,252	$ 121,120,838	$ 8,928,414	7.4%

At June 30, 2005, the current governmental assets are 18.8 percent of the total assets with the remaining 81.2 percent invested in capital assets, net of accumulated depreciation and other long-term assets. The current liabilities are 35.9 percent of the total liabilities with the remaining 64.1 percent in long-term liabilities defined as those liabilities not due in the coming fiscal year. The current ratio for governmental activities at the end of the year is $5.43 of current assets for every $1.00 of current liabilities. Of the total net assets, 81.6 percent are invested in capital assets, 6.4 percent are restricted and the remaining 12.0 percent are unrestricted and available for future operations.

The cost of all governmental activities during fiscal year 2005 was $32,444,700. This cost was paid by those who directly benefited from the programs, fines and forfeitures and other program revenues ($5,404,282), by other government agencies and organizations that subsidized certain programs with grants and contributions ($11,449,069) and the balance was financed ultimately by the City's taxpayers ($21,272,591).

The following table presents the changes in net assets for governmental activities for the fiscal year 2005:

Table 3

Governmental Activities

Activities	2005	2004	Increase (Decrease)	Percent Change
Program Revenues:				
Charges for Services	$ 5,404,282	$ 4,067,119	$ 1,337,163	32.9%
Grants & Contributions	-			
Operating	2,063,235	1,595,353	467,882	29.3%
Capital	9,385,834	1,054,873	8,330,961	789.8%
Subtotal Program Revenues	16,853,351	6,717,345	10,136,006	150.9%
General Revenues:				
Taxes				
Property	11,853,045	11,280,618	572,427	5.1%
Sales	4,890,592	4,758,335	132,257	2.8%
Utility Users'	2,826,370	2,747,951	78,419	2.9%
Other	1,702,584	1,934,761	(232,177)	-12.0%
Motor Vehicle Fees	2,071,395	1,241,512	829,883	66.8%
Investment Earnings	540,441	1,020,649	(480,208)	-47.0%
Gain from Sale of Capital Assets	26,851	39,446	(12,595)	-31.9%
Transfers, Net	608,485	714,465	(105,980)	-14.8%
Subtotal General Revenues	24,519,763	23,737,737	782,026	3.3%
Total Governmental Revenues	41,373,114	30,455,082	10,918,032	35.8%
Governmental Expenses:				
Administrative	3,563,133	3,262,692	300,441	9.2%
Community Development	1,788,216	1,357,960	430,256	31.7%
Public Safety: Police	7,531,528	6,067,925	1,463,603	24.1%
Public Safety: Fire	4,955,345	4,648,831	306,514	6.6%
Parks & Community Services	3,994,390	4,194,633	(200,243)	-4.8%
Public Works	6,432,754	4,740,810	1,691,944	35.7%
Library	1,895,726	1,849,493	46,233	2.5%
Claims	98,548	766,467	(667,919)	-87.1%
Economic Development	158,738	189,737	(30,999)	-16.3%
General	1,118,485	1,683,026	(564,541)	-33.5%
Community Grants	460,434	429,403	31,031	7.2%
Interest on Long Term Debt	447,403	399,337	48,066	12.0%
Total Governmental Expenses	32,444,700	29,590,315	2,854,385	9.6%
Change in Governmental Net Assets	$ 8,928,414	$ 864,767	$ 8,063,647	932.5%

Business-Type Activities Analysis

The City's business-type activities include water and wastewater utilities, a marina and public transportation. Table 4 summarizes the financial condition of the City's business-type activities at June 30, 2005:

Table 4

Business Type Financial Position

Balance Sheet	2005	2004	Increase (Decrease)	Percent Change
Current Assets	$ 29,446,974	$ 24,979,598	$ 4,467,376	17.9%
Restricted Assets	1,058,372	441,326	617,046	139.8%
Capital Assets,				
Net of Accumulated Depreciation	99,748,371	92,763,888	6,984,483	7.5%
Other Assets	2,884,891	2,025,978	858,913	42.4%
Total Assets	133,138,608	120,210,790	12,927,818	10.8%
Current Liabilities	5,703,605	6,693,711	(990,106)	-14.8%
Long Term Liabilities	44,584,188	35,836,015	8,748,173	24.4%
Total Liabilities	50,287,793	42,529,726	7,758,067	18.2%
Net Assets:				
Invested in Capital Assets,				
Net of Related Debt	52,003,981	53,923,197	(1,919,216)	-3.6%
Restricted	1,058,372	441,326	617,046	139.8%
Unrestricted	29,788,462	23,316,541	6,471,921	27.8%
Total Business-Type Net Assets	$ 82,850,815	$ 77,681,064	$ 5,169,751	6.7%

At June 30, 2005, the current assets are 22.1 percent of the total assets with the remainder comprised of various other assets (3.0%) and capital assets, net of accumulated depreciation (74.9%). The current liabilities are 11.3 percent of the total liabilities with the remaining 88.7 percent comprised of long term liabilities, defined as those liabilities not due in the coming fiscal year. The current ratio for business-type activities at the end of the year is $5.16 of current assets for every $1.00 of current liabilities. Of the total net assets, 62.8 percent are invested in capital assets, 1.2 percent are restricted and the remaining 36 percent are unrestricted and available for future operations. Of the unrestricted net assets, $9,589,090 is designated for capital maintenance, replacement, and expansion in the water and wastewater activities.

Total expenses for business-type activities for the year ended June 30, 2005 are $13,232,647. Program revenues, comprised primarily of charges for services, totaled $18,049,979, an increase of $2,467,420. This increase is primarily due to water and wastewater activities, which experienced increased capital contributions ($1,518,000), connection fees for new development ($761,177), and increased receipts due scheduled rate increases ($298,644).

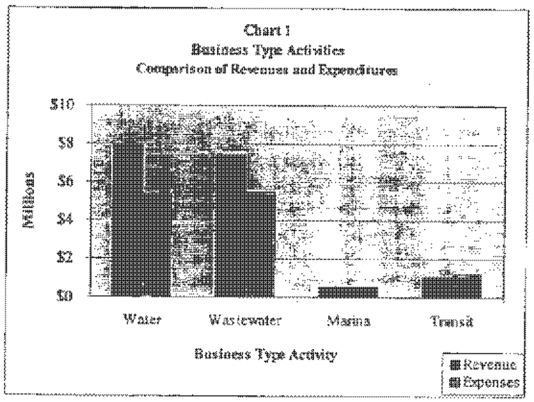
D-30

The following table presents the changes in net assets for business-type activities for the year ended June 30, 2005:

Table 5
Business-Type Activities

Activities	2005	2004	Increase (Decrease)	Percent Change
Operating Revenues:				
Charges for Services	$ 12,214,624	$ 11,913,980	$ 298,644	2.5%
Connection Fees	2,933,670	2,172,493	761,177	35.0%
Marina Rents	331,516	313,959	17,557	5.6%
Other	145,170	154,688	(9,518)	-6.2%
Operating Grants & Contributions	906,999	1,025,439	(118,440)	-11.6%
Capital Contributions	1,518,000	0	1,518,000	100.0%
Subtotal Program Revenues	18,049,979	15,582,559	2,467,420	125.4%
General Revenues:				
Gain on Sale of Capital Assets	2,715	0	2,715	100.0%
Investment Earnings	349,704	331,809	17,895	5.4%
Total Revenues	18,402,398	15,914,368	2,488,030	15.6%
Operating Expenses:				
Water Utility	5,394,061	5,280,652	113,409	2.1%
Wastewater Utility	5,461,603	5,156,056	305,547	5.9%
Benicia Marina	564,568	760,307	(195,939)	-25.8%
Transit	1,203,930	1,123,274	80,656	7.2%
Subtotal Operating Expenses	12,624,162	12,320,489	303,673	2.5%
General Expenses:				
Loss on sale of capital assets	0	155,435	(155,435)	100.0%
Net Transfers Out	608,485	714,465	(105,980)	-14.8%
Total Expenses	13,232,647	13,190,389	42,258	0.3%
Changes in Net Assets	$ 5,169,751	$ 2,723,979	$ 2,445,772	89.8%

The following chart illustrates the comparison of operating revenues and expenses by business-type activity:



Financial Analysis of City's Major Funds

General Fund

The General Fund accounts for financial resources traditionally associated with government activities that are not legally required to be accounted for in another fund.

As the table below indicates, the General Fund balance increased 4.2 percent ($390,922) to $9,679,358 from the prior year amount of $9,288,436. The following schedule presents a comparison of the General Fund balance for the fiscal years ended June 30, 2005 and 2004, with the percentage of increases and decreases in relation to prior-year amounts and categorized as legally reserved or restricted ($534,805); unreserved, designated by City Council for future expenditures ($2,014,950); and undesignated fund balance available for future operations ($7,129,603).

Table 6
General Fund Balance

Fund Balance:	2005	2004	Increase (Decrease)	Percent Change
Reserved for:				
Prepaid Items	$ 48,299	$ 39,040	$ 9,259	23.7%
Encumbrances	261,856	128,203	133,653	104.3%
Advance to other Funds	224,650	794,460	(569,810)	-71.7%
Reserved Subtotal	534,805	961,703	(426,898)	-44.4%
Unreserved:				
Designated for:				
Equipment Replacement	1,094,630	1,187,740	(93,110)	-7.8%
Future Projects	873,800	550,725	323,075	100.0%
Cable Grant	46,520	66,141	(19,621)	-29.7%
Designated Subtotal	2,014,950	1,804,606	210,344	11.7%
Undesignated	7,129,603	6,522,127	607,476	9.3%
Total Fund Balance	$ 9,679,358	$ 9,288,436	$ 390,922	4.2%

The General Fund shows a strong fund balance, which improved over the prior fiscal year by $390,922 (4.2%) due to revenues ($27,425,724) exceeding expenditures ($27,034,802). The undesignated portion of the fund balance increased $607,476 over the prior fiscal year balance of $6,522,127 and exceeds the reserve desired by City Council. The increase in undesignated fund balance was generated primarily by the year's activities and scheduled repayment of an advance to the Park Dedication Fund. Activity in the designated funds includes increases for various future projects ($323,075). Designations for future projects include a preservation project of the historic Commandant's Residence ($210,739), the planned Skate Park ($200,000), street maintenance projects ($199,853), improvements to the First Street Spit ($77,200), the historic Clocktower ($70,000), update of the Historic Plan ($36,291), and various other projects ($79,717).

The General Fund revenue increased $2,852,939 (11.6%) compared to expenditure increases of $2,756,594 (11.4%) for the year ended June 30, 2005. Table 7 presents the activity in the General Fund for fiscal years 2005 and 2004, with the amounts and percentage of increases and decreases in relation to the prior year amounts:

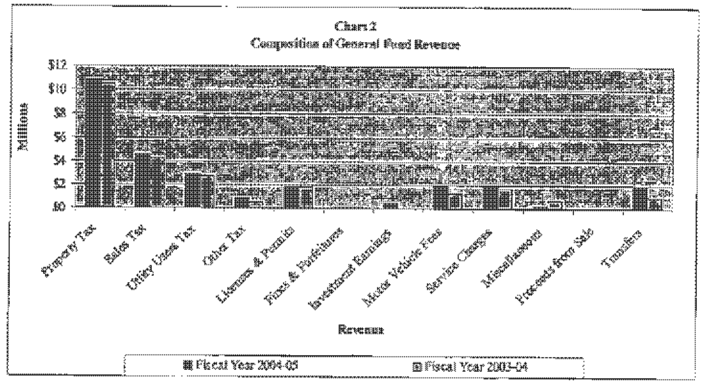
D-31

Table 7
General Fund Activities

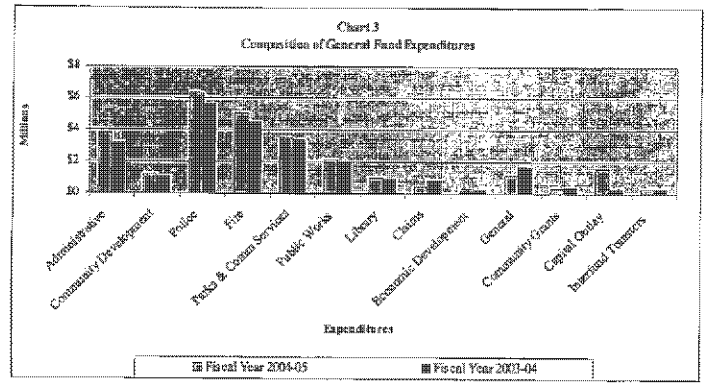
Activities	2005	2004	Increase (Decrease)	Percent Change
Revenues:				
Taxes				
Property	$ 10,774,630	$ 10,502,276	$ 272,354	2.6%
Sales	4,567,137	4,237,439	329,698	7.8%
Utility Users'	2,826,370	2,747,951	78,419	2.9%
Other	869,398	550,818	318,580	57.8%
Licences & Permits	1,840,903	1,820,934	19,969	1.1%
Fines & Forfeitures	122,161	113,731	8,430	7.4%
Use of Money & Property	415,925	(8,848)	424,773	4600.5%
Motor Vehicle Fees	1,866,919	1,253,662	613,257	48.9%
Current Service Charges	1,978,093	1,741,177	236,916	13.6%
Miscellaneous	204,107	652,715	(448,608)	-68.7%
Proceeds from Sale	26,851	11,465	15,386	134.2%
Transfers	1,933,230	949,465	983,765	103.6%
Total Revenues	27,425,724	24,572,785	2,852,939	11.6%
Expenditures:				
Administrative	3,804,380	3,188,510	615,870	19.3%
Community Development	1,215,086	1,036,635	178,451	17.2%
Public Safety: Police	6,348,056	5,631,019	717,037	12.7%
Public Safety: Fire	5,013,129	4,457,212	555,917	12.5%
Parks & Community Services	3,509,324	3,355,855	153,469	4.6%
Public Works	2,142,462	1,923,790	218,672	11.4%
Library	955,794	927,393	28,401	3.1%
Claims	465,952	851,874	(385,922)	-45.3%
Economic Development	159,933	189,295	(29,362)	-15.5%
General	1,144,961	1,701,442	(556,481)	-32.7%
Community Grants	331,340	407,886	(76,546)	-18.8%
Capital Outlay	1,609,650	307,297	1,302,353	423.8%
Interfund Transfers	334,735	300,000	34,735	11.6%
Total Expenses	27,034,802	24,278,208	2,756,594	11.4%
Net Result from Activity	$ 390,922	$ 294,577	$ 96,345	0%

As the table indicates, revenues increased 11.6 percent. This increase is due primarily to an increase in tax revenues ($999,051) related to property, sales and utility taxes, transfers to reimburse the General Fund for the acquisition costs of the Casa de Vilarassa Phase I project ($955,260), proceeds from selling the Vehicle License Fee Receivable from the State ($439,908), and investment earnings which increased primarily due to modifying past accounting practices and spreading the gain or loss incurred across all funds when accounting for the market value of the City's portfolio.

The following chart illustrates the comparison of General Fund revenues for these two fiscal years:



General Fund expenditures for the year ended June 30, 2005 reported an increase of $2,756,594 in fiscal year 2005 to $27,034,805. Major increases were in capital outlay ($1,302,353) primarily due to the acquisition of the Casa de Vilarassa Phase I project, public safety ($1,272,954) and administration ($615,870) primarily due to increased employee benefit costs. These increases were offset by decreases in general expenditures ($556,481) primarily due to a one time loan expenditure for an affordable housing project in fiscal year 2003-04. The following chart presents the expenditures of the General Fund operations for fiscal years 2005 and 2004:



D-32

During the year, General Fund revenues exceeded budgetary estimates ($709,499) while operational expenditures were less than budgetary estimates ($947,640). The following table presents the final budget and the activity in the General Fund for fiscal year 2005, with the amounts of variance.

Table 8
General Fund Budget

General Fund Activities	Final Budget	2005 Actuals	Variance Positive (Negative)	Percent of Variance
Revenues:				
Taxes	$ 18,740,460	$ 19,037,535	$ 297,075	1.6%
Licences & Permits	1,593,115	1,840,903	247,788	15.6%
Fines & Forfeitures	135,000	122,161	(12,839)	-9.5%
Use of Money & Property	172,700	415,925	243,225	140.8%
Motor Vehicle Fees	1,837,565	1,866,919	29,354	1.6%
Current Service Charges	1,923,510	1,978,093	54,583	2.8%
Miscellaneous	355,230	204,107	(151,123)	-42.5%
Proceeds from Sale	28,100	26,851	(1,249)	-4.4%
Transfers	1,930,545	1,933,230	2,685	0.1%
Total Revenues	26,716,225	27,425,724	709,499	2.7%
Operational Expenditures:				
Administrative	3,809,205	3,804,380	4,825	0.1%
Community Development	1,168,930	1,215,086	(46,156)	-3.9%
Public Safety: Police	6,253,240	6,348,056	(94,816)	-1.5%
Public Safety: Fire	5,203,910	5,013,129	190,781	3.7%
Parks & Community Services	3,438,685	3,509,324	(70,639)	-2.1%
Public Works	2,275,130	2,142,462	132,668	5.8%
Library	1,029,685	955,794	73,891	7.2%
Claims	90,000	465,952	(375,952)	-417.7%
Economic Development	191,610	159,933	31,677	16.5%
General	1,261,220	1,144,961	116,259	9.2%
Community Grants	373,790	331,340	42,450	11.4%
Interfund Transfers	375,450	334,735	40,715	10.8%
Total Operational Expenses	25,470,855	25,425,152	45,703	0.2%
Capital Outlay	2,511,587	1,609,650	901,937	35.9%
Total Expenses	27,982,442	27,034,802	947,640	3.4%
Net Result from Activity	$ (1,266,217)	$ 390,922	$ 1,657,139	-131%

The General Fund revenue variance of $709,499 was driven primarily by stronger than anticipated receipts of sales tax ($493,061), real property tax ($128,930), investment earnings ($194,029), and utility users' tax ($86,645). Offsetting these increases were weaker than anticipated revenues from auction license fees ($178,840) and refunds and rebates ($167,140).

The General Fund operations expenditure variance of $45,703 was the net result of variances throughout the operations.

The General Fund capital outlay budget of $2,511,587 provided for equipment replacement needs ($391,442) and capital projects ($2,120,035). Equipment replacement costs for the fiscal year totaled

$361,442 and capital project expenditures were $1,248,208. The remaining appropriations are currently funded with designated fund balance.

The General Fund budget to actual statements can be found in the basic financial statements.

McAllister Area Capital Project Fund

Revenue for the year is $8,380,651 from the issuance of special assessment debt ($8,295,000) to be repaid by the area's property owners and from investment earnings ($85,651). Proceeds from the bond issue are used by the developer for infrastructure improvements. For fiscal year 2004-05, expenditures totaled $4,510,795. Infrastructure is anticipated to be completed in fiscal year 2005-06.

Major Enterprise Funds

The enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, wherein the cost of goods and service to the general public are financed or recovered primarily through user charges. The City's enterprise operations consist of water and wastewater utilities, marina and public transit.

The enterprise funds showed a significant increase in program income of $2,467,420 as compared to the prior fiscal year. This increase was primarily generated from connection fees due to contributions for capital improvements ($1,518,000), new development during the fiscal year ($761,177) and increased charges for services due to scheduled rate increases ($298,644).

The following presents the net income (loss) for the City's enterprise funds for the years ended June 30, 2005 and 2004:

Table 9
Business Type Financial Position

Activities	2005	2004	Increase (Decrease)	Percent Change
Water Utility	$ 3,013,633	$ 2,058,260	$ 955,373	46.4%
Wastewater Utility	2,282,270	1,153,429	1,128,841	97.9%
Benicia Marina	(21,536)	(394,451)	372,915	-94.5%
Transit	(104,617)	(93,259)	(11,358)	-12.2%
Total	$ 5,169,750	$ 2,723,979	$ 2,445,771	37.6%

The City's water utility shows net income of over $3,013,633 due primarily to increased connection fees ($1,438,004) for new development, capital contributions ($833,000), and increased charges for water consumption based upon the City Council following the City's 10-Year Master Plan, which calls for water rate increases over a set time frame for the continued strong performance of this activity. Further, the City continues to plan for repairs, replacement and expansion. Much of the operating income will be allocated to cover these costs. At June 30, 2005, the water utility had $9,589,090 designated for these costs.

The City's wastewater utility shows net income of $2,282,270 due primarily to increased connection fees ($1,495,666) for new development and capital contributions ($685,000). The wastewater utility's Inflow and Infiltration Improvement Project was under construction at June 30, 2005 with an estimated final cost of $12.4 million. Funding is provided by a low-cost loan from the State. The City Council has been diligent in increasing revenues to pay for the debt service for this and a second low-cost State loan used to partially fund the $30 million wastewater treatment plant reconstruction which was completed in December 2000.

The Marina Enterprise shows a loss of $21,536. This loss is due primarily to the cost of dredging activity, which has risen exponentially due to increased regulatory requirements. During the fiscal year, the Marina Fund received a subsidy from the General Fund of $184,485 to offset a portion of the operating deficit.

The City's transit operations, while typical of most transit operations in the nation, are actually in better condition than the above table would indicate. Intergovernmental revenues, while not considered operating revenue, did amount to $906,999 this fiscal year. The transit enterprise entered into an agreement with Vallejo Runabout to consolidate bus yards in order to reduce future deficit spending.

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to $215,358,652 (net of accumulated depreciation). The City's capital assets include land, land improvements, infrastructure, buildings, construction in progress, machinery and equipment. Major capital asset additions during fiscal year 2005 included the following:

- Improvements:
  - Casa de Vilarassa Phase I structural improvements
- Construction in progress:
  - Public improvements in the Tourtelot development area
  - Wastewater inflow and infiltration improvements
  - Water treatment plant improvements
  - Ninth Street Park improvements
  - First Street Spit improvements

The following table provides a breakdown of the City's capital assets at June 30, 2005:

Capital Assets

	Governmental Activites		Business-Type Activites		Total Capital Assets	
Assets By Type	2005	2004	2005	2004	2005	2004
Land	$ 17,989,044	$ 17,989,044	$ 1,464,221	$ 1,464,221	$ 19,453,265	$ 19,453,265
Construction in Progress	6,890,660	3,215,820	20,124,495	10,146,913	27,015,155	13,362,733
Improvements	15,054,500	14,199,239	69,736,622	69,736,622	84,791,122	83,935,861
Machinery & Equipment	6,962,869	6,167,222	5,775,859	5,678,830	12,738,728	11,846,052
Infrastructure	120,797,481	120,797,481	59,248,989	59,087,095	180,046,470	179,884,576
Total Capital Assets	167,694,554	162,368,806	156,350,186	146,113,681	324,044,740	308,482,487
Accumulated Depreciation	(52,084,273)	(49,607,489)	(56,601,815)	(53,345,793)	(108,686,088)	(102,953,282)
Net Assets	$ 115,610,281	$ 112,761,317	$ 99,748,371	$ 92,767,888	$ 215,358,652	$ 205,529,205

D-33

Debt Administration

The City uses a variety of indebtedness to finance various capital acquisitions. At June 30, 2005, the City's long-term debt outstanding was $56,449,423. Of this total, $9,305,000 was in governmental activities and $32,349,308 was in business-type activities.

The following table provides a schedule of the City's outstanding long-term debt:

Table 11
Long Term Debt

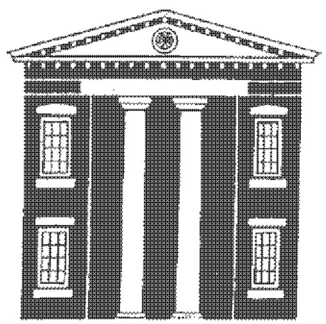
	Governmental Activites		Business-Type Activites		Total Long-Term Debt	
Debt By Type	2005	2004	2005	2004	2005	2004
General Obligation Bonds	$ 7,905,000	$ 8,300,000			$ 7,905,000	$ 8,300,000
Capital Lease	1,400,000				1,400,000	
Utility Revenue Bonds			$ 14,795,115	$ 15,838,347	14,795,115	15,838,347
Loans Payable			32,349,326	22,064,768	32,349,326	22,064,768
Totals	$ 9,305,000	$ 8,300,000	$ 47,144,441	$ 37,903,115	$ 56,449,441	$ 46,203,115

The general obligation bonds were issued to finance a portion of the wastewater treatment plant improvement project, completed in December 2000. The General Fund has $1,400,000 in outstanding debt for the acquisition and improvements to the Casa de Vilarassa Senior Housing Complex. Revenue bonds include issues used to finance projects for the water and wastewater utilities. The City has, on several occasions, used State loans to finance enterprise improvements, most recently for the Inflow and Infiltration Project. Additional information on the City's long-term debt can be found in Note 7 to the Basic Financial Statements.

The State of California mandates a limit on general obligation debt of 15 percent of true cash value of all taxable property within the City boundaries. At June 30, 2005, this limit was $149,529,786 and the City's margin to incur further debt was $141,395,413.

Contacting the City's Financial Management

This management's discussion and analysis is designed to provide the City's residents, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about this document or require additional information, contact the Finance Department at 250 East L Street, Benicia, CA 94510 or call 707-746-4225.



STATEMENT OF NET ASSETS
AND STATEMENT OF ACTIVITIES

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets summarizes the financial position of all the City's Governmental Activities in a single column and the financial position of all the City's Business-Type Activities in a single column; these columns are followed by a Total column that presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. The City's Business Type Activities include all its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's net assets. It presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities or Business-type Activities column, as appropriate, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

Both these Statements include only the financial activities of the City.

D-35

CITY OF BENICIA
STATEMENT OF NET ASSETS
June 30, 2005

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments available for City operations (Note 3)	$25,655,721	$26,725,191	$52,380,912
Restricted cash and investments held by fiscal agents (Note 3)		1,058,372	1,058,372
Accounts receivable	1,074,306	2,410,422	3,484,728
Interest receivable	193,954	90,114	284,068
Materials, parts and supplies		121,247	121,247
Prepaid items	73,299	100,000	173,299
Unamortized bond issuance costs		575,401	575,401
Lease receivable		516,168	516,168
Loans receivable (Note 5)	1,296,888	1,793,322	3,090,210
Capital assets (Note 6):			
Non-depreciable	24,879,704	21,588,716	46,468,420
Depreciable, net of accumulated depreciation	90,730,577	78,159,655	168,890,232
Total Assets	143,904,449	133,138,608	277,043,057
LIABILITIES			
Accounts payable	1,480,511	1,837,379	3,317,890
Accrued payroll	100,571		100,571
Customer and performance deposits	969,815	133,076	1,102,891
Interest payable	174,170	392,165	566,335
Deferred revenue		599,969	599,969
General liability claims (Note 11)	129,875		129,875
Workers compensation claims (Note 11)	657,606		657,606
Accrued compensated absences (Note 10)	1,037,649	180,781	1,218,430
Long-term debt (Note 7):			
Due within one year	420,000	2,560,235	2,980,235
Due in more than one year	8,885,000	44,584,188	53,469,188
Total Liabilities	13,855,197	50,287,793	64,142,990
NET ASSETS (Note 8)			
Invested in capital assets, net of related debt	106,131,111	52,003,981	158,135,092
Restricted for:			
Capital projects	5,475,119		5,475,119
Debt service	1,170,627	1,058,372	2,228,999
Special revenue projects	1,627,734		1,627,734
Total Restricted Net Assets	8,273,480	1,058,372	9,331,852
Unrestricted	15,644,661	29,788,462	45,433,123
Total Net Assets	$130,049,252	$82,850,815	$212,900,067

See accompanying notes to financial statements

CITY OF BENICIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
Administration	$3,563,133	$195,782			($3,367,351)		($3,367,351)
Community development	1,788,216	1,531,625	$40,605		(215,986)		(215,986)
Public safety - police	7,531,528	206,046	245,200		(7,080,282)		(7,080,282)
Public safety - fire	4,955,345	145,959	213,528	$125	(4,595,633)		(4,595,633)
Parks and community services	3,994,390	2,557,003	10,000	1,080,582	(346,705)		(346,705)
Public works	6,432,754	368,068	1,251,202	8,305,027	3,491,543		3,491,543
Library	1,895,726	229,642	302,600		(1,363,484)		(1,363,484)
Claims	98,548				(98,548)		(98,548)
Economic development	158,738	80			(158,658)		(158,658)
General	1,118,485	170,077			(948,408)		(948,408)
Community grants	460,434				(460,434)		(460,434)
Interest on long term debt	447,403				(447,403)		(447,403)
Total Governmental Activities	32,444,700	5,404,282	2,063,235	9,385,834	(15,591,349)		(15,591,349)
Business-type Activities:							
Wastewater	5,461,603	7,409,921		685,000		$2,633,318	2,633,318
Water	5,394,061	7,694,339		833,000		3,133,278	3,133,278
Benicia Marina	564,558	332,056				(232,502)	(232,502)
Transit	1,203,938	188,654	906,959			(108,277)	(108,277)
Total Business-type Activities	12,624,162	15,624,980	906,959	1,518,000		5,425,817	5,425,817
Total	$45,068,862	$21,029,262	$2,970,234	$10,903,834	(15,591,349)	5,425,817	(10,165,532)
General revenues:							
Taxes:							
Property taxes					11,853,045		11,853,045
Sales taxes					4,690,592		4,690,592
Utility users' tax					2,826,370		2,826,370
Other taxes					1,702,584		1,702,584
Motor vehicle in lieu					2,071,395		2,071,395
Investment earnings					540,441	349,704	890,145
Gain (Loss) from disposal of capital assets					26,851	2,715	29,566
Transfers, net					608,485	(608,485)	
Total general revenues and transfers					24,519,763	(256,066)	24,263,697
Change in Net Assets					8,928,414	5,169,751	14,098,165
Net Assets-Beginning					121,120,838	77,681,064	198,801,902
Net Assets-Ending					$130,049,252	$82,850,815	$212,900,067

See accompanying notes to financial statements

FUND FINANCIAL STATEMENTS

The funds described below were determined to be Major Funds by the City in fiscal 2005. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND

The General Fund is used for all of the general revenues of the City not specifically levied or collected for other City funds and the related expenditures.

Mc ALLISTER ASSESSMENT DISTRICT

The Mc Allister Assessment District Capital Projects Fund accounts for the construction of public improvements benefiting the property within the bounds of the Assessment District, which is located north of Rose Drive and to the west of East Second Street. Source revenues include investment earnings and proceeds from bonds.

D-37

CITY OF BENICIA
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2005

	General	Mc Allister Assessment District	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments available for City operations (Note 3)	$10,514,958	$3,835,799	$11,072,479	$25,423,236
Accounts receivable	610,469		463,837	1,074,306
Interest receivable	114,763	34,057	45,134	193,954
Due from other funds (Note 4)	183,608			183,608
Prepaid items	48,299		25,000	73,299
Advances to other funds (Note 4)	224,650		201,960	426,610
Loans receivable (Note 5)	619,855		677,033	1,296,888
Total Assets	$12,316,602	$3,869,856	$12,485,443	$28,671,901
LIABILITIES				
Accounts payable	$873,367		$607,144	$1,480,511
Accrued payroll	100,571			100,571
Customer deposits			969,815	969,815
Due to other funds (Note 4)			183,608	183,608
Deferred revenue	619,855		756,849	1,376,704
General liability claims (Note 11)	129,875			129,875
Workers compensation claims (Note 11)	657,606			657,606
Advances from other funds (Note 4)	201,960		224,650	426,610
Accrued compensated absences (Note 1G)	54,010			54,010
Total Liabilities	2,637,244		2,742,066	5,379,310
FUND BALANCES				
Fund balance (Note 8)				
Reserved for:				
Debt service			1,170,627	1,170,627
Prepaid items	48,299			48,299
Encumbrances	261,856			261,856
Open space			110,000	110,000
Advance to other funds	224,650		201,960	426,610
Unreserved:				
Designated for:				
Equipment replacement	1,094,630			1,094,630
Future projects	873,800			873,800
Cable grant	46,520			46,520
Undesignated, reported in:				
General Fund	7,129,603			7,129,603
Special Revenue Funds			2,680,139	2,680,139
Capital Projects Funds		$3,869,856	5,580,651	9,450,507
Total Fund Balances	9,679,358	3,869,856	9,743,377	23,292,591
Total Liabilities and Fund Balances	$12,316,602	$3,869,856	$12,485,443	$28,671,901

See accompanying notes to financial statements

CITY OF BENICIA
Reconciliation of the
GOVERNMENTAL FUNDS -- BALANCE SHEET
with the
STATEMENT OF NET ASSETS
JUNE 30, 2005

Total fund balances reported on the Governmental Funds Balance Sheet	$23,292,591
Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:	
CAPITAL ASSETS	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	115,610,281
ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS	
Internal Service Funds are not Governmental Funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance to individual Governmental Funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the following line item in the Statement of Net Assets.	
Cash and investments	232,485
ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES	
Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.	1,376,704
LONG TERM ASSETS AND LIABILITIES	
The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:	
Long-term debt	(9,305,000)
Interest payable	(174,170)
Non-current portion of compensated absences	(983,639)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$130,049,252

See accompanying notes to financial statements

D-38

CITY OF BENICIA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005

	General	Mc Allister Assessment District	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	$10,774,630	$85,651	$799,487	$11,659,768
Sales taxes	4,567,137			4,567,137
Utility users' taxes	2,826,370			2,826,370
Other taxes	869,398			869,398
Assessments			440,263	440,763
Licenses and permits	1,840,903			1,840,903
Fines and forfeitures	122,161			122,161
Use of money and property	415,925		172,151	588,076
Revenue from other agencies	1,866,919		2,573,839	4,439,778
Current service charges	1,978,093		2,939,054	4,917,147
Refunds and rebates	106,085			106,085
Community donations			106,353	106,353
Other	98,022			98,022
Total Revenues	25,465,643	85,651	7,030,667	32,581,961
EXPENDITURES				
Current:				
Administration	3,804,729		3,648	3,808,377
Community development	1,215,086		635,628	1,850,714
Public safety - police	6,348,056		275,731	6,623,787
Public safety - fire	5,013,129			5,013,129
Parks and community services	3,509,124		438,591	3,948,715
Public works	2,142,462	1,518,000	179	3,660,641
Library	955,794		788,908	1,744,702
Claims	465,952			465,952
Economic development	159,933			159,933
General	1,144,612			1,144,612
Community grants	331,340			331,340
Capital outlay	1,609,650	2,992,795	2,062,861	6,665,306
Debt service:				
Principal			395,000	395,000
Interest and fiscal charges			388,431	388,431
Total Expenditures	26,700,067	4,510,795	4,989,277	36,200,139
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,234,424)	(4,425,144)	2,041,390	(3,618,178)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	26,851			26,851
Issuance of long-term debt			1,400,000	1,400,000
Bond issue cost			(50,033)	(50,033)
Contributions from property owners		8,295,000		8,295,000
Transfers in (Note 4)	1,933,230		426,484	2,359,714
Transfers (out) (Note 4)	(334,735)		(1,416,494)	(1,751,229)
Total Other Financing Sources (Uses)	1,625,346	8,295,000	359,957	10,280,303
NET CHANGE IN FUND BALANCES	390,922	3,869,856	2,401,347	6,662,125
BEGINNING FUND BALANCES	9,288,436		7,342,030	16,630,466
ENDING FUND BALANCES	$9,679,358	$3,869,856	$9,743,377	$23,292,591

See accompanying notes to financial statements

CITY OF BENICIA
Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	$6,662,125
Amounts reported for governmental activities in the Statement of Activities are different because of the following:	
CAPITAL ASSETS TRANSACTIONS	
Governmental Funds report capital outlays 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.	
The capital outlay expenditures are therefore added back to fund balance	5,641,298
Depreciation expense is deducted from the fund balance	(2,491,784)
Net retirements of capital assets	(300,550)
LONG TERM DEBT PROCEEDS AND PAYMENTS	
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities 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	395,000
Proceeds from the issuance of debt are deducted from fund balance	(1,400,000)
ACCRUAL OF NON-CURRENT ITEMS	
The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):	
Deferred revenue	(59,783)
Interest payable	(8,939)
Compensated absences	(108,842)
Claims	367,404
ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY	
Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities because they service those activities.	
Change in Net Assets - Internal Service Fund	232,485
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$8,928,414

See accompanying notes to financial statements

D-39

CITY OF BENICIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Positive (Negative)
REVENUES:				
Taxes:				
Property	$11,348,175	$10,730,975	$10,774,630	$43,655
Sales	4,114,710	4,472,760	4,567,137	94,377
Utility users'	2,739,725	2,739,725	2,826,370	86,645
Other	394,700	797,000	869,398	72,398
Licenses and permits	1,561,300	1,593,115	1,840,903	247,788
Fines and forfeitures	135,000	135,000	122,161	(12,839)
Use of money and property	172,700	172,700	415,925	243,225
Revenue from other agencies		1,837,565	1,866,919	29,354
Current service charges	1,173,180	1,923,510	1,978,093	54,583
Refunds and rebates	273,230	273,230	106,085	(167,145)
Other		82,000	98,022	16,022
Total Revenues	21,912,720	24,757,580	25,465,643	708,063
EXPENDITURES:				
Current:				
Administration	3,612,045	3,809,205	3,804,729	4,476
Community development	1,046,170	1,168,930	1,215,086	(46,156)
Public safety - police	6,145,080	6,253,240	6,348,056	(94,816)
Public safety - fire	5,142,485	5,803,910	5,613,129	190,781
Parks and community services	3,199,740	3,438,685	3,509,324	(70,639)
Public works	2,355,375	2,275,130	2,142,462	132,668
Library	1,014,400	1,029,685	955,794	73,891
Claims paid	390,000	90,000	465,952	(375,952)
Economic development	288,230	191,610	159,933	31,677
General	1,153,645	1,261,220	1,144,612	116,608
Community grants		373,790	331,340	42,450
Capital outlay	654,665	2,511,587	1,609,650	901,937
Total Expenditures	24,901,835	27,606,992	26,700,067	906,925
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,989,115)	(2,849,412)	(1,234,424)	(198,862)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	20,000	28,100	26,851	(1,249)
Transfers in (Note 4)	977,970	1,930,545	1,933,230	2,685
Transfers (out) (Note 4)	(438,285)	(375,450)	(334,735)	40,715
Total other financing sources (uses)	559,685	1,583,195	1,625,346	42,151
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	($2,429,430)	($1,266,217)	390,922	$1,657,139
Beginning fund balance			9,288,436	
Ending fund balance			$9,679,358	

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The City has identified the funds below as major proprietary funds in fiscal 2005.

WASTEWATER

Accounts for the transport, treatment and disposal of wastewater for residents and businesses located within the City.

WATER

Accounts for the purchase, treatment and distribution of water to residents and businesses located within the City.

BENICIA MARINA

Accounts for the operation and management of the City Marina.

TRANSIT

Accounts for the operation and management of the City transit operations.

INTERNAL SERVICE FUND

RETIREMENT STABILITY FUND

Provides for equalization of retirement costs. Sources of revenue include investment earnings, services charges to departments, and an initial residual equity transfer from the General Fund.

CITY OF BENICIA
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Activities-Enterprise Funds					Governmental Activities-Internal Service Fund
	Wastewater	Water	Benicia Marina	Transit	Totals	
ASSETS						
Current Assets:						
Cash and investments (Note 3)						
Available for City operations	$8,434,038	$17,731,462	$442,747	$116,739	$26,725,191	$232,485
Held by fiscal agents	432,160	626,212			1,058,372	
Accounts receivable	1,631,356	625,390	8,366	145,510	2,410,422	
Interest receivable	5,130	87,372	1,881	731	90,114	
Materials, parts and supplies	24,249	96,998			121,247	
Prepaid items			100,000		100,000	
Total Current Assets	10,526,933	19,152,439	552,994	262,980	30,505,346	232,485
Non-Current Assets:						
Long-Term Assets:						
Unamortized bond issuance costs	64,031	511,370			575,401	
Loans receivable (Note 5)	894,456	898,866			1,793,322	
Lease receivable			516,168		516,168	
Total Long-Term Assets	958,487	1,410,236	516,168		2,884,891	
Property, Plant and Equipment (Note 6):						
Land	669,710	730,528	63,983		1,464,221	
Buildings and improvements	48,494,735	13,501,701	7,933,286	5,000	69,736,822	
Machinery and equipment	2,659,499	1,968,558		1,147,802	5,775,859	
Treatment plant, sewer and water pipe	31,157,229	28,091,760			59,248,989	
Construction in progress	15,105,152	5,019,343			20,124,495	
Less accumulated depreciation	(25,950,525)	(26,262,650)	(3,768,594)	(619,946)	(56,601,315)	
Net Property, Plant and Equipment	71,937,780	23,049,240	4,228,495	532,856	99,748,371	
Total Non-Current Assets	72,896,267	24,459,476	4,744,663	532,856	102,633,262	
Total Assets	83,423,200	43,621,915	5,297,657	795,836	133,138,608	232,485
LIABILITIES						
Current Liabilities:						
Accounts payable	252,811	1,502,357	793	80,418	1,837,379	
Customer and performance deposits		33,076	100,000		133,076	
Interest payable	168,614	42,259	181,292		392,165	
Due to other funds (Note 4)						
Deferred revenue	379,969		220,000		599,969	
Compensated absences	107,347	73,434			180,781	
Current portion long term liabilities (Note 7)	1,559,064	875,000	126,171		2,560,235	
Total Current Liabilities	2,468,805	2,526,126	628,256	80,418	5,703,605	
Long-Term Liabilities (Note 7):						
Utility revenue bonds	4,206,260	9,513,837			13,720,097	
Loans payable	26,595,298		4,268,793		30,864,091	
Total Long-Term Liabilities	30,801,558	9,513,837	4,268,793		44,584,188	
Total Liabilities	33,270,363	12,039,963	4,897,049	80,418	50,287,793	
NET ASSETS (Note 8)						
Invested in capital assets, net of related debt	37,108,353	10,334,277	4,228,495	532,856	52,003,981	
Restricted for:						
Debt service	432,160	626,212			1,058,372	
Unrestricted	12,612,324	20,621,463	(3,827,887)	182,562	29,788,462	232,485
Total Net Assets	$50,152,837	$31,581,952	$400,608	$715,418	$82,850,815	$232,485

See accompanying notes to financial statements

D-40

CITY OF BENICIA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Activities-Enterprise Funds					Governmental Activities-Internal Service Fund
	Wastewater	Water	Benicia Marina	Transit	Totals	
OPERATING REVENUES						
Charges for services	$5,897,729	$6,128,245		$188,650	$12,214,624	$232,485
Connection fees	1,495,666	1,438,004			2,933,670	
Rentals		114,975	$331,516		446,491	
Refunds and rebates	16,526	13,115	550	4	30,195	
Total Operating Revenues	7,409,921	7,694,339	332,066	188,654	15,624,980	232,485
OPERATING EXPENSES						
Wages and benefits	1,828,047	1,868,500			3,696,547	
Materials and supplies	502,026	473,495			975,521	
Depreciation	1,844,629	1,159,039	189,612	104,918	3,298,198	
Operations and maintenance	734,036	849,954	176,731	1,099,012	2,859,733	
Purchased water		580,920			580,920	
Total Cost of Sales and Operating Expenses	4,908,738	4,931,908	366,343	1,203,930	11,410,919	
Operating Income (Loss)	2,501,183	2,762,431	(34,277)	(1,015,276)	4,214,061	232,485
NONOPERATING REVENUES (EXPENSES)						
Interest income	35,422	286,855	29,841	946	353,064	
Interest (expense)	(552,865)	(462,153)	(198,225)		(1,213,243)	
Operating grants				906,999	906,999	
Gain (loss) from sale of fixed assets				2,715	2,715	
Other			(3,360)		(3,360)	
Total Nonoperating Revenues (Expenses)	(517,443)	(175,298)	(171,744)	910,660	46,175	
Income (Loss) Before Transfers	1,983,740	2,587,133	(206,021)	(104,616)	4,260,236	232,485
Capital contributions	685,000	833,000			1,518,000	
Transfers in (Note 4)			184,485		184,485	
Transfers (out) (Note 4)	(386,470)	(406,500)			(792,970)	
Net Transfers	298,530	426,500	184,485		909,515	
Change in Net Assets	2,282,270	3,013,633	(21,536)	(104,616)	5,169,751	232,485
BEGINNING NET ASSETS	47,870,567	28,568,319	422,144	820,034	77,681,064	
ENDING NET ASSETS	$50,152,837	$31,581,952	$400,608	$715,418	$82,850,815	$232,485

See accompanying notes to financial statements

D-41

CITY OF BENICIA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Activities-Enterprise Funds					Governmental Activities-Internal Service Fund
	Wastewater	Water	Benicia Marina	Transit	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	$6,720,051	$8,348,398	$376,847	$188,654	$15,633,950	$232,485
Payments to suppliers	(3,118,079)	(814,836)	(183,594)	(1,094,081)	(5,210,590)	
Payments to employees	(1,820,307)	(1,874,066)			(3,694,373)	
Cash Flows from Operating Activities	1,781,665	5,659,496	193,253	(905,427)	6,728,987	232,485
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Interfund receipts			(3,360)		(3,360)	
Disbursement of loan receivable	(469,456)	(478,866)			(948,322)	
Operating grant and contribution				1,019,236	1,019,236	
Transfers in			184,485		184,485	
Transfers (out)	(386,470)	(406,500)			(792,970)	
Cash Flows from Noncapital Financing Activities	(855,926)	(885,366)	181,125	1,019,236	(540,931)	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition of capital assets	(5,897,452)	(2,867,229)			(8,764,681)	
Proceeds from sale of capital assets				2,215	2,215	
Issuance of long-term debt	11,296,658				11,296,658	
Principal payments on long-term debt	(1,082,551)	(852,069)	(120,738)		(2,055,358)	
Interest paid	(561,782)	(467,277)	(203,206)		(1,232,265)	
Cash Flows from Capital and Related Financing Activities	3,754,873	(4,186,575)	(323,944)	2,215	(752,931)	
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest	33,194	245,418	28,750	215	307,577	
Cash Flows from Investing Activities	33,194	245,418	28,750	215	307,577	
Net Cash Flows	4,713,806	832,973	79,184	116,239	5,742,202	232,485
Cash and investments at beginning of period	4,152,392	17,524,706	363,763		22,040,861	
Cash and investments at end of period	$8,866,198	$18,357,679	$442,947	$116,239	$27,783,563	$232,485
NONCASH TRANSACTIONS						
Contributions and transfers of capital assets	$685,000	$833,000			$1,518,000	
Reconciliation of Operating Income (Loss) to Cash Flows from Operating Activities:						
Operating income (loss)	$2,501,187	$2,762,431	($34,277)	($1,015,276)	$4,214,061	$232,485
Adjustments to reconcile operating income to cash flows from operating activities:						
Depreciation	1,844,629	1,159,019	189,612	104,918	3,298,178	
Change in assets and liabilities:						
Receivables, net	(633,264)	654,379	44,781		65,776	
Materials, parts and supplies	1,581	6,323			7,904	
Other assets	8,351	68,621			76,972	
Accounts payable and other accrued expenses	(1,891,849)	1,034,489	(6,863)	4,931	(879,292)	
Due to other funds						
Accrued compensated absences	7,740	(5,564)			2,176	
Refundable deposits		(320)			(320)	
Deferred revenue	(56,486)				(56,486)	
Cash Flows from Operating Activities	$1,781,665	$5,659,496	$193,253	($905,427)	$6,728,987	$232,485

See accompanying notes to financial statements.

FIDUCIARY FUNDS

Trust funds are used to account for assets held by the City as a trustee agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Entity-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Entity-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

CITY OF BENICIA
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005

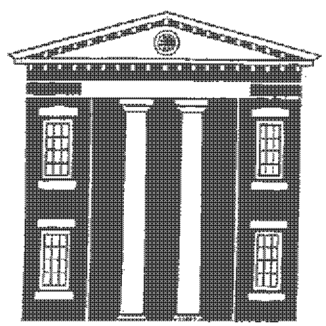
	Affordable Housing Private Purpose Trust Fund	Agency Funds
ASSETS		
Cash and investments available for operations (Note 3)	$16,575	$3,264,921
Accounts receivable		299
Interest receivable	71	13,631
Total Assets	16,646	$3,278,851
LIABILITIES		
Accounts payable		$6,067
Due to foundation		217,256
Due to bondholders		3,055,528
Total Liabilities		$3,278,851
NET ASSETS		
Held in trust for:		
Other governments	16,646	
Total Net Assets	$16,646	

See accompanying notes to financial statements

CITY OF BENICIA
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Affordable Housing Private Purpose Trust Fund
ADDITIONS	
Use of money and property	$239
Other	
Total Additions	239
CHANGE IN NET ASSETS	239
NET ASSETS, BEGINNING OF YEAR	16,407
NET ASSETS, END OF YEAR	$16,646

See accompanying notes to financial statements



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Benicia was incorporated as a general law city on April 24, 1851. The City operates under the Council-Manager form of government and provides the following services: public safety (police and fire), highways and streets, water, wastewater, culture-recreation, public improvements, planning and zoning, transit and general administration.

The financial statements and accounting policies of the City conform with generally accepted accounting principles applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies are summarized below:

A. ***Reporting Entity***

The financial statements of the City of Benicia include the financial activities of the City.

B. ***Basis of Presentation***

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These Standards require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government (the City). These statements include the financial activities of the overall City government, except for fiduciary activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds. Separate statements for each fund category—*governmental, proprietary,* and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

C. *Major Funds*

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

General Fund – The General Fund is used for all the general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The general fund accounts for all financial resources of a governmental unit, which are not accounted for in another fund.

Mc Allister Assessment District Capital Projects Fund – This fund accounts for the construction of public improvements benefiting the property within the bounds of the Assessment District, which is located north of Rose Drive and to the west of East Second Street. Source revenues include investment earnings and proceeds from bonds.

The City reported all of its enterprise funds as major funds in the accompanying financial statements:

Wastewater Fund – Accounts for the transport, treatment and disposal of wastewater for residents and businesses located within the City.

Water Fund – Accounts for the distribution of water to residents and businesses located within the City.

Benicia Marina Fund – Accounts for activities of the City's Marina.

Transit Fund – Accounts for the operation and management of the City transit operations.

The City also reports the following fund types:

Fiduciary Funds. Private-Purpose Trust Funds and Agency Funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Government-wide financial statement, but are presented in separate Fiduciary Fund financial statements.

D. *Basis of Accounting*

The government-wide, proprietary, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

D-44

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual at both the City-wide and Fund level are property, sales and franchise taxes, current service charges, and interest revenue. Fines and licenses and permits are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

The City follows Statements and Interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's business-type activities and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. *Property Tax Revenues*

Solano County assesses properties and it bills, collects, and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1.

Secured property tax is due in two installments, on November 1 and March 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed, provided they become available as defined above.

F. *Revenue Recognition For Water and Sewer*

Revenues are recognized based on cycle billings rendered to customers. Revenues for services provided but not billed at the end of a fiscal period are accrued at the end of the fiscal year.

G. *Compensated Absences*

Compensated absences comprise unpaid vacation and certain compensated time off, which are accrued as earned. The City's liability for compensated absences is recorded in the General, Water and Wastewater funds as appropriate. The liability for compensated absences is determined annually, however, such compensated absences payments are not distinguished from regular payroll paid during the fiscal year. Amounts expected to be paid out of current financial resources are recorded as fund liabilities; the long-term portion is recorded in the Statement of Net Assets.

Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

Compensated absences activity was as follows for the year ended June 30, 2005:

	Governmental Activities	Business-type Activities	Total
Beginning Balance	$1,020,546	$178,607	$1,199,153
Additions	323,608	28,020	351,628
Payments	(306,505)	(25,846)	(332,351)
Ending Balance	$1,037,649	$180,781	$1,218,430
Current Portion		$180,781	$180,781

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. *Materials, Parts and Supplies*

Materials, parts and supplies are held for consumption and are valued at cost using the first-in-first-out (FIFO) basis.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

A. *Budgeting Procedures*

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

1. The City Manager submits to the City Council a proposed bi-annual operating budget for the next two fiscal years commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

2. Public hearings are conducted to obtain taxpayer comments.

3. The bi-annual budget is adopted by City Council resolution prior to July 1.

4. Expenditures may not legally exceed budgeted appropriations at the fund level.

5. All budget adjustments and transfers between funds must be approved by the City Council by resolution during the fiscal year. The City Manager and Finance Director are authorized to transfer unencumbered appropriations only within a department and within a fund.

6. Formal budgetary integration, including the recording of encumbrances, is employed as a management control device during the year in all budgeted funds. Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities at that date.

7. Remaining appropriations lapse at year-end and must be reappropriated in the following year.

8. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the General Fund, Special Revenue Funds and Debt Service Funds. State law does not require the City to legally adopt a budget.

   Budgeted amounts are as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original appropriations.

B. *Excess of Expenditures over Appropriations*

The Library Book Special Revenue Fund had expenditures in excess of budget in the amount of $80. Sufficient revenues were available to cover these expenditures.

The Library Measure B Special Revenue Fund had expenditures in excess of budget in the amount of $19,296. Sufficient revenues were available to cover these expenditures.

The Tourtelot Mitigation Special Revenue Fund had expenditures in excess of budget in the amount of $8,790. Sufficient revenues were available to cover these expenditures.

NOTE 3 - CASH AND INVESTMENTS

The City's dependence on property tax receipts, which are received semi-annually, requires it to maintain significant cash reserves to finance operations during the remainder of the year. The City pools cash from all sources and all funds except Cash and Investments held by Trustees and Terrace Gardens, Inc. so that it can be invested at the maximum yield consistent with safety and liquidity, while individual funds can make expenditures at any time.

A. *Policies*

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California law, this collateral is held in a separate investment pool by another institution in the City's name and places the City ahead of general creditors of the institution.

The City invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the City employs the Trust Department of a bank as the custodian of certain City managed investments, regardless of their form.

The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

B. *Classification*

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or Agency agreements.

Cash and investments available for City operations	$52,380,912
Restricted cash and investments	1,058,372
Total City cash and investments	53,439,284
Cash and investments in Fiduciary Funds (separate statement)	3,281,496
Total cash and investments	$56,720,780

Cash and Investments as of June 30, 2005 consist of the following:

Cash on hand	$5,610
Deposits with financial institutions	2,146,179
Investments	54,568,991
Total cash and investments	$56,720,780

Cash and Investments Available for Operations is used in preparing proprietary fund statements of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.

D-46

NOTE 3 - CASH AND INVESTMENTS (Continued)

C. *Investments Authorized by the California Government Code and the City's Investment Policy*

The City's Investment Policy and the California Government Code allow the City to invest in the following, provided the credit ratings of the issuers are acceptable to the City; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code, or the City's Investment Policy where the City's Investment Policy is more restrictive.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Certificates of Deposit	1 year	N/A	20%	$5 Million
Bankers Acceptances	180 days	N/A	20%	$3 Million
Treasury Bills and Notes	3 years	N/A	20%	$5 Million
Government Agency Securities	1 year	N/A	20%	$5 Million
Repurchase Agreements	30 days	N/A	20%	$1 Million
Commercial Paper	15 days	A-1	20%	$1 Million
State Local Agency Investment Fund	N/A	N/A	N/A	$40 Million

D. *Investments Authorized by Debt Agreements*

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The bond indentures contain no limitations for the maximum investment in any one issuer or the maximum percentage of the portfolio that may be invested in any one investment type. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
Bankers Acceptances	360 days	A-1
Treasury Bills and Notes	None	N/A
State General Obligations	None	A
Government Agency Securities	3 years	AAA
Repurchase Agreements	1 year	A
Commercial Paper	270 days	A-1+
State Local Agency Investment Fund	N/A	N/A
Money Market Fund	N/A	AAAm

D-47

NOTE 3 - CASH AND INVESTMENTS (Continued)

E. *Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity or earliest call date:

Investment Type	12 Months or less
U.S. Treasury Notes	$9,444,499
California Local Agency Investment Fund	43,764,383
Mutual Bond F (US Bank)	1,737
Held by Trustees:	
Money Market Mutual Funds (U.S. Securities)	1,058,372
U.S. Government Agencies	
Total Investments	$54,268,991

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2005, these investments matured in an average of 151 days.

Money market funds are available for withdrawal on demand and at June 30, 2005, matured in an average of 8 days.

F. *Credit Risk*

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. The actual ratings as of June 30, 2005 for all U.S. Treasury Notes are AAA as provided by Standard and Poor's investment rating system. The Local Agency Investment Fund and Money Market Mutual Funds were not rated as of June 30, 2005

G. *Statements of Cash Flows*

Cash and investments and restricted cash and investments are used in preparing Proprietary Fund statements of cash flows because these assets are highly liquid and are expected to liquidate liabilities arising during the year.

NOTE 4 - INTERFUND TRANSACTIONS

A. *Transfers Among Funds*

With 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 an expenditure on behalf of another fund.

Transfers between funds during the fiscal year ended June 30, 2005 were as follows:

Fund Making Transfer	Fund Receiving Transfers	Amount Transferred	
General Fund	Non-Major Governmental Funds	$150,250	(B), (D), (G)
	Benicia Marina	184,485	(F)
Special Revenue Funds			
Non-Major Governmental Funds	General Fund	185,000	(C), (D)
Debt Service Fund			
Non-Major Governmental Funds	General Fund	955,260	(E)
Non-Major Governmental Funds	Non-Major Governmental Funds	276,234	(H), (A)
Enterprise Funds			
Wastewater	General Fund	386,470	(D)
Water	General Fund	406,500	(D)
		$2,544,199	

(A) Transfer of residual equity
(B) Transfer to fund community assistance
(C) Transfer to partially fund street maintenance
(D) Transfer to fund administrative expenses
(E) Transfer to repay acquisition and legal costs
(F) Transfer to fund subsidy
(G) Transfer to fund HVAC replacement.
(H) Transfer to fund capital improvements

B. *Current Interfund Balances*

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year.

At June 30, 2005, the General Fund was owed $183,608 by the Street Projects Fund.

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

C. *Long-Term Interfund Advance*

The Park Dedication Capital Projects Fund owed the General Fund $224,650 at June 30, 2005. This advance is expected to be repaid in full next fiscal year.

The General Fund owed the Traffic Mitigation Fund $201,960 at June 30, 2005. The advance is expected to be repaid at two percent interest over a five-year period with annual payments commencing in December 2004.

NOTE 5 – LOANS RECEIVABLE

At June 30, 2005, the City had the following housing related loans receivable:

	Balance at June 30, 2005		
	Governmental Funds	Business-Type Funds	Total
Housing Rehabilitation Loan Program	$406,888		$406,888
Burgess Point			
Benicia Housing Partners	550,000		550,000
Benicia Housing Authority	340,000	$845,000	1,185,000
Hearthstone Village			
Affordable Housing Affiliation	192,514	191,572	384,086
Less: Forgivable amount	(192,514)	(191,572)	(384,086)
Bay Ridge Affordable Housing		756,750	756,750
Less: Forgivable amount		(756,750)	(756,750)
Total	$1,296,888	$845,000	$2,141,888

A. *Housing Rehabilitation Loan Program*

The City administers a Housing Rehabilitation Loan Program using Housing and Community Development Act funds. Under this program, residents with incomes below a certain level are eligible to receive low interest loans, secured by deeds of trust, for construction work on their homes. Federal grants are used to fund these loans. Upon approval of loans, the City disburses the funds, and arranges for and collects repayments. As of June 30, 2005, residents owed the City $406,888 in loans offered by this Program.

NOTE 5 – LOANS RECEIVABLE (Continued)

B. *Burgess Point, Benicia Housing Partners*

On July 1, 2003, the City authorized a loan to Benicia Housing Partners for an amount of $550,000. The loan bears simple interest at eight percent annually and is secured by a deed of trust. The purpose of the loan is to provide funding for the construction of 56 units of tax credit rental housing. Commencing May 1, 2005, and annually thereafter, annual payments will be made from residual receipts collected by the developer, to the extent such funds are available. Such payments continue until the loan and interest are paid in full or the remaining principal and interest is due in full on the earliest of: 1) the date of any transfer not authorized by the City, 2) the date of any default, or 3) December 31, 2035.

C. *Burgess Point, Benicia Housing Authority*

On July 23, 2003, the City authorized a loan to Benicia Housing Authority for an amount of $1,185,000. The loan bears simple interest at six percent annually and is unsecured. The loan is to provide funding for the purchase of building permits by Benicia Housing Partners. Commencing May 1, 2005 and thereafter, Benicia Housing Authority will make annual payments from funds received from Benicia Housing Partners based upon a loan agreement. Such payments continue until the loan and interest is paid in full or the remaining principal and interest is due in full on the earliest of: 1) the date of any transfer not authorized by the City, 2) the date of any default, or 3) December 31, 2035.

D. *Hearthstone Village, Affordable Housing Affiliation*

On May 21, 2003, the City authorized loans to the Affordable Housing Affiliation in the amount of $96,000 and $288,086 in deferred fees, totaling $384,086. The purpose of the loan is to assist with the construction of a 12-unit project, Hearthstone Village, which will consist of 7 single-family houses, 1 duplex, 1 triplex and 3 parking structures. All 12 of these units are to be occupied by low- and very low-income persons or families. The loan payments are deferred and the loan receivable will not be recognized unless, within 10 years from date of occupancy, the property ceases to be used in accordance with the terms and conditions set forth in the regulatory agreement. However, the loan is secured by a deed of trust creating a valid lien, not lower than third priority, upon the property.

E. *Bay Ridge Housing Project, Granite Management*

On November 12, 2002, developer fees were deferred in the form of a loan receivable for 50 affordable low-income household units in the Bay Ridge Affordable Housing Project. The Water and Wastewater Connections fees were deferred by a promissory note for $381,750 and $375,000, respectively. The note bears simple interest at 5.5% annually. The loans will not be recognized unless there is a failure to comply with the eligibility terms in the loan agreement. The City waived other fees in the amount of $253,250 to assist the low-income housing project.

F. *Trust Fund Receivable*

On December 18, 2002, the Benicia Affordable Housing Trust Fund loaned $70,000 to Benicia Housing Authority. The loan bore interest at 2.5% and was secured by a deed of trust. The outstanding loan balance of $57,844 was forgiven during the fiscal year.

NOTE 6 – CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City defines capital assets as assets with an initial individual cost of more than $25,000 and an estimated useful life in excess of three years with the exception of federally funded acquisitions, which are $5,000 or more. Land and infrastructure are capitalized at an initial individual cost of more than $150,000.

GASB Statement 34 allows the City up to four years to record all its infrastructure assets. With the implementation of GASB Statement 34, the City has recorded historical values for its streets and streetlights of $120,489,817 at June 30, 2004. Historical values for other infrastructure assets will be recorded in fiscal year 2006.

All capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets:

Buildings	10-50 years
Improvements	10-50 years
Machinery & equipment	5-40 years
Transmission lines	60 years
Waterline storage	25-60 years
Infrastructure	12-85 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

NOTE 6 – CAPITAL ASSETS (Continued)

A. *Capital Asset Additions and Retirements*

Capital assets at June 30 comprise:

	Balance June 30, 2004	Additions	Retirements	Transfers	Balance June 30, 2005
Governmental Activities					
Non Depreciable Assets:					
Land	$17,989,044				$17,989,044
Construction In Progress	3,215,820	$4,483,667	($300,550)	($508,277)	6,890,660
Total Non Depreciable Assets	21,204,864	4,483,667	(300,550)	(508,277)	24,879,704
Capital assets being depreciated:					
Buildings & Improvements	14,199,239	855,261			15,054,500
Machinery & Equipment	6,167,222	302,370	(15,000)	508,277	6,962,869
Infrastructure	120,797,481				120,797,481
Total capital assets being depreciated	141,163,942	1,157,631	(15,000)	508,277	142,814,850
Less accumulated depreciation for:					
Buildings & Improvements	(4,191,466)	(430,159)			(4,621,625)
Machinery & Equipment	(4,106,622)	(380,405)	15,000		(4,472,027)
Infrastructure	(41,309,401)	(1,681,220)			(42,990,621)
Total accumulated depreciation	(49,607,489)	(2,491,784)	15,000		(52,084,273)
Net Depreciable Assets	91,556,453	(1,334,153)			90,330,577
Governmental Activity Capital Assets, Net	$112,761,317	$3,149,514	($300,550)		$115,610,281
Enterprise Activities					
Non Depreciable Assets:					
Land and Improvements	$1,464,221				$1,464,221
Construction In Progress	10,142,913	$9,981,582			20,124,495
Total Non Depreciable Assets	11,607,134	9,981,582			21,588,716
Capital assets being depreciated:					
Buildings and Improvements	69,736,622				69,736,622
Treatment Plant and Water Pipes	59,087,095	161,894			59,248,989
Machinery & Equipment	5,678,830	139,205	($42,176)		5,775,859
Total capital assets being depreciated	134,502,547	301,099	(42,176)		134,761,470
Less accumulated depreciation for:					
Buildings and Improvements	(22,322,644)	(1,861,240)			(24,183,884)
Treatment Plant and Water Pipes	(28,922,192)	(1,125,356)			(30,047,548)
Machinery & Equipment	(2,100,957)	(311,602)	42,176		(2,370,383)
Total accumulated depreciation	(53,345,793)	(3,298,198)	42,176		(56,601,815)
Net Depreciable Assets	81,156,754	(2,997,099)			78,159,655
Enterprise Activity Capital Assets, Net	$92,763,888	$6,984,483			$99,748,371

D-50

NOTE 6 - CAPITAL ASSETS (Continued)

B. Project Commitments

At June 30, 2005, the City had outstanding commitments with contractors for the following projects:

Project	Commitment
Recreation Area Lights	$166,290
Ninth Street Park	70,115
Benicia High School Renovations	32,260
Community Center	17,015
Commandant's Residence	108,660
Water Plant & Distribution	9,133,535
Inflow and Infiltration	60,360
Various Projects	117,735
	$9,705,970

C. Capital Asset Contributions

Some capital assets may be acquired using federal and State grant funds, or they may be contributed by developers or other governments. GASB Statement 34 requires that these contributions be accounted for as revenues at the time the capital assets are contributed.

D. Depreciation Allocation

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

	Depreciation
Governmental Activities:	
Administration	$44,010
Community development	16,771
Public safety	270,148
Parks and community services	174,942
Public works	1,772,510
Library	161,205
General	52,198
Total Governmental Activities	$2,491,784
Business-type Activities:	
Wastewater	$1,844,629
Water	1,159,039
Marina	189,612
Transit	104,918
Total Business-Type Activities	$3,298,198

NOTE 7 - LONG TERM DEBT

The City generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt.

The City's debt issues and transactions are summarized below and discussed in detail thereafter.

A. Current Year Transactions and Balances

	Original Issue Amount	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005	Current Portion
GOVERNMENTAL ACTIVITY DEBT						
GENERAL LONG TERM DEBT						
1997 General Obligation Wastewater Bonds, Series A, 4.4-7.0%, due 08/01/17	$5,000,000	$4,055,000		$205,000	$3,850,000	$215,000
1997 General Obligation Wastewater Bonds, Series B, 4.125-7%, due 04/01/18	5,000,000	4,245,000		190,000	4,055,000	205,000
Casa de Vilarrasa, 4.500% due 03/01/25	1,400,000		$1,400,000		1,400,000	
Total Governmental Activity Debt		$8,300,000	$1,400,000	$395,000	$9,305,000	$420,000
BUSINESS-TYPE ACTIVITY DEBT						
ENTERPRISE FUND DEBT						
2002 Water Revenue Refunding Bonds, 1.2-4.4%, due 11/01/17	$10,805,000	$10,250,000		$620,000	$9,630,000	$625,000
1993 Refunding Wastewater Revenue Bonds, 2.7-4.9%, due 12/01/19	6,195,000	4,630,000		195,000	4,435,000	200,000
1967 Water Facilities Improvement Bonds, 5.4-5.5%, due 09/02/07	4,650,000	1,035,000		240,000	795,000	250,000
Less unamortized original issue discount		(76,653)		(11,768)	(64,885)	
Total utility bonds payable, net of discount		15,838,347		1,043,232	14,795,115	1,075,000
State of California Marina Loans, 4.5%, due 08/01/27	6,046,730	4,515,702		120,738	4,394,964	126,171
State Revolving Loan Fund- WWTP, 1.8%, due 12/19/20	20,129,575	17,549,034		891,370	16,657,704	907,441
State Revolving Loan Fund- I & I, 2.6% Due 04/10/25	11,296,658		$11,296,640		11,296,640	451,665
Total loans payable		22,064,736	11,296,640	1,012,108	32,349,308	1,033,612
Total Business-type Activity Debt		$37,903,083	$11,296,640	$2,055,340	$47,144,423	$2,108,612

NOTE 7 - LONG TERM DEBT (Continued)

B. 1997 General Obligation Wastewater Bonds

In 1997, the City's voters approved issuance of up to $30 million in general obligation debt to improve the City's wastewater treatment plant. 1997 General Obligation Sewer Wastewater Bonds totaling $10 million were issued in August 1997 (Series A) and May 1998 (Series B).

C. Casa de Vilarrasa- Capital Lease

In March, 2005, the City entered a Capital Lease for $1.4 million, at 4.5% interest, to finance the purchase and rehabilitation of the Casa de Vilarrasa 40 unit senior housing complex. Semi-annual payments are due on September 1 and March 1 each year. The first four payments are interest only and are financed from the lease proceeds. The loan principal is to be amortized over 20 years however it is anticipated the loan will be repaid in 2014.

D. 2002 Water Revenue Refunding Bonds

In September 2002, the City issued Water Revenue Refunding Bonds in the amount of $10,805,000. The proceeds were used to defease the 1991 Water System Refunding Project Certificates of Participation, prepay the City's 1997 Community Drought Relief Promissory Note, purchase a reserve fund surety bond and pay the costs of issuing the bonds. The Water Revenue Refunding Bonds are secured by a pledge of the net revenues of the City's Water System and are subject to the prior lien of the 1967 Bonds. Interest rates range from 1.25% to 4.40%. Principal payments are payable annually on November 1 and interest payments semi-annually on May 1 and November 1, commencing on May 1, 2003.

D-51

E. 1993 Refunding Wastewater Revenue Bonds

In October 1993, the City issued Refunding Wastewater Revenue Bonds to refinance the City's wastewater treatment plant expansion project. The Bonds are special obligations of the City payable solely from and secured by a pledge of the net revenues derived from the sewer operation. Principal and interest are payable semi-annually each June 1 and December 1 through December 1, 2019.

F. 1967 Water Facilities Improvement Bonds

In 1967, the City issued $3,060,000 and $1,590,000, respectively of Water Facilities Improvement Bonds Series A and Series B to finance the acquisition, construction and improvement of the City's water treatment facilities; they are special obligations of the City payable solely from available net revenue of the water operation. Principal and interest are payable semi-annually on March 2 and September 2 through 2007.

G. State of California Marina Loans

From 1976 through 1984, the State of California loaned the City a total of $6,046,730 for various construction projects for the City's marina. Interest and principal are payable annually on August 1 through 2027. Debt service is payable from marina revenues.

NOTE 7 - LONG TERM DEBT (Continued)

H. State Revolving Loan Fund- Wastewater Treatment Plant (WWTP)

In 1998, the City negotiated a State Revolving Fund Loan with the State Water Resources Control Board to finance the remainder of the wastewater treatment plant improvements. The loan is a long-term liability of the Wastewater Enterprise Fund, which borrowed the maximum available of $20,129,576. While the loan bears no stated interest, the City is required to pay an amount termed Local/State Match in addition to the principal amount of the loan. The City has imputed an interest rate of 1.8% to provide for the payment of this match. Payments are due annually in December through 2020.

I. State Revolving Loan Fund- Inflow & Infiltration (I & I)

In 2003, the City negotiated a State Revolving Loan Fund with the State Water Resources Control Board to finance the $12 million inflow and infiltration project at a rate of 2.6%. The loan is a long-term liability of the Wastewater Enterprise Fund, which will borrow the maximum available of $11,196,432. As of June 30, 2005, loan disbursements and receivables totaled $10,076,789 and $1,075,381, respectively, and capitalized interest was $144,470, for a total loan balance of $11,296,640.

J. Debt Service Requirements

Annual debt service requirements are shown below for all long-term debt:

For the Year Ending June 30	Governmental Activities Principal	Governmental Activities Interest	Business-Type Activities Principal	Business-Type Activities Interest
2006	$420,000	$424,108	$2,560,217	$1,337,239
2007	440,000	409,667	2,619,261	1,301,791
2008	511,888	389,216	2,688,513	1,227,105
2009	539,249	365,505	2,473,638	1,155,813
2010	566,717	340,189	2,539,658	1,087,825
2011-2015	3,314,735	1,260,715	13,805,956	4,276,410
2016-2020	3,005,659	400,069	14,077,267	2,067,101
2021-2025	506,752	64,803	5,812,472	604,708
2026-2029			632,326	48,096
Total	$9,305,000	$3,654,272	47,209,308	$13,126,089
Less unamortized original issue discount			(64,885)	
Net long-term debt of business-type activities			$47,144,423	

NOTE 7 - LONG TERM DEBT (Continued)

K. Special Assessment Debt Without City Commitment

At June 30, 2005, the outstanding principal amount of bonded debt issued by special assessment districts in the City was as follows:

McAllister	$11,700,000
East Second Street	4,160,000
Combined Drake/Gateway	819,000
Fleetside Industrial Refunding	3,335,000

The City has no legal or moral responsibility with respect to the payment of this debt and has therefore not recorded it as a liability. However, the City is responsible for the construction of the improvements financed by the Districts; therefore, the related Capital Projects funds are reflected in the City's financial statements. The City is also responsible, as the Districts' agent, for the Districts' cash receipts, disbursements and balances, which are reported as Agency fund transactions in the financial statements.

NOTE 8 - NET ASSETS AND FUND BALANCES

GASB Statement 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

D-52

A. Net Assets

Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

Invested in Capital Assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects and debt service requirements.

Unrestricted describes the portion of Net Assets which is not restricted to use.

B. Fund Balance Reserves

Reserves are placed by outside entities, such as other governments, which restrict the expenditures of the reserved funds to the purpose intended by the entity that provided the funds. The City cannot modify or remove these reserves. At June 30, 2005, reserves included the following:

Debt Service reserve are the balance of debt service funds legally restricted for the payment of principal and interest on long - term debt, or the portion of proprietary funds retained earnings reserved to retire bond principal.

NOTE 8 - NET ASSETS AND FUND BALANCES (Continued)

Prepaid Items reserve is the portion of fund balance set aside to indicate these items do not represent available, spendable resources even though they are a component of assets.

Encumbrances reserve represents the portion of fund balance set aside for open purchase orders.

Open Space reserve is the portion of fund balance set aside for open space improvement.

Advance to Other Funds reserve indicates this portion of fund balance is not available for current expenditure because of the long-term nature of these advances.

C. Fund Balance Designations

Designations are imposed by City Council to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Council action. At June 30, 2005, designations included the following:

Designated for ***equipment replacement*** is the portion of fund balance to be used for budgeted future equipment purchases.

Designated for ***future projects*** includes $200,000 for the proposed X-Park construction, $210,739 for the Commandant's Residential Preservation project, $77,200 for the First Street Improvements, $70,000 for the Camel Barn Flooring repairs, $70,000 for Clocktower improvements, $194,806 for street projects and $51,055 for various small capital projects.

Designated for the ***cable grant*** is the portion of fund balance to be used for communication equipment purchases.

D. Fund Equity Deficits

The Street Projects Capital Project Fund had deficit fund balances of $79,816 at June 30, 2005. Future grant revenues are expected to offset this deficit.

NOTE 9 - DEFERRED COMPENSATION PLAN

City employees may defer a portion of their compensation under a City sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency as defined by the Plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

NOTE 10 - PENSION PLAN

CALPERS Safety and Miscellaneous Employees Plans

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 2005, are summarized as follows:

	Safety	Miscellaneous
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50
Monthly benefits, as a % of annual salary	3%	1.426%-2.418%
Required employee contribution rates	9%	7%
Required employer contribution rates	30.792%	11.042%

The City's labor contracts require it to pay employee contributions in excess of 1% as well as its own.

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the City must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 8.25% is assumed, including inflation at 3.50%. Annual salary increases are assumed to vary by duration of service and annual retirement benefit increases are assumed to be 3.75%. The City's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at June 30, 2005 was 22 years for the miscellaneous plan and 15 years for the safety plan.

NOTE 10 - PENSION PLAN (Continued)

The Plans' actuarial value (which differs from market value) and funding progress over the most recent three years available from CALPERS are set forth below at their actuarial valuation date of June 30:

Safety Plan:

	Actuarial					
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2001	$41,901,244	$43,203,676	($1,302,432)	103.1%	$4,891,750	(26.6%)
2002	45,092,197	40,353,909	4,738,288	89.5%	5,047,896	93.9%
2003	47,596,711	40,806,520	6,790,191	85.7%	5,648,323	120.2%

Miscellaneous Plan:

	Actuarial					
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2001	$24,827,949	$28,967,051	($4,139,102)	116.7%	$7,079,317	(58.5%)
2002	28,353,131	28,201,335	151,796	99.5%	8,053,627	1.9%
2003	33,792,454	29,269,778	4,522,676	86.6%	8,440,604	53.6%

Audited annual financial statements are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

The market value of the net assets in the Plans changed as follows during the year ended June 30, 2004, the most recent available from CALPERS:

	Safety	Miscellaneous
Beginning Balance 6/30/02	$40,353,909	$28,201,335
Contributions received	695,770	763,774
Benefits and refunds paid	(1,609,859)	(719,767)
Miscellaneous adjustments	(1,054)	11,536
Expected Investment Earnings Credited	3,292,196	2,328,856
Expected Actuarial Value of Assets 6/30/03	$42,730,962	$30,585,734
Market Value of Assets 6/30/03	$37,096,836	$26,608,889
Actuarial Value of Assets 6/30/03	$40,806,520	$29,269,778

Additional disclosures will be included when made available by PERS.

NOTE 10 - PENSION PLAN (Continued)

Actuarially required employer contributions for the safety plan for fiscal years 2005, 2004 and 2003 were $1,735,861, $1,068,119 and $158,810, respectively. Actuarially required employer contributions for the miscellaneous plan for fiscal years 2005, 2004 and 2003 were $993,117, $258,977 and $0, respectively. The City made these contributions as required, together with certain immaterial amounts required as the result of the payment of overtime and other additional employee compensation.

As required by new State law, effective July 1, 2005, the City's Safety Plan was terminated and the employees in this plan were required by CALPERS to join new State-wide pools. One of the conditions of entry to these pools was that the City true-up any unfunded liabilities in the former Plans, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. The City satisfied its Safety Plan's liability of $7,264,067 by agreeing to contribute that amount to the Side Fund through an addition to its normal contribution rates over the next 11 years.

NOTE 11 - HEALTH, GENERAL LIABILITY AND WORKERS' COMPENSATION COVERAGE

A. *Coverages*

City employees are covered under a medical and prescriptions policy with coverage limited to $2,000,000 in the aggregate. The City provides group dental and vision coverage to employees through programs that are administered by a service agent. The City pays all dental and vision claims.

The City is a member of the Association of Bay Area Governments (ABAG), which provides general liability coverage of $5,000,000 above the City's deductible of $25,000 per occurrence, and property damage insurance up to $750,000,000 above the City's deductible of $1,000 to $500,000, for property damage and $5,000 for vehicle damage per occurrence. ABAG is governed by a board consisting of representatives from member municipalities. The board controls the operations of ABAG, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating. During the fiscal year ended June 30, 2005, the City contributed $551,581 for current year coverage.

Audited financial statements may be obtained from ABAG Services, P.O. Box 2050, Oakland, CA 94604-2050.

The Local Agency Workers' Compensation Excess Insurance Joint Powers Authority (LAWCX) covers workers compensation up to statutory limits. The City has a deductible or uninsured liability of up to $350,000 per claim. During the fiscal year ended June 30, 2005, the City contributed $91,360 for current year coverage.

LAWCX's financial statements may be obtained from Bickmore & Associates, 6371 Auburn Boulevard, Citrus Heights, CA 95621.

D-54

NOTE 11 - HEALTH, GENERAL LIABILITY AND WORKERS' COMPENSATION COVERAGE (Continued)

B. ***Liability for Uninsured Claims***

The City's liability for uninsured claims, including estimated claims incurred but not reported, was estimated by management based on prior years claims experience and was computed as follows:

	Workers' Compensation	General Liability	2005 Total	2004 Total
Beginning balance	$635,780	$414,492	$818,935	$818,935
Liability for current year claims and change in prior year claims estimate	158,443	(52,685)	105,758	685,397
Total claims paid, fiscal year 2005	(136,617)	(231,932)	(368,549)	(454,058)
Ending balance	$657,606	$129,875	$556,144	$1,050,274

For the years ended June 30, 2005, 2004, and 2003, the amount of settlements did not exceed insurance coverage.

NOTE 12 - JOINT POWERS AUTHORITIES

The City participates in the joint ventures discussed below through separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these entities exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each joint venture is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective joint venture, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on that board. Obligations and liabilities of these joint ventures are not the City's responsibility and the City does not have an equity interest in the assets of each joint venture except upon dissolution of the joint venture.

A. ***Solano Water Authority***

Solano Water Authority was established to coordinate water procurement and use among the Cities and County of Solano.

Members share the Water Authority's expenses equally and each member has one representative on the commission that governs the Water Authority.

Audited financial statements may be obtained from the Solano County Water Authority at 508 Elmira Road, Vacaville, California, 95687.

NOTE 12 - JOINT POWERS AUTHORITIES (Continued)

B. *Solano Transportation Authority*

Solano Transportation Authority (STA) was established to develop regional strategies and meet regional transit and paratransit needs and to cooperatively address Solano County transportation issues.

The City's payments to STA are in accordance with a formula under which each member entity pays a proportionate share of the expenditures based on the entity's population.

Audited financial statements may be obtained from STA at One Harbor Center, Suite 130, Suisun City, California, 94585.

NOTE 13 – COMMITMENTS AND CONTINGENT LIABILITIES

The City participates in several Federal and State grant programs. These programs have been audited by the City's independent accountants in accordance with the provisions of the Federal Single Audit Act of 1984 as amended in 1996, and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

The City is a defendant in a number of lawsuits that have arisen in the normal course of business, the outcome of which cannot be predicted with certainty. In the opinion of the City Attorney, these actions when finally adjudicated will not have a material adverse effect on the financial position of the City.

NOTE 14 – SUBSEQUENT EVENT

On October 12, 2005, the City issued 2005 Wastewater Refunding Revenue Bonds in the amount of $4,260,000. Proceeds of the Bonds will be used to refund the City's outstanding 1993 Refunding Wastewater Revenue Bonds.

CITY OF NOVATO
BASIC FINANCIAL STATEMENTS
AND REQUIRED AND OTHER SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORT

* * * * *

JUNE 30, 2005

OUM
ODENBERG
ULLAKKO
MURANISHI
& CO. LLP
Certified Public Accountants & Consultants

December 9, 2005

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of the City Council
City of Novato, 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 Novato, California, (the "City") as of and for the year ended June 30, 2005, 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 basic 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

D-57

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial positions of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Novato as of June 30, 2005, and the respective changes in financial position and cash flows where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the PERS schedule of funding progress are not a required part of the basic financial statements, but are supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting primarily 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 thereon.

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 fund financial information and budgetary comparison schedule listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Odenberg Ullakko Muranishi & Co LLP

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2005

This is management's discussion and analysis of the City of Novato's financial activities and performance for the fiscal year ended June 30, 2005. This section of the financial report presents a narrative overview and analysis of the financial activities.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at June 30, 2005 by $203.6 million (net assets). Of this amount, $5.2 million (unrestricted net assets) may be used to meet the government's on-going obligation to citizens and creditors, and $2 million is restricted for Debt Service. The balance of $196.4 million is invested in capital assets, net of related debt.

- The City's total net assets decreased by $25.3 million, or 11%, during the fiscal year ended June 30, 2005. Of this amount, 525.4 million is attributable to expenditures in excess of revenues, which was offset by prior period adjustments totaling $132,439.

- At June 30, 2005, unreserved fund balance for the General Fund was $4.8 million, 17% percent of total General Fund Expenditures.

- The City's total long-term debt increased by $38.2 million. The increase is comprised of $5.2 million of General Obligation bonds and $34.4 million of Redevelopment Agency Tax Allocation bonds, which is partially offset by normal scheduled debt payments of $1.4 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information (RSI) in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements consist of a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. They provide information about the activities of the City as a whole and present a long-term view of the City's finances.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Novato is strengthening or weakening.

The Statement of Activities and Changes in Net Assets presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash receipts or disbursements. Thus, revenues and expenses are reported in this statement for some items that will only result in cash receipts or disbursements in future fiscal periods, such as property taxes assessed for the current year but received after June 30, or vacation leave earned in the current year but not utilized until a subsequent year.

The government-wide financial statements of the City are divided as follows:

Governmental activities – These are activities that are principally supported by taxes and intergovernmental revenues. For the City of Novato, governmental activities include police services, community development, recreation and community services, and general government administration.

Also included in governmental activities are certain component units. These are organizations whose governing body is the governing body of the primary reporting government or who report to the primary governing body. Organizations for which the nature and significance of their relationship with the primary reporting government is such that exclusion would cause the reporting government's financial statements to be misleading or incomplete are included in governmental activities. The City of Novato is the primary government in this report, and incorporated into these financial statements are the financial position and activities of two component units. These component units are the Redevelopment Agency of the City of Novato (Agency) and the City of Novato Public Financing Authority (NPFA).

Business-type activities – These are activities that are primarily funded through user charges. The City of Novato has no business-type activities.

Fiduciary activities – These are activities in which the City is involved in holding and managing net assets for external parties in accordance with trust agreements or other custodial arrangements. Fiduciary activities are reported in trust and agency funds in the fund financial statements, as fiduciary resources cannot be used to support the City's programs or services. The City of Novato Financing Authority (NFA or Authority) is included in the separate Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets.

D-58

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Novato, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds used by the City are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, which focus on the long-term, governmental funds financial statements focus on short-term inflows and outflows of spendable resources and the balances spendable resources available for spending. This information is useful in evaluating a government's short-term financing requirements.

To assist the user of these financial statements in understanding the differences and the relationship between the government-wide financial statements and the governmental funds financial statements, reconciliations between the two sets of statements have been included in this report.

The reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Assets highlights the inclusion of fixed assets and long-term liabilities in the government-wide financial statements.

The reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-wide Statement of Activities and Changes in Net Assets highlights the exclusion of capital expenditures, depreciation and amortization, and cash flows related to long-term debt from the governmental funds statements.

The City of Novato maintains numerous individual funds, which for financial reporting, are grouped according to their type (general fund, special revenue, capital projects, and debt service). Funds whose expenditures exceed 10% of the total expenditures for all governmental funds, or meet other specific criteria for determining their importance to the financial statement user, are designated Major Funds, and are reported separately in the governmental funds statements. All other funds are grouped together for reporting purposes. Major funds for the City of Novato are:

- General Fund
- Capital Projects Fund
- RDA Fund

Individual fund data for each non-major governmental fund is provided in combining statements included in the Required Supplementary Information section of this report.

Proprietary funds

Proprietary funds have as their focus the determination of operating income or cost recovery. There are two types of proprietary funds: enterprise funds and internal service funds.

- Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City has no enterprise funds.

- Internal service funds are used to accumulate and allocate costs internally among the City's various funds and departments.

The City uses internal service funds to account for anticipated replacement costs and maintenance of vehicles and equipment, and also for claim settlements and reimbursements for insurance.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside of the reporting government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City utilizes two types of fiduciary funds:

- Trust funds are use to record the assets and liabilities held for the benefit of others, under a trust agreement that specifies the degree of management performed by the trustee organization. The City accounts for the activities of the Novato Financing Authority in a trust fund.

- Agency funds are use to record assets of separate organizations for which the City serves as a custodian for the organization. All assets in agency funds are offset by a liability to the organization on whose behalf they are held.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements.

Required Supplementary Information

This report presents supplementary information concerning the City of Novato's progress in its obligation to provide pension benefits to its employees, and combining financial statements for non-major governmental funds and the City's internal service funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This section of the Management Discussion and Analysis provides a comparison and review of governmental activities for two fiscal years. In addition, an analysis of the current fiscal year net assets and changes in net assets is provided.

Net Assets
June 30, 2005 and 2004

Governmental Activities

	2005	2004	% change
Assets:			
Current and other assets	$ 54,939,641	$ 47,685,903	15.21%
Capital assets	229,164,211	225,133,839	1.79%
Total assets	284,103,852	272,819,742	4.14%
Liabilities:			
Current and other liabilities	12,290,338	11,863,456	3.60%
Long-term liabilities	68,165,588	32,028,976	112.82%
Total liabilities	80,455,926	43,892,432	83.30%
Net Assets:			
Invested in capital assets net of related debt	196,439,878	195,974,095	0.24%
Restricted	1,969,921	1,773,280	11.09%
Unrestricted	5,238,126	31,179,935	(83.20%)
Total net assets	$ 203,647,926	$ 228,927,310	(11.04%)

Analysis of Net Assets

Net assets are a measure of a government's financial position and over time a trend of increasing or decreasing net assets is an indicator of the financial health of the organization. The City of Novato's net assets exceeded liabilities by $203.6 million at June 30, 2005.

The net assets of $203.6 million at June 30, 2005 were comprised of the following elements:

- Unrestricted cash and investments of $46.2 million, and cash with fiscal agents of $2.7 million;
- Receivables of $4 million, including receivables from other governments of $2.4 million;
- Non-current assets consist of bond issuance costs and capital assets. Bond issuance costs are $2 million and will be amortized over the life of the debt. Capital assets of $229.1 million, net of accumulated depreciation charges of $77.5 million, includes $121.2 million of land,

D-59

$9.1 million of buildings, $0.3 million of furniture and equipment, $97.2 million of infrastructure, and $1.3 million of vehicles;

- Current liabilities total $12.3 million and includes $0.8 million of accounts payable, $1.8 million of salaries and benefits payable, $1.2 million of accrued liabilities, $3.6 million of deposits and other payables, $1.3 million of deferred revenue, $1.1 million of compensated absence payables, $0.6 million of current claims payable, and $2 million of the current portion of long-term debt;
- Long-term debt of $68.1 million includes $2 million of non-current claims payable and $66.1 million of long-term debt which is due in the future fiscal years;
- Net assets invested in capital asset (e.g., land, buildings, equipment and infrastructure) of $196 million represent the cost of capital assets, less any outstanding debt used to acquire the assets. The City uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt must be provided from other sources, other than the related assets, because the capital assets themselves cannot be used to repay these debts;
- Restricted net assets of $2 million represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets $5.2 million may be used to finance day-to-day operations without constrains established by debt covenants, enabling legislation, or other legal requirements.

D-60

Analysis of Changes in Net Assets

The City's Net Assets decreased by $25.3 million during the current fiscal year. The decrease in net assets is attributable to expenditures in excess of revenues by $25.4 million, which was offset by prior period adjustments totaling $132,435. The prior period adjustments are comprised of an increase in the beginning fund balance of Community Center Gymnastics/Teen Center due to the write of prior period deferred revenue in the amount of $31,435 and the reduction of the RDA Memorandum of Understanding liability by the amount of $101,004 for funds set aside in previous years. Activities and changes in net assets relating to the $25.3 million decrease are presented in the table below:

Changes in Governmental Net Assets
June 30, 2005 and 2004

	2005	2004	% change
Revenues:			
Program revenues:			
Charges for services	$ 11,973,556	$ 11,455,550	4.52%
Operating grants and contributions	34,248	398,311	(91.40%)
Capital grants and contributions	2,146,628	1,644,156	30.56%
General revenues:			
Taxes	25,986,172	21,051,820	23.44%
Use of money and property	1,334,948	998,773	33.66%
Revenues from other agencies	777,310	3,868,210	(79.91%)
Other revenue	719,659	665,598	8.12%
Transfers, net	162,860	48,923	232.89%
Total revenues	43,135,381	40,131,341	7.49%
Expenses:			
General government	5,315,039	5,417,073	(1.88%)
Public safety	11,659,153	10,414,072	11.96%
Public works	6,565,065	8,684,987	(24.41%)
Cultural and recreation	3,782,476	3,676,048	2.90%
Community development	34,471,652	4,237,680	713.46%
Interest on long-term debt	2,566,581	1,618,362	58.59%
Depreciation - Infrastructure	4,187,240	3,865,270	
Total program expenses	68,547,206	37,913,492	80.80%
Change in net assets	$ (25,411,825)	$ 2,217,849	(1245.79%)

The decrease in net assets of $27.6 million from fiscal year 2004 to fiscal year 2005 is the combined effect of an increase in expenditures of $30.6 million and an increase in revenues of $3 million. The increase in expenditures mainly represents a payment of $30.5 million by RDA Housing Fund to Novato Community Partners for the Affordable Housing Project in the Hamilton Project Area. The net increase of $3 million in revenues is largely due to a $4.8 million increase in taxes, (property taxes, property transfer taxes and sales taxes combined) and a $1.8 million decrease in intergovernmental revenues (motor vehicle license fees-MVLF). This revenue reduction is related to the State's action to reduce the MVLF rate and to reimburse the City with a like amount of revenue in property taxes.

Governmental Activities

The table of revenues by source below illustrates that Taxes are the largest source of operating revenue for the City. The components of Taxes are Real estate property taxes, Real property transfer tax, Sales and use tax, Hotel and business license taxes and Franchise fees. Charges for services are the second largest source of operating revenue and represent fees charged by departments for services provided. Charges for services also include Licenses and permits and Fine & forfeitures.

Revenues by Source - Governmental Activities

	Percent
Taxes	60%
Charges for services	28%
Capital grants and contributions	5%
Use of money & property	3%
Revenues from other agencies	2%
Other revenue	2%
	100%

The table of expenses below portrays the relative proportion of expenditures by function. The percent for Community Development includes a one-time payment of $30.5 million by the Redevelopment Agency for the Affordable Housing Project in the Hamilton Project Area. The Community Development percentage of expenditures without the one-time payment would equate to 10%.

	Percent
General government	8%
Public safety	17%
Public works	10%
Cultural and recreation	6%
Community development	50%
Interest on long-term debt	4%
Depreciation - infrastructure	6%
	100%

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure compliance with finance-related legal requirements. The fund basis financial statements presented in this report address the need of the City to demonstrate compliance with financial restrictions and allow the statement's users to separately analyze individual funds.

Revenues, Expenditures and Other Changes in Fund Balances
For the Fiscal Year Ended June 30, 2005
(in millions)

	General Fund	Other Major Funds	Other Governmental Funds	Total Governmental Funds
Revenues	$ 28.2	$ 3.9	$ 10.9	$ 43.0
Current expenditures	28.3	0.5	31.8	60.7
Capital outlay		8.1	0.4	8.5
Debt service		1.0	2.2	3.2
	28.3	9.7	34.4	72.4
Debt proceeds		24.8	14.9	39.8
Issuance costs			(1.9)	(1.9)
Net transfers	1.1	5.2	(6.4)	(0.1)
	1.1	30.0	6.7	37.8
Net changes in fund balance	0.9	24.3	(16.8)	8.4
Fund balances, beg. of year	13.4	(10.6)	28.9	31.7
Prior period adjustments	0.1	(0.3)	0.2	0.0
Fund balance, end of year	$ 14.5	$ 13.4	$ 12.3	$ 40.1

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $40.1 million, compared to $31.7 million at June 30, 2004. The unreserved amount is $24.9 million and is available for future spending.

The remainder of fund balance of $15.2 million is reserved to indicate that it is not available for new spending because it has been committed for multi-year capital projects, debt service payments and special revenue funds.

For this fiscal year, revenues were $43 million, and current expenditures and debt service was $72.4 million, yielding a net decrease in fund balance from operations of $29.4 million.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance was $14.5 million, of which $9.6 million was reserved. The reserved amount is comprised of reserves for long-term receivables of $8.5 million, reserved but undesignated of $0.9 million and reserved for encumbrances of $0.2 million. The remaining unreserved amount is comprised of an undesignated amount of $4.8 million.

The fund balance in the City's General Fund increased by $1 million for the fiscal year ended June 30, 2005. This increase is attributable to Transfers In exceeding Transfers Out by $1 million. Transfers In represents funding from various funds for specific expenses and administrative costs incurred by the General Fund. Transfers Out represents funding from the General Fund to various funds for specific expenses.

Proprietary Funds

The net assets for proprietary funds, which are comprised of the City's internal service funds, at June 30, 2005, were $2.8 million. Net assets decreased by $0.4 million, due to cost of services exceeding current service charges. This is primarily due to claim expenses recorded in the Insurance Fund which represents the current portion of long-term liability claims. The General Fund covers the expenses, as the cost is allocated to the various departments.

Fiduciary Funds

The City maintains fiduciary funds for the assets of one expendable trust fund, two non-expendable trust fund and several agency funds.

General Fund Budget Modifications

The original fiscal year 2004-05 budget was adopted in June 2004. During the fiscal year, quarterly budget reports, along with budget amendment requests, are submitted to Council for review and approval. The result of revisions made to the General Fund budget during the fiscal year was a decrease in estimated revenues of $1.3 million and a decrease in expenditures of $0.6 million. In addition, there was an increase to Other Financing Uses of $1.2 million. The net impact of the budget changes was a decrease to the deficiency of revenues and other financing sources over expenditures by $0.4 million.

General Fund Operating Variances

The budget projected a net decrease in fund balance of $4.9 million and the actual results were a net increase of $0.9 million, which equates to a positive variance of $5.8 million. The variance is due to higher than anticipated revenues in the amount of $3.5 million, expenditures less than anticipated in the amount of $2.2 million and other financing uses higher than anticipated in the amount of $0.1 million.

Total General Fund revenue was higher than the budget by $3.5 million and was primarily the result of increases in property taxes, property transfer taxes, and sales taxes totaling $2.2 million. In addition, License and permits revenue was higher than anticipated by $0.5 million due to the completion of construction projects earlier than expected. The remaining amount is related to a combination of revenue increases in Intergovernmental revenues, Fines & forfeitures and Charges for services.

General Fund expenditures were $2.2 million less than the budget and is mainly the result of unfilled positions in various departments throughout the City. Also, given the structural deficit, departments reduced expenditures where feasible.

Capital Assets and Debt Administration

Capital Assets

Detailed information regarding composition and activity in capital assets is provided in Note 5 to the financial statements. The City's investment in capital assets as of June 30, 2005 totaled $229.1 million (net of accumulated depreciation). The investment in capital assets includes land and land improvements, buildings, furniture and fixtures, machinery and equipment, vehicles, streets, highways, drainage systems, and construction in progress.

Governmental Activities Long-term Debt

At June 30, 2005, the City's governmental activities had total long-term debts and obligations as scheduled below.

1997A general obligation bonds	$ 11,005,000
1993A general obligation bonds	2,880,000
2000A general obligation bonds	4,430,000
2004 general obligation bonds	5,000,000
2004 general obligation bonds - premium	268,996
City of Novato Public Financing Authority	
lease anticipation note	1,168,249
CIEDB loan	3,618,727
OPA note	4,992,357
Hamilton Field Tax Allocation bonds-2005	24,835,000
Hamilton Field 2005 Tax Allocation	
Housing bonds - Series A	9,520,000
RDA memorandum of understanding	76,844
Compensated absences - noncurrent	365,357
	$ 68,160,530

Additional information about the City's long-term debt can be found in Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Economic Factors

During fiscal year 2004-05, the economy began to show signs of economic recovery. Due to the monetary policy implemented by the Federal Reserve Chairman, Alan Greenspan, the Federal Funds interest rate was lowered and in turn lowered the borrowing rates for many. This action generated an enormous amount of activity in the real estate market. Many homes were sold and purchased due to low interest rates and significant profits were gained as the demand and prices of homes increased. As property value increased, property taxes increased.

D-62

CITY OF NOVATO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2005

In addition, many home owners refinanced their homes for a higher amount than the remaining mortgage balance, which provided available cash for retail purchases, thus boosting retail sales throughout the economy. Included in the increased retail sales activity was the purchase of new vehicles, thus creating a slight increase in Motor Vehicle Fees.

Fiscal Year 2005-06 Budget

At the beginning of fiscal year 2005-06 budget process, the City determined it would be facing a structural deficit of approximately $5 million. The deficit represented 11.8% of projected revenues for the upcoming fiscal year. The primary reason for the deficit was expenditures increasing more rapidly than revenues. Significant expenditure increases included pension and merit increase costs, lease expense for housing city employees, and increases in gasoline, utilities and contractual obligations.

Prior to this budget year, the City relied upon fund balance to close the gap. Beginning with fiscal 2005-06 budget year, City Manager requested departments to submit base budgets with 5% and 10% reduction scenarios, along with an analysis of the impact on City operations of the proposed reductions. Subsequently, executive management met and discussed the proposed reductions in the context of the City's mandate to provide municipal services to a community with a population of 50,000.

After much discussion, the City determined it would be devastating to the programs and services to balance the budget in one fiscal year. A more reasonable approach was developed that proposed to balance the budget in two fiscal years, using $3.1 million of available fund balance to offset the projected deficit in FY05/06 and leaving an estimated remaining available fund balance of $1.2 million.

City's Stability Outlook

The City's General Fund major revenue sources are Taxes and Charges for Services. Taxes represent 60% of General Fund revenues and appear to remain a stable source of revenue into the coming year. The tax category includes Real estate property taxes, Real property transfer tax, Sales and use tax, Hotel and Business license taxes and Franchise fees.

Charges for services represent 28% of General Fund revenues and comprises of various fees charged by departments, Parks & Recreation, Community Development and Police, for city services. These revenues are highly dependent upon the community participation in City cultural programs and the amount of development and construction activity within the City. It is estimated the current level of activity will continue during fiscal 2005-06.

The City completed the revitalization of its downtown area, located along Grant Avenue, and is beginning to attract more business development. The downtown area is located in the Redevelopment Agency Downtown Project Area and as a result should experience an exponential increase in property tax increment revenues for the redevelopment agency. During this fiscal year, Whole foods and Trader Joe's were approved to come to the City of Novato. Also, the City is experiencing growth in the housing development market and likewise has seen an increase in the assessed valuation of property, thus resulting in an increase in city real estate property taxes.

REQUESTS FOR INFORMATION

This financial report is designed to provide a comprehensive and understandable portrayal of the City's finances, and to fulfill the City's financial accountability to Novato Citizens, governmental entities, and other interested parties. Questions about this report or requests for separate financial statements for the Redevelopment Agency of the City of Novato or the Novato Financing Authority may be addressed to:

City of Novato
Finance Department
75 Rowland Way, Room 200
Novato, CA 94945

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GOVERNMENT-WIDE

FINANCIAL STATEMENTS

CITY OF NOVATO

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Operating cash and investments	$ 46,156,686	$ -	$ 46,156,686
Cash with fiscal agents	2,693,904	-	2,693,904
Receivables:			
Interest	434,070	-	434,070
Accounts	164,516	-	164,516
Loans	986,784		986,784
Due from other governments	2,427,780		2,427,780
Total current assets	52,863,741	-	52,863,741
Noncurrent assets:			
Bond issuance costs, net	2,075,900	-	2,075,900
Capital assets, net	229,164,211	-	229,164,211
Total noncurrent assets	231,240,111	-	231,240,111
Total assets	284,103,851	-	284,103,851
LIABILITIES			
Current liabilities:			
Accounts payable	752,293	-	752,293
Accrued salaries & benefits	1,796,934	-	1,796,934
Accrued liabilities	1,254,473	-	1,254,473
Deposits and other payables	3,563,759	-	3,563,759
Deferred revenue	1,280,789	-	1,280,789
Compensated absences	1,061,784		1,061,784
Claims payable	590,588		590,588
Current portion of long-term debt	1,989,718	-	1,989,718
	12,290,338	-	12,290,338
Noncurrent liabilities:			
Claims payable - noncurrent	1,994,776		1,994,776
Long-term debt, net	66,170,812	-	66,170,812
Total liabilities	80,455,926	-	80,455,926
NET ASSETS			
Invested in capital assets, net of related debt	196,439,878	-	196,439,878
Restricted for:			
Debt service	1,969,921	-	1,969,921
Unrestricted	5,238,126	-	5,238,126
Total net assets	$ 203,647,925	$ -	$ 203,647,925

See accompanying notes to basic financial statements.

D-65

CITY OF NOVATO

Statement of Activities and Changes in Net Assets

For the Fiscal Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue: Governmental Activities
PRIMARY GOVERNMENT					
Governmental activities:					
General government	$ 5,315,039	$ 1,602,404	$ -	$ -	$ (3,712,635)
Public safety	11,659,153	602,027	34,248	320,867	(10,702,010)
Public works	6,565,066	2,366,280		1,016,778	(3,182,006)
Cultural and recreation	3,782,476	3,478,483		736,079	432,086
Community development	34,471,652	3,924,362		72,903	(30,474,387)
Interest on long-term debt	2,566,581	-	-	-	(2,566,581)
Depreciation - Infrastructure	4,187,240				(4,187,240)
Total governmental activities	68,547,206	11,973,556	34,248	2,146,628	(54,392,774)
Business-type activities:					
			-	-	-
Total business-type activities	-	-	-	-	-
Change in net assets:					
Net (expense) revenue	$ 68,547,206	$ 11,973,556	$ 34,248	$ 2,146,628	$ (54,392,774)

Continued
on next page

CITY OF NOVATO

Statement of Activities and Changes in Net Assets (Continued)

For the Fiscal Year Ended June 30, 2004

Functions/Programs	Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total
Change in net assets:			
Net (expense) revenue	$ (54,392,774)	$ -	$ (54,392,774)
General revenues:			
Taxes	25,986,172		25,986,172
Revenues from other agencies	777,310	-	777,310
Use of money and property	1,334,948		1,334,948
Other revenue	719,659		719,659
Transfers, net	162,860		162,860
Total general revenues and transfers	28,980,950	-	28,980,950
Change in net assets	(25,411,824)	-	(25,411,824)
Net assets, beginning of year	228,927,310	-	228,927,310
Prior period adjustments (Note 17)	132,439		132,439
Net assets, end of year	$ 203,647,925	$ -	$ 203,647,925

CITY OF NOVATO

Governmental Funds

Balance Sheet

June 30, 2005

	Major Funds				
	General Fund	Capital Projects	RDA	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	$ 9,405,068	$ 46,953	$ 474,319	$ 33,728,093	$ 43,654,432
Cash with fiscal agent			1,552,438	644,654	2,197,092
Receivables:					
Interest	434,070	-	-	-	434,070
Accounts	156,667	7,342	-	-	164,009
Loans	918,151		-	68,634	986,784
Due from other governments	1,059,952	216,249	833,428	318,151	2,427,780
Due from other funds	8,729,832		23,631,574	7,655,194	40,016,601
Deferred costs	36,562	24,671	1,967,030	881,866	2,910,449
Total assets	$ 20,740,601	$ 295,214	$ 28,458,790	$ 43,296,612	$ 92,791,217
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	$ 505,469	$ 86,775	$ 8,862	$ 85,522	$ 686,648
Accrued salaries & benefits	1,796,934	-	-	-	1,796,934
Accrued liabilities		-	-	500	500
Due to other funds	472,058	497,065	14,472,305	26,077,728	41,519,156
Deposits/other payables	746,117	-	-	2,817,642	3,563,759
Deferred revenue	1,690,947	-	306,599	2,033,530	4,031,076
Compensated absences	1,061,784	-	-	-	1,061,784
Total liabilities	6,273,309	583,840	14,787,785	31,014,922	52,659,856
Fund balances (deficits)					
Reserved, reported in general fund	9,618,208	-	-	-	9,618,208
Reserved, reported in special revenue funds		-	-	136,877	136,877
Reserved for capital projects	-			3,442,113	3,442,113
Reserved for debt service	-	-	-	1,969,921	1,969,921
Unreserved:					
Designated - General Fund	-	-	-	-	-
Designated - Special Revenue Funds	-	-	-	11,447,114	11,447,114
Designated - Capital Projects Funds	-	-		8,280,968	8,280,968
Undesignated - General Fund	4,849,084	-	-	-	4,849,084
Undesignated - Special Revenue Funds				(20,679,159)	(20,679,159)
Undesignated (deficit) - Capital Project Funds	-	(288,626)	13,671,005	7,681,682	21,064,062
Undesignated (deficit) - Debt Service Funds	-	-	-	2,173	2,173
Total fund balances (deficits)	14,467,292	(288,626)	13,671,005	12,281,690	40,131,361
Total liabilities and fund balances	$ 20,740,601	$ 295,214	$ 28,458,790	$ 43,296,612	$ 92,791,217

CITY OF NOVATO

Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets

June 30, 2005

Total Fund Balances - Total Governmental Funds		$ 40,131,361
Amounts reported for governmental activities in the statement of net assets are different because:		
Deferred charges represent costs associated with the issuance of long-term debt which are deferred and amortized over the period the debt is outstanding. The costs are reported as expenditures of the current period in the governmental funds:		
General obligation bonds 1993 A	$ 35,811	
General obligation bonds 1997 A	95,740	
General obligation bonds 2000 A	91,968	
Lease Anticipation Note, 1999 A	23,000	
Hamilton Tax Allocation Bonds, Series 2005	1,306,481	
Hamilton 2005 Tax Allocation Housing Bonds, Series A	385,766	
Measure B Street Bond - 2004	137,136	2,075,900
CIEDB loan proceeds not yet disbursed to the City were not reported in the Governmental Funds Balance Sheet; however, as this amount is included in the CIEDB long-term liability below, the Net Assets of Governmental Activities is adjusted (see Note 6)		370,000
To eliminate the doubling-up effect of cash and investments related to the purchase by the general fund of the Eucalyptus Assessment District's bonds, reflected as an investment on the general fund's balance sheet and as cash on the Eucalyptus Assessment District's balance sheet in the governmental fund financial statements		(137,783)
Capital assets used in governmental activities are not current financial resources. Therefore they are not reported in the Governmental Funds Balance Sheet.		
Nondepreciable	121,165,277	
Depreciable	182,140,322	
Less accumulated depreciation	(75,437,227)	227,868,372
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet.		(1,253,973)
Long-term liabilities are not due and payable in the current period and, therefore, were not reported in the Governmental Funds Balance Sheet. The long-term liabilities were adjusted as follows:		
General obligation bonds	(23,583,494)	
Accrued compensated absences	(365,357)	
OPA notes payable	(4,992,357)	
RDA memorandum of understanding	(76,844)	
CIEDB loan	(3,618,727)	
Lease anticipation note - Series 1999 A	(1,166,751)	
Hamilton Tax Allocation Bonds, Series 2005	(24,835,000)	
Hamilton 2005 Tax Allocation Housing Bonds, Series A	(9,520,000)	(68,160,530)
Internal service funds are used by management to charge costs of certain activities such as equipment replacement, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		2,764,569
Net Assets of Governmental Activities		$ 203,647,925

CITY OF NOVATO

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2005

	Major Funds				
	General Fund	Capital Projects	RDA	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	$ 19,455,926	$ -	$ 2,767,239	$ 3,763,007	$ 25,986,172
Licenses and permits	1,870,448			-	1,870,448
Revenues from other agencies	813,310	702,498		1,469,725	2,985,533
Fines and forfeitures	717,805			-	717,805
Use of money and property	373,723		26,257	934,968	1,334,948
Current service charges	4,780,550	5,358	3,900	4,585,495	9,385,303
Other revenue	194,892	396,946		127,821	719,659
Total revenues	28,216,654	1,104,802	2,797,396	10,881,016	42,999,868
EXPENDITURES					
Current:					
General government	5,083,038			65,000	5,148,038
Public safety	11,056,634			126,981	11,183,614
Public works	5,673,960			539,153	6,213,113
Cultural and recreation	3,699,770			-	3,699,770
Community development	2,824,893		528,433	31,085,615	34,438,941
Capital outlay		8,142,585		374,024	8,516,609
Debt service:					
Principal			441,664	993,165	1,434,829
Interest and fiscal agent fees		-	558,808	1,226,138	1,784,946
Total expenditures	28,338,295	8,142,585	1,528,905	34,410,076	72,419,860
REVENUES OVER (UNDER) EXPENDITURES	(121,641)	(7,037,783)	1,268,491	(23,529,060)	(29,419,992)
OTHER FINANCING SOURCES (USES)					
Debt proceeds	-	-	24,825,000	14,928,373	39,763,373
Issuance costs			-	(1,857,319)	(1,857,319)
Transfers in	1,744,329	7,262,072		863,686	9,870,087
Transfers out	(683,638)	-	(2,058,330)	(7,232,963)	(9,984,931)
Total other financing sources (uses)	1,060,691	7,262,072	22,766,670	6,701,778	37,791,210
Net change in fund balances	939,050	224,289	24,035,161	(16,827,282)	8,371,218
Fund balances, beginning of year	13,408,242	(512,915)	(10,079,156)	28,912,538	31,728,709
Prior period adjustments (Note 17)	120,000		(285,000)	196,434	31,434
Fund balances, end of year	$ 14,467,292	$ (288,626)	$ 13,671,005	$ 12,281,690	$ 40,131,361

CITY OF NOVATO

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets

For the Fiscal Year Ended June 30, 2005

Net Changes in Fund Balances - Total Governmental Funds		$ 8,371,218
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	8,504,424	
Depreciation expense	(4,538,758)	3,965,666
(Depreciation expense is net of Internal Service Fund depreciation of $407,908 which has already been allocated to serviced funds.)		
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets.		
Principal repayments on long-term debt	1,434,829	
Debt proceeds (net of intra-city debt proceeds of $137,763 issued by the Eucalyptus Assessment District and purchased by the City's general fund - see below).	(39,625,610)	(38,190,781)
To eliminate the doubling-up effect of cash and investments related to the purchase by the general fund of the Eucalyptus Assessment District's bonds, reflected as an investment on the general fund's balance sheet and as cash on the Eucalyptus Assessment District's balance sheet in the governmental fund financial statements		(137,763)
Tax increment related to the RDA Memorandum of Understanding to be passed through is recorded as revenue in the governmental funds, but increases long-term liabilities in the Statement of Net Assets		(27,346)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Costs associated with the issuance of long-term debt are recorded as expenditures in the governmental funds, but deferred and amortized throughout the period during which the related debt is outstanding.		
Bond issuance costs	1,857,319	
Amortization of bond issuance costs	(44,249)	
Change in compensated absences	(32,135)	
Change in accrued interest payable	(737,386)	1,043,549
Internal service funds are used by management to charge the costs of certain activities, such as equipment replacement, to individual funds. The net revenue (expense) of the internal service funds is reported with the governmental funds.		(436,366)
Total Changes in Net Assets of Governmental Activities		$ (25,411,824)

CITY OF NOVATO

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget -
	Original	Final	Actual Amounts	Positive/ (Negative)
REVENUES				
Taxes	$ 14,467,610	$ 17,225,731	$ 19,455,926	$ 2,230,195
Licenses and permits	1,410,746	1,425,496	1,870,448	444,952
Fines and forfeitures	430,350	430,350	717,805	287,455
Use of money and property	408,706	408,706	373,723	(34,983)
Revenues from other agencies	3,448,126	624,582	813,310	188,728
Current services charges	5,678,923	4,411,220	4,790,550	379,330
Other revenue	140,274	158,353	194,892	36,539
Total revenues	25,984,735	24,684,438	28,216,654	3,532,216
EXPENDITURES				
Current:				
General government	4,601,581	5,169,831	5,083,038	86,793
Public safety	11,334,430	11,243,778	11,056,634	187,144
Public works	7,479,058	7,134,239	5,673,960	1,460,279
Cultural and recreation	3,837,458	3,953,395	3,699,770	253,625
Community development	3,877,263	3,073,331	2,824,893	248,438
Total expenditures	31,129,790	30,574,574	28,338,295	2,236,279
REVENUES OVER (UNDER) EXPENDITURES	(5,145,055)	(5,890,136)	(121,641)	5,768,495
OTHER FINANCING SOURCES (USES)				
Transfers in	1,615,320	1,711,965	1,744,329	32,364
Transfers out	(1,829,282)	(769,181)	(683,638)	85,543
Total other financing sources (uses)	(213,962)	942,784	1,060,691	117,907
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	$ (5,359,017)	$ (4,947,352)	939,050	$ 5,886,402
Fund balances, beginning of year			13,408,242	
Prior period adjustments			120,000	
Fund balances, end of year			$ 14,467,292	

CITY OF NOVATO

Proprietary Funds

Statement of Net Assets

June 30, 2005

	Business-Type Activities-	Governmental Activities - Internal Service Funds
ASSETS		
Current assets:		
Cash and investments	$ -	$ 2,640,017
Cash with fiscal agents		126,812
Accounts receivables		508
Loans receivable		-
Due from other funds		1,502,554
Deposits		-
Prepaids and other assets		-
Total current assets	-	4,269,890
Noncurrent assets:		
Capital assets, net		1,295,839
Total assets	-	5,565,729
LIABILITIES		
Current liabilities:		
Accounts payable		65,645
Deferred revenue		160,161
Claims payable		590,588
Total current liabilities	-	816,394
Claims payable, noncurrent	-	1,994,776
Total liabilities	-	2,811,170
NET ASSETS		
Invested in capital assets, net of related debt		1,295,839
Unrestricted		1,458,720
Total net assets	$ -	$ 2,754,559

CITY OF NOVATO

Proprietary Funds

Statement of Activities and Changes in Net Assets

For the Fiscal Year Ended June 30, 2005

	Business-Type Activities-	Governmental Activities - Internal Service Funds
REVENUES		
Service charges	$ -	$ 1,211,097
Revenues from other agencies		6,000
Other revenue		26,595
Total operating revenue	-	1,243,692
OPERATING EXPENSES		
Cost of services		1,620,681
Depreciation		407,908
Total operating expenses	-	2,028,589
Operating income (loss)	-	(784,896)
NONOPERATING REVENUES (EXPENSES)		
Interest income		70,826
Net nonoperating revenues (expenses)	-	70,826
Income (loss) before transfers	-	(714,070)
Transfers in		866,429
Transfers out		(588,725)
Net transfers	-	277,704
Changes in net assets	-	(436,366)
Net assets, beginning of year		3,190,925
Net assets, end of year	$ -	$ 2,754,559

CITY OF NOVATO

Proprietary Funds

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2005

	Business-Type Activities-	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from interfund services provided	$ -	$ 916,268
Cash received from other operating activities		32,595
Cash paid to suppliers		(1,404,962)
Net cash provided by operating activities	-	(456,100)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in from other funds	-	866,429
Transfers out to other funds	-	(588,725)
Net cash used by noncapital financing activities	-	277,704
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments - bonds		-
Interest paid		-
Capital expenditures		(472,614)
Net cash used by capital and related financing activities	-	(472,614)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	-	70,826
Repayment of loans receivable		-
Net cash provided by investing activities	-	70,826
Net change in cash and cash equivalents	-	(580,184)
Cash and cash equivalents at beginning of year		3,347,012
Cash and cash ecuivalents at end of year	$ -	$ 2,766,828
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income (loss)	$ -	$ (784,896)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization expense	-	407,908
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable		5,168
Decrease (increase) in due from other funds		(356,020)
Increase (decrease) in deferred revenue		56,022
Increase (decrease) in accounts payable and claims payable		215,718
Net cash provided (used) by operating activities	$ -	$ (456,100)

D-70

CITY OF NOVATO

Fiduciary Funds

Statement of Fiduciary Net Assets

June 30, 2005

	Trust Funds	Agency Funds
ASSETS		
Cash and investments	$ 10,910,195	$ 4,608,712
Cash with fiscal agent	3,519,186	27,154,978
Receivables	1,693,637	25,063
Capital assets, net	15,024,079	-
Other assets, net	885,710	-
Total assets	32,032,807	31,788,754
LIABILITIES		
Accounts payable	35,372	413
Deposits held in trust	1,721,011	31,788,341
Deferred revenue	21,410	-
Notes payable	15,185,000	-
Loans payable	68,633	-
Interest payable	210,360	-
Total liabilities	17,241,786	31,788,754
NET ASSETS		
Assets held in trust	$ 14,791,021	$ -

CITY OF NOVATO

Fiduciary Funds

Statement of Changes in Fiduciary Net Assets

For the Fiscal Year Ended June 30, 2005

	Trust Funds
ADDITIONS	
Operating revenues	$ 6,938,200
Investment income	506,283
Total additions to net assets	7,444,483
DEDUCTIONS	
General and administrative expenses	1,117,449
Depreciation and amortization	175,276
Interest expense	915,920
Total deductions from net assets	2,208,645
Transfers in (out)	(162,860)
Changes in net assets	5,072,978
Net assets, beginning of year	9,718,043
Net assets, end of year	$ 14,791,021

D-71

CITY OF NOVATO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 – Description of organization and summary of significant accounting policies:

The City of Novato was incorporated on January 21, 1960. The City operates under a Council-Manager form of government and provides the following services: public safety (police protection), highways and streets, public improvements, planning and zoning, parks and recreation and general administration services.

The accounting policies of the City of Novato conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies:

A. Reporting Entity

Generally accepted accounting principles of the United States of America require that these financial statements present the City (the primary government) and its component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting both of the following criteria: the primary government is accountable for the potential component unit and is able to impose its will upon the potential component unit, or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government. The component units discussed in this note are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Individual Component Unit Disclosures:

Blended Component Units

The Redevelopment Agency of the City of Novato ("RDA" or "Agency") is a separate government entity whose purpose is to prepare and implement plans for improvement, rehabilitation and development of certain areas within the City. It is reported as if it were part of the primary government because the City Council, although acting in a different capacity, is the controlling authority. All accounting and many administrative functions are performed by the City. The Agency meets the following fiscal matters criteria for inclusion in the City's reporting entity: selection of governing authority, ability to significantly influence operations, and accountability. The financial activities of the Agency have been included in these financial statements. The Agency's financial statements may be obtained from the City's finance department.

The City of Novato Public Financing Authority ("NPFA") is a separate government entity that was created by a Joint Exercise of Powers Agreement between the City of Novato and the Redevelopment Agency of the City of Novato. It is reported as if it were part of the primary government because the City Council, although acting in a different capacity, is the controlling authority. All accounting and administrative functions are performed by the City. The purpose of the NPFA was to acquire a building for the City of Novato Youth Activities Center Project and lease it to the City. The NPFA has not issued financial statements.

The Novato Financing Authority ("NFA" or "Authority") is a separate government entity, which was created by a Joint Exercise of Powers Agreement between the City of Novato and the Redevelopment Agency of the City of Novato. It is reported as if it were part of the primary government because the City Council, although acting in a different capacity, is the controlling authority. All accounting and administrative functions are performed by the property management company and fiscal agents in a trustee capacity. The purpose of the NFA was to finance the acquisition, operation and maintenance of mobile home parks (the "Project") in the City. The Authority anticipates transferring all of its rights, title and interest in the Project to a yet-to-be incorporated 501(c)(3) corporation, at which time all of the duties and obligations would be assigned to the corporation. The Authority has agreed to assign certain duties and obligations (operation of the Project) to the Park Acquisition Corporation of Marin Valley Mobile Country Club Park pursuant to a Delegation Agreement dated as of March 1, 1997. Based on the nature of operations and the fact that the Authority cannot freely dispose of the Project, the activities of the Authority are reported within a nonexpendable trust fund within the Fiduciary Funds. The Authority's financial statements may be obtained from the City's finance department.

Related organizations

There are many other governmental agencies, including the Novato Unified School District, Novato Fire District, Novato Sanitary District, North Marin Water District, and the County of Marin, providing services within the City of Novato. Financial data of these other governmental agencies are not included in the financial statements of the City because the City does not exercise accountability over these organizations. The governing boards of these governmental agencies are independently elected.

B. Basis of accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental 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.

Government - Wide Financial Statements

The City Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column. Internal Service Fund activity is eliminated to avoid "doubling up" revenues and expenses. Fiduciary activities of the City are not included in these statements.

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues for the business-type activities of the City and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Major individual governmental funds are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column. The Internal Service Funds are presented in a single column on the face of the proprietary fund statements.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide financial statements.

Revenues susceptible to accrual are property taxes, franchise taxes, interest revenue, and charges for services. Sales taxes collected and held by the State at year-end on behalf of the City also are recognized as revenue. Licenses and permits are not susceptible to accrual because, generally, they are not measurable until received in cash.

Expenditures are generally recognized when incurred under the modified accrual basis of accounting. Principal and interest on general long-term debt is recognized when due. Financial resources are appropriated in other funds for transfer to a debt service fund in the period in which maturing debt principal and interest must be paid. Such amounts thus are not current liabilities of the debt service fund, as their settlement will not require expenditure of existing fund assets.

All governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The major governmental funds of the City are:

- *General Fund* – This 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.
- *Capital Projects Fund* – This fund is used to account for major capital projects not provided for in one of the other capital project funds.
- *RDA Fund* – This fund is used to account for the preparation and implementation plans for improvement, rehabilitation, and development of certain areas within the City.

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated. A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the Government-Wide financial statements. The City's only proprietary funds are the internal service funds. These funds are being used to account for and finance services and commodities furnished by a designated department of a governmental unit to other departments of the same governmental unit.

Proprietary funds are accounted for using the *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

Fiduciary Fund Financial Statements

Fiduciary funds are used to account for resources held for the benefit of parties outside of the reporting government. Fiduciary Fund Financial Statements include a Statement of Net Assets and a Statement of Changes in Net Assets. Fiduciary funds are not reflected on the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City's Fiduciary funds represent Agency Funds and Trust Funds. The Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting as are the governmental funds explained above. The Trust funds are used to record the assets and liabilities held for the benefit of others.

C. Capital assets

The City's policy is to capitalize all capital assets with a useful life of one year or more and a cost of greater than $5,000. All fixed assets are recorded at historical cost or, if historical cost is not available, at estimated historical cost. Donated assets are recorded at the estimated fair market value on the date donated.

Public domain ("infrastructure") capital assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems.

Capital assets and the related obligations acquired under lease purchase agreements are capitalized and accounted for in accordance with Financial Accounting Standards Statement No. 13.

Depreciation is charged as an expense of operations annually and accumulated depreciation is reported on the balance sheets in the city-wide financial statements. Depreciation is based on the estimated useful lives of the assets using the straight-line method.

D. Budgetary policies and accounting

The City operates under the general laws of the state of California and annually adopts a budget for its governmental and proprietary funds to be effective July 1 for the ensuing fiscal year. From the effective date of the budget, which is adopted and controlled at the departmental level, the amounts stated therein as proposed expenditures become appropriations to the various City departments. The City Council may amend the budget by resolution during the fiscal year. The City Manager may authorize transfers from one account to another within the same department. Debt service on bond issues constitutes a legally authorized "nonappropriated budget." Annual budgets are adopted on a basis not consistent with accounting principles generally accepted in the United States of America. Encumbrances are considered to be expenditures in the year the commitment is entered into. Budget appropriations lapse at the end of the fiscal year unless encumbered by specific Council approval.

E. Encumbrances

Encumbrances accounting is employed as an extension of the budgetary process. This method records purchase orders, contracts, and other commitments for the expenditure of funds in order to reserve that portion of the applicable appropriation. Encumbrances carry over at year end as reserved fund balances.

F. Cash and investments

The City pools cash from all sources except cash with fiscal agents and deferred compensation plan assets for the purpose of increasing income through investment activities.

Cash and investments used in preparing the proprietary fund statement of cash flows are composed of pooled cash and investments. Specific investments are not allocated to each fund. Pooled cash and investments are comprised of cash in banks, U.S. Treasury Notes, Federal Home Loan Note, Corporate Notes, and the Local Agency Investment Fund. For purposes of the statements of cash flows, all short-term interest bearing investments with original maturities of less than three months are considered cash equivalents.

G. Net Assets

Government-Wide Net Assets consist of the following:

Invested in capital assets, net of related debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that was attributed to the acquisition, construction or improvement of the assets.

Restricted net assets – This amount is restricted by external creditors, grantors, contributors or laws or regulations of other governments.

Unrestricted net assets – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets".

Governmental Fund Balance consist of the following: Reservations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws that require a portion of the fund balance to be segregated or identify the portion of the fund not available for future expenditures.

H. Unearned revenues

Unearned revenues in governmental funds arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenue also arises when resources are received by the City before it has a legal claim to them, (i.e., when grant monies are received prior to the incurrence of qualifying expenditures).

I. Statement of cash flows

For purposes of the statement of cash flows, all highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents. The City considers all pooled cash and investments as cash and cash equivalents because the pools used essentially as a demand deposit account from the standpoint of the funds.

J. Compensated absences

The City accrues the liability for compensated absences in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 4.

A liability is calculated for all the costs of compensated absences based upon benefits earned by employees in the current period for which there is a probability of payment at termination. The salary and related payroll costs are those in effect at June 30, 2005. Accumulated unpaid vacation is accrued when earned.

Upon termination, the City is not liable for payment to employees for accrued sick leave; therefore, sick leave is recorded as an expenditure in the year used. The amounts accrued for financial statement purposes represent 100% of the vacation pay liability at June 30, 2005.

For proprietary funds, compensated absences are recorded as expenses when the benefit is earned and the liability is recorded in each respective fund.

K. Property taxes and special assessment revenue

Article XIII of the California Constitution (more commonly known as Proposition 13) limits ad valorem taxes on real property to one percent of value plus taxes necessary to pay indebtedness approved by voters prior to July 1, 1978. The Article also established the fiscal year 1975-76 assessed valuation as the basis and limits annual increases to the cost of living, not to exceed two percent, for each year thereafter. Property may also be reassessed to full market value after a sale, transfer of ownership, or completion of new construction. The state is prohibited under the Article from imposing new ad valorem, sales, or transaction taxes on real property. Local government may impose special taxes (except on real property) with the approval of two-thirds of the qualified electors.

The County of Marin levies, bills and collects property taxes and special assessments for the City. Property taxes levied are recorded as revenue when received, in the fiscal year of levy, due to the adoption of the "alternate method of property tax distribution," known as the Teeter Plan, by the City and the County of Marin. The Teeter Plan authorizes the auditor/controller of the County of Marin to allocate 100% of the secured property taxes billed, but not yet paid. The County of Marin remits tax monies to the City in three installments as follows:

50% remitted in December
45% remitted in April
5% remitted in June

Secured and unsecured property taxes are levied on March 1, which is also the lien date. Secured property tax is due in two installments, on November 1 and February 1. Payments become delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31.

L. Statement calculations and use of estimates

Due to rounding, column and row calculations may approximate actual figures. Approximations may result when decimal places are eliminated to present whole numbers.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

M. New governmental accounting standards

In December 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*. GASB Statement 46 requires disclosure of the primary government's net assets at the end of the reporting period that are restricted by enabling legislation. Net assets are considered restricted by enabling legislation when the resources can only be used for purposes specified by the legislation. The provisions of GASB Statement No. 46 are effective for financial statements for periods beginning after June 15, 2005.

NOTE 2 - Cash and Investments:

The City follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents.

A. Cash deposits

All cash in banks is entirely insured or collateralized with securities held by the pledging financial institutions in the City's name. The California Government Code requires California banks and savings and loan associations to secure the City's deposits by pledging government securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for deposits is considered to be held in the City's name. The market value of pledged securities must

equal at least 110% of the City's deposits. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total deposits.

The City may waive collateral requirements for deposits that are fully insured up to $100,000 by the Federal Deposit Insurance Corporation ("FDIC").

B. Authorized investments

State statutes authorize the City to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Records, certificates of deposit, bankers' acceptances, repurchase agreements, and the State Treasurer's investment pool. The City is also authorized to enter into reverse repurchase agreements.

The table below identifies the investment types that are authorized by the City's Investment Policy. The table also identifies certain provisions of the City's Investment Policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provisions of the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of *Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	N/A	N/A	N/A
U.S. Agency Securities	N/A	N/A	N/A
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	15%	10%
Medium-Term Notes	One year	30%	15%
Money Market Mutual Funds	N/A	N/A	N/A
Repurchase Agreements	90 days	N/A	N/A
Local Agency Investment Fund (LAIF)	N/A	N/A	N/A
Negotiable Certificates of Deposits	Five years	30%	N/A

*Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

C. Cash and investment composition

The City maintains a cash pool that is available for use by all funds. Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on the average cash balances of the funds. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

Cash and investments at June 30, 2005 are comprised of the following:

	Carrying Value	Market Value
Petty cash	$ 2,275	$ 2,275
Cash in bank	715,493	715,493
Federal agency securities	14,910,006	14,910,006
California Local Agency Investment Fund	46,047,819	45,959,639
Cash with fiscal agents:		
Insurance JPA	126,812	126,812
CEIDB loan - undisbursed funds (Note 6)	370,000	370,000
U.S. Treasury obligations	24,107,188	24,107,188
Guaranteed investment contracts/investment agreements	8,764,068	8,764,068
	$ 95,043,661	$ 94,955,481

Cash and investments are presented as follows in the financial statements:

Governmental funds:	
Operating cash and investments	$ 46,156,686
Cash with fiscal agent	2,693,904
	48,850,590
Trust funds:	
Cash and investments	10,910,195
Cash with fiscal agent	3,519,186
	14,429,381
Agency funds:	
Cash and investments	4,608,712
Cash with fiscal agent	27,154,978
	31,763,690
Total	$ 95,043,661

D-75

Cash with fiscal agent is restricted as follows:

CEIDB loan - undisbursed funds (Note 6)	$ 370,000
Hamilton Tax Allocation Bonds - Series 2005	1,552,438
Hamilton 2005 Housing Bonds - Series A	644,654
Internal service funds:	
Held by insurance JPA	126,812
	2,693,904
Trust Funds:	
Novato Financing Authority	3,519,186
	3,519,186
Agency Funds:	
Hamilton Bonds Assessment District - CFD 1994-1	24,178,896
Pointe Marin Assessment District - CFD 2002-1	898,867
Golden Gate Plaza Assessment District	213,328
Vintage Oaks Assessment District - CFD No. 1	1,863,887
	27,154,978
Total cash with fiscal agent	$ 33,368,068

The composition of cash and investments by funds at June 30, 2005 was as follows:

Major funds:	
General fund	$ 9,405,068
Capital projects	46,953
RDA	474,319
Other governmental non-major funds	33,728,093
Internal service fund	2,640,017
	46,294,449
Elimination of Eucalyptus bonds on government-wide statements to eliminate doubling-up effect. See Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Assets	(137,763)
	$ 46,156,686

D. Risk Disclosures

Interest Rate Risk. This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The City monitors the interest rate risk inherent in its portfolio by measuring the maturity of its portfolio. Investments which exceed five years in maturity require City Council's approval.

Investment Type	Fair Value	Remaining Maturity (in Months) 12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Federal agency securities	$ 14,910,006	$ 2,987,191	$ 990,938	$ 10,931,877	$ -
State investment pool	46,047,818	46,047,818	-	-	-
Held by bond trustee:			-	-	-
U.S. Treasury obligations	24,107,188	24,107,188	-	-	-
Investment agreements	8,764,068				8,764,068
Total	$ 93,829,080	$ 73,142,197	$ 990,938	$ 10,931,877	$ 8,764,068

Credit Risk. This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. That is measured by the assignment of a rating by a nationally recognized credit rating organization. Presented below is the actual rating as of year end for each investment type.

Investment Type	Fair Value	Exempt From Disclosure	Rating as of Year End AAA	Not Rated
Federal agency securities	$ 14,910,006	$ -	$ 14,910,006	
State investment pool	46,047,818	-	-	$ 46,047,818
Held by bond trustee:			-	-
U.S. Treasury obligations	24,107,188	24,107,188	-	-
Investment agreements	8,764,068			8,764,068
Total	$ 93,829,080	$ 24,107,188	$ 14,910,006	$ 54,811,886

The City's general policy is to apply the prudent-investor rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. As of June 30, 2005, there are no investments in any one issuer that represent 5% or more of total City investments.

D-76

Custodial Credit Risk. Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a depositor 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 custodial credit risk for *investments* is the risk that, in the event of the failure of the counter party (e.g., broker-dealer) to a transaction, a depositor 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 deposits or investments, other than the following provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governments units by pledging securities in an undivided collateral pool held by a depository regulated under state law. 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.

E. 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 City is required to disclose its methods and assumptions used to estimate the fair value of its holdings in LAIF. The City relied upon information provided by the State Treasurer in estimating the City's fair value position of its holding in LAIF. The City had a contractual withdrawal value of $46,047,828 whose pro-rata share of fair value was estimated by the state Treasurer to be $45,959,839. The fair value change in this investment for the year came to an amount that was not material for presentation in the financial statements.

F. Marketing investments to fair value (GASB 31)

In fiscal 1997-98, the City adopted Government Accounting Standards Board Statement 31, which requires that the City's investments be carried at fair value instead of cost. Under GASB 31, the City must adjust the carrying value of its investments to reflect their fair market value at each fiscal year end, and it must include the effects of these adjustments in income for that fiscal year.

GASB 31 applies to all the City's investments, even if they are held to maturity and redeemed at full face value. Since the City's policy is to hold all investments to maturity, the fair value adjustments required by GASB 31 result in accounting gains or losses (called "recognized" gains or losses) which do not reflect actual sales of the investments (called "realized" gains or losses). Thus, recognized gains or losses on an investment purchased at par will now reflect changes in its fair value at each succeeding fiscal year end, but these recognized gains or losses would net to zero if the investment is held to maturity. Recognized gains or losses are reported as investment income. By following the requirements of GASB 31, the City is reporting the amount of resources that would actually have been available if it had been required to liquidate all its investments at any fiscal year end.

D-77

NOTE 3 - Inter-fund transactions:

Inter-fund loans represent current balances owed between funds. Balances were comprised of the following at June 30, 2005:

Fund	Due to other funds	Due from other funds
MAJOR GOVERNMENTAL FUNDS		
General Fund	$ 472,058	$ 8,729,832
Capital Projects	497,065	-
RDA Fund	14,472,305	23,631,574
Total major funds	15,441,428	32,361,406
NON-MAJOR GOVERNMENTAL FUNDS		
Special Revenue Funds:		
Housing Opportunity	36,828	67,511
Affordable Housing Trust	-	379,221
RDA Housing	23,699,084	248,905
Clean Stormwater	18,174	41,013
Underground Utilities	-	287,866
Subdivision Park	-	608,214
Chapter 27 Assessment	220,967	-
State Gas Tax	-	-
Insurance reserve	-	319,161
Emergency and Disaster Response reserve	-	1,922,511
	23,975,053	3,874,402
Capital Project Funds:		
Clean Stormwater CIP	89,738	-
Street Drains Maintenance	-	134,664
Development Impact Fees	229,152	897,624
RDA Community Center Maintenance	-	349,414
RDA Community Center and Performing Arts	-	1,762,275
RDA Community Center Gymnastics/Teen Center	1,421,737	-
Financing Authority	362,048	636,816
	2,102,675	3,780,793
Total non-major funds	26,077,728	7,655,195
Total governmental funds	41,519,156	40,016,601
Internal Service Funds		
Equipment Replacement	-	1,375,255
F,F&E Replacement	-	127,300
	-	1,502,555
Total	$ 41,519,156	$ 41,519,156

Operating transfers

Fund	Transfers In	Transfers Out
MAJOR GOVERNMENTAL FUNDS		
General Fund	$ 1,744,329	$ 683,638
Capital Projects	7,262,072	-
RDA	-	2,068,330
Total major funds	9,006,401	2,751,968
NON-MAJOR GOVERNMENTAL FUNDS		
Special Revenue Funds:		
Housing Opportunity	71,000	-
RDA Housing	-	133,266
Clean Stormwater	-	152,500
Subdivision Park	-	777,991
Hamilton Rec/ Environ	219,919	64,412
Hamilton Community Facilities	-	14,717
Chapter 27 Assessment	-	346,916
Eucalyptus Assessment	61,830	-
State SB-300	-	27,412
State Gas Tax	-	1,200,599
Prop. 112 - State Park	35,479	-
Traffic Congestion Relief	-	223,688
2002 LLEBG Grant Fund	3,777	-
Insurance Reserve	-	219,860
Capital Projects Funds:		
Street Improvement Bond Project	-	5,909
Park Improvement Bond Project	-	483
Measure B Street Bond Project - 2000	269,947	2,055,864
Measure B Street Bond Project - 2004	-	665,350
Park Development	-	19,362
Civic Center	-	159,243
City Hall Rehabilitation	-	106,663
Clean Stormwater CIP	45,000	65,805
Street Drains Maintenance	-	8,280
Restricted Revenue	136,734	281,125
Development Impact Fee	-	709,363
Novato Public Financing Authority	-	72,035
Total non-major funds	863,686	7,232,963
Total governmental funds	9,870,087	9,984,931
Internal Service Funds:		
Equipment Maintenance	-	546,011
Equipment Replacement	866,429	-
F,F & E Replacement	-	42,714
Total internal service funds	866,429	588,725
Agency Funds:		
Hamilton Trust	-	162,860
Total agency funds	-	162,860
Total interfund transfers	$ 10,736,516	$ 10,736,516

Loan payable to Hamilton Trust

In June 2004, the Hamilton Trust Fund loaned $1,745,000 to the City of Novato Public Finance Authority ("NPFA") bearing interest of 6.5% per annum, due in principal and installments as defined and maturing on June 1, 2024. NPFA will in turn loan these funds to the City to finance certain improvements to the City's corporation yard. NPFA is the trustee of the Hamilton Trust Fund.

In May 2004, the City entered into a lease agreement with NPFA, whereby the City has leased to the NPFA the City's corporation yard ("property"), and the NPFA will make available to the City the borrowed funds to enable the City to finance improvements. The NPFA will lease the property back to the City, and the City will make lease payments for the use of the property, which will be used to repay the loan to the Hamilton Trust Fund. The NPFA has assigned its rights to the lease payments from the City to the Hamilton Trust Fund.

The scheduled loan payments are as follows at June 30, 2005:

Fiscal years ending June 30	Payment	Principal	Interest
2006	$ 154,850	$ 45,000	$ 98,994
2007	156,925	50,000	96,321
2008	153,676	55,000	93,333
2009	156,100	55,000	90,026
2010	156,526	60,000	96,525
2011 - 2015	792,625	375,000	371,529
2016 - 2020	789,175	510,000	241,425
2021 - 2024	630,998	540,000	62,990
	$ 2,994,874	$ 1,690,000	$ 1,151,243

D-78

NOTE 4 - Loans receivable:

Loans receivable of $986,784 at June 30, 2005 are comprised of the following:

Computer loan program

The City has adopted an employee computer purchase program in which the City purchases personal computers for the employees and is repaid through payroll deductions the cost of the computer plus interest for a period not to exceed 36 months (interest is based on the LAIF rate plus .5%, and was 3.47% at June 30, 2005). The balance of the computer loans receivable at June 30, 2005 was $18,151, and 16 employees were participating in the program.

Mobile home park acquisition

Loans receivable include amounts loaned to the Novato Financing Authority in connection with its acquisition of a mobile home park. The Agency agreed to pay for certain legal fees totaling $116,939 and make a one time loan of $29,141 to the Novato Financing Authority. Payments on this 7.5% interest-bearing loan are deferred until funds become available from the Novato Financing Authority's operation of the mobile home park. At June 30, 2005 the remaining balance of the loan is $68,634.

Novato Theater Restoration

The Agency had agreed to loan the Novato Theater Restoration Committee ("Committee") up to $497,500, on a draw down basis at an interest rate of 10% per annum, compounded monthly which was due and payable on December 31, 2001. The loan was made to the Committee primarily for the acquisition of the Theater Property. In October 1986, the City entered into a contingent option to purchase the Theater Property pursuant to its rights as defined in the agreement. At June 30, 2005

the Agency has a loan receivable of $313,240 in principal and $111,829 in interest, which is in default. An allowance for doubtful accounts for the full receivable has been recorded. The Agency has elected to continue to make monthly payments of $2,250 to the Committee, which is used to fund the mortgage on the Theatre Property.

	Principal	Interest	Total
Loan receivable	$ 313,240	$ 111,829	$ 425,069
Allowance for doubtful accounts	(313,240)	(111,829)	(425,069)
	$ -	$ -	$ -

Employee Housing Assistance Loans

The Hamilton Trust Fund had entered into a second deed of trust loan for an employee who is no longer employed with the City. The loan bears interest based on the LAIF rate and is secured by real property. Principal and unpaid accrued interest is due in January 2009. The total loan receivable balance at June 30, 2005 was $300,000, which is included as a receivable on the accompanying Statement of Fiduciary Net Assets. This loan receivable was transferred from the Hamilton Trust Fund to the City's general fund in August 2004.

In June 2003, the City had loaned an employee a housing assistance loan of $300, which bears interest at the average LAIF rate for the prior six months plus 1%, and is secured by real property. The loan is due over thirty years, or upon termination of employment. The total loan receivable balance at June 30, 2005 was $300.000, which is included as a receivable on the accompanying Statement of Fiduciary Net Assets.

In April 2005, the City loaned another employee a housing assistance loan of $300,000, which bears interest at the average LAIF rate for the prior twelve months plus 1%, and is secured by real property. The loan is due over thirty years, or upon termination of employment. The total loan receivable balance at June 30, 2005 was $300,000, which is included as a receivable on the accompanying Statement of Fiduciary Net Assets.

NOTE 5 - Capital assets:

Governmental activity capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated. Public domain (infrastructure) general fixed assets include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems. Capital assets are recorded at cost and depreciated over their estimated useful lives. Depreciation is charged to governmental activities, by function.

GASB 34 allows up to four years to record the costs and depreciation on infrastructure assets. With the implementation of GASB 34 in fiscal 2003, the City began recording costs and depreciation of current infrastructure assets. In fiscal 2004, the City recorded the cost of historical infrastructure, and has restated its beginning capital assets to account for infrastructure acquired prior to July 1, 2004.

Depreciation of capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, accumulated depreciation, is reported on the Statement of Net Assets as a reduction in the book value of capital assets.

Depreciation of capital assets in service is provided using the straight-line method, which means the cost of the asset is divided by its expected useful life in years, and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets.

Furniture and Equipment	5 years
Vehicles	3-13 years
Buildings	50 years
Infrastructure	7 - 100 years

The following is a summary of capital assets as of June 30, 2005:

	Governmental Activities	Internal Service Activities	Total
Capital assets not being depreciated:			
Land	$ 121,165,277	$ -	$ 121,165,277
	121,165,277	-	121,165,277
Depreciable capital assets:			
Buildings	12,660,657	-	12,660,657
Furniture and equipment	983,402	-	983,402
Vehicles	-	3,390,437	3,390,437
Infrastructure	168,496,263		168,496,263
Total	182,140,322	3,390,437	185,530,759
Less: accumulated depreciation	75,437,227	2,094,598	77,531,825
Depreciable capital assets, net	106,703,095	1,295,839	107,998,934
Total capital assets, net	$ 227,868,372	$ 1,295,839	$ 229,164,211

Combined governmental capital asset activity for the fiscal year ended June 30, 2005 was as follows:

	Balances June 30, 2004	Additions	Transfers/ Retirements	Balances June 30, 2005
Capital assets not being depreciated:				
Land	$ 121,165,277	$ -	$ -	$ 121,165,277
Construction in progress	382,666	-	(382,666)	-
Total nondepreciable assets	121,547,943	-	(382,666)	121,165,277
Depreciable capital assets:				
Buildings	10,951,523	1,709,134		12,660,657
Furniture and equipment	899,237	199,211	(115,046)	983,402
Infrastructure	161,517,518	6,596,079	382,666	168,496,263
Total depreciable assets	173,368,278	8,504,424	267,620	182,140,322
Less: accumulated depreciation for:				
Buildings	3,301,625	229,243	-	3,530,868
Furniture and equipment	696,093	122,275	115,046	703,322
Infrastructure	67,015,797	4,187,240	-	71,203,037
Total accumulated depreciation	71,013,515	4,538,758	115,046	75,437,227
Total depreciable assets, net	102,354,763	3,965,666	152,574	106,703,095
Internal service fund fixed assets:				
Depreciable assets:				
Vehicles	3,429,369	472,614	511,546	3,390,437
Total depreciable assets	3,429,369	472,614	511,546	3,390,437
Less: accumulated depreciation	2,198,236	407,908	511,546	2,094,598
Total depreciable assets, net	1,231,133	64,706	-	1,295,839
Total governmental activities	$ 225,133,839	$ 4,030,372	$ (230,092)	$ 229,164,211

Depreciation was charged to function as follows:

Governmental activities:	
General government	$ 73,728
Public safety	162,815
Public works	19,903
Cultural and recreation	77,657
Community development	17,615
Infrastructure	4,187,240
Capital assets held by Internal Service Fund	407,908
Total governmental activities depreciation expense	$ 4,946,666

The City has no business-type activities.

D-80

A summary of changes in the fiduciary fund (nonexpendable trust) capital assets for the fiscal year ended June 30, 2005 is as follows:

	June 30, 2004	Additions	Retirements/ Transfers	June 30, 2005
Land	$ 11,840,000	$ -	$ -	$ 11,840,000
Land improvements	3,218,297	75,795	-	3,294,092
Buildings	656,760	25,000	59,888	741,648
Equipment	8,643	-	-	8,643
Mobile homes and improvements	177,636	-	-	177,636
Construction-in-progress	59,888	-	(59,888)	-
Total	15,961,224	100,795	-	16,062,019
Less: accumulated depreciation	896,777	141,163	-	1,037,940
	$ 15,064,447	$ (40,368)	$ -	$ 15,024,079

NOTE 6 - Long-term debt:

A. Long-term debt outstanding

Governmental activities long-term debt issued and outstanding at June 30, 2005 is comprised of the following:

Type of indebtedness	Maturity	Interest Rates	Authorized and Issued	Outstanding June 30, 2005
General obligation bonds:				
Series 1997A	2021	5.00-8.00%	$ 14,245,000	$ 11,005,000
Series 1993A	2014	4.75-7.25%	5,000,000	2,880,000
Series 2000A	2022	5.00-5.75%	5,000,000	4,430,000
Series 2004	2028	3.20-10.00%	5,000,000	5,000,000
Series 2004-Premium				268,996
City of Novato Public Financing Authority Lease Anticipation Note, Series 1999 A	2010	6.00%	1,305,000	1,168,249
CEIDB loan	2032	3.39%	3,700,000	3,618,727
OPA notes payable	2014	8.53%	9,000,000	4,992,357
Hamilton Field Tax Allocation Bonds-2005	2035	2.50-4.50%	24,835,000	24,835,000
Hamilton Field 2005 Tax Allocation Housing Bonds - Series A	2035	4.50-4.88%	9,520,000	9,520,000
RDA memorandum of understanding				76,844
Compensated absences - noncurrent				365,357
				$ 68,160,530

Long-term debt of the fiduciary fund (nonexpendable trust) at June 30, 2005 consisted of the following:

Type of Indebtedness	Maturity	Interest Rates	Authorized and Issued	Outstanding, June 30, 2005
Novato Financing Authority:				
Promissory note - Senior Note	2028	3.9 - 5.85%	$ 15,435,000	$ 13,780,000
Promisorry note - Subordinate Note	2025	3.9 - 5.85%	1,585,000	1,405,000
Total notes payable				15,185,000
Loan payable to City of Novato		7.5%	304,691	68,633
Total fiduciary fund long-term debt				$ 15,253,633

B. Changes in long-term debt

The City's long-term debt transactions for the fiscal year ended June 30, 2005 were as follows:

	Balance, June 30, 2004	Additions	Reductions	Balance, June 30, 2005	Due In One Year
Governmental activities:					
General obligation bonds	$ 19,285,000	$ 6,000,000	$ 970,000	$ 23,315,000	$ 1,030,000
Premium on 2004 General Obligation Bonds		268,996		268,996	
Compensated absences	333,222	32,135	-	365,357	-
OPA notes payable	5,352,748	-	360,391	4,992,357	391,114
RDA memorandum of understanding (restated)	49,498	27,346	-	76,844	-
Lease anticipation note Series 1999 A	1,191,916	-	23,667	1,168,249	24,575
CEIDB loan	3,700,000	-	81,273	3,618,727	84,029
Hamilton Field Tax Allocation Bonds-2005	-	24,835,000	-	24,835,000	460,000
Hamilton Field 2005 Tax Allocation Housing Bonds - Series A	-	9,520,000	-	9,520,000	100,000
	$ 29,912,384	$ 40,683,477	$ 1,435,331	$ 68,160,530	$ 2,089,718
Fiduciary fund activities:					
Promissory note - Senior Note	$ 14,055,000	$ -	$ 275,000	$ 13,780,000	$ 290,000
Promissory note - Subordinate Note	1,435,000	-	30,000	1,405,000	30,000
Loan from City of Novato	53,374	15,259	-	68,633	-
	$ 15,543,374	$ 15,259	$ 305,000	$ 15,253,633	$ 320,000

C. General obligation bonds

The City has four outstanding general obligation bond issues: (1) $5,000,000 Series 2000A, dated July 1, 2000; (2) $14,245,000 Series 1997A, dated July 1, 1997; (3) $5,000,000 Series 1993A, dated May 23, 1993; and (4) $5,000,000 Series 2004, dated November 1, 2004.

(1) On July 1, 2000 the City issued $5,000,000 General Obligation Bond Series A to finance the acquisition, construction and completion of improvements to streets, storm drains and sidewalks within the City.

(2) On July 1, 1997, the City issued $14,245,000 of refunding bonds (Series A) to advance refunding of its General Obligation Bonds, Series 1989A, General Obligation Bonds, Series 1990A, and General Obligation Bonds, Series 1992A (collectively, the "Prior Bonds"). The Prior Bonds were issued to finance the acquisition and construction of various streets, storm drains, and parks and recreational facilities throughout the City. The Prior Bonds were deposited in trust with an escrow agent to provide debt service payments until the bonds mature. The advance refunding meets the requirements of an in-substance debt defeasance and the Prior Bonds were removed from the City's General Long-Term Debt Account Group. Interest on the 1997 Bonds is payable on February 1 and August 1 of each year, commencing February 1, 1999. Principal is payable on August 1 of each year, commencing on August 1, 1999.

The City advance refunded the Prior Bonds to maximize the resources available to finance the projects for which the Prior Bonds were issued in a manner that does not increase the burden on property taxpayers residing within the jurisdiction of the City. The accounting savings of this refunding was $1,502,806 and the net present value savings of this refunding was $916,675.

(3) On May 23, 1993 the City issued $5,000,000 General Obligation Bonds, Series 1993A to finance the construction and reconstruction of streets and storm drains throughout the City.

(4) On November 1, 2004 the City issued $5,000,000 General Obligation Bonds, Series 2004 to finance the acquisition and construction of capital improvements to various streets, storm drains and sidewalks within the City. The bonds were issued at a premium of $268,996. These bonds are the second in a series of three (the first series were the bonds issued July 1, 2000 described above) bonds to be issued (total of up to $15,000,000) pursuant to a March 7, 2000 election whereby more than two-thirds of the votes cast by qualified electors were in favor of issuing the bonds.

These bonds and the interest thereon are general obligations of the City and the City has the power and is obligated to levy ad valorem taxes for the payment of the bonds and interest thereon, on all property within the City subject to taxation by the City.

D. Compensated absences

At June 30, 2005, compensated absences expected to be liquidated with expendable, available resources totaled $1,061,784 and are recorded in accrued salaries and benefits on the government-wide statements. The non-current portion totaling $365,357 is recorded in long-term debt.

E. Note payable

In 1994, the Agency entered into a $9 million promissory agreement with HNH Associates for the construction and financing of certain on-site and off-site public improvements of the Vintage Oaks Retail Complex. The promissory note bears interest of 8.525% per annum and matures in the fiscal year ending June 30, 2014. Payments consist of two semi-annual installments, which will be financed with property tax increments to be generated by the retail complex and with lease revenue from the City to the Agency. At June 30, 2005 the note payable balance is $4,992,357.

F. RDA memorandum of understanding

The RDA Memorandum of Understanding ("MOU") liability of $76,844 results from a MOU whereby the Agency has committed to fund certain needs of the Novato Branch of the Marin County Free Library District and the Marin County Flood Control and Water Conservation District. The $76,844 represents the Agency's obligation at June 30, 2005. The balance of the RDA MOU liability at July 1, 2004 was reduced by $101,004 to correct for an error (see Note 17).

G. CIEDB loan

During fiscal 2003, the Agency qualified for a low interest loan of $3.7 million from the California Infrastructure and Economic Development Bank ("CIEDB"). As of June 30, 2004, the City has received $3,330,000 of the loan, and the undisbursed balance of $370,000 is recorded as cash with fiscal agent on the accompanying financial statements. The loan is being drawn on a cost-reimbursement basis, and is being used to help finance a portion of the construction of the Grant Avenue improvement project, which started in April 2003, and is scheduled to take approximately two years to complete. The Agency pays interest on the full amount of the $3.7 million loan. Undisbursed funds are invested by the CIEDB, and the Agency is credited for actual interest earnings on any undisbursed funds up to 3.39%. At June 30, 2005 the balance of the loan is $3,618,727.

H. Lease Anticipation Note, 1999 Series A

In February 1997, the City entered into a lease purchase agreement with the City of Novato Public Financing Authority ("NPFA") to acquire a building for the Community Gymnastics Teen Center. The City has agreed to make the lease payment equal to the amount outstanding on the note payable. The note was renewed in February 1999 to become a long-term debt of the NPFA. Principal and interest are payable on August 1 and February 1 of each year, commencing August 1, 1999. The Agency makes the rental payments on behalf of the City. The outstanding balance at June 30, 2005 was $1,168,249.

I. Hamilton Field Loans

Hamilton Field-Navy Property Development Agreement

In connection with the development of the Hamilton Field – Navy Property, the City of Novato entered into a development agreement dated December 13, 1999 with a developer whereby, among other things, to make it economically feasible for the developer to develop the property and meet the affordable housing goals of the Redevelopment Plan, the Agency committed net tax increment available from the project to the developer, provided that all tax increment funds or bonds are used to assist in achieving the affordable housing goals. The City and the Agency agreed to use their best efforts to issue bonds supported by future tax increment revenues to provide the developer funding. The Agency is to provide the developer tax increment funding totaling $33,260,000, to be paid as follows: (1) the Agency shall contribute 100% of the net tax increment and supported bond proceeds until a total of $30,510,000 has been paid to the developer; (2) upon payment of $30,510,000, the Agency shall thereafter pay $250,000 annually of net tax increment until the developer has received a total of $33,260,000.

In fiscal 2005, the Agency had sufficient tax increment whereby it was able to issue two bonds totaling $34,355,000 (described below), and paid the developer $30,510,000, which was recorded as community development expenditures in the Special Revenue Housing Fund. The Agency paid $874,693 to the developer in fiscal 2004.

Hamilton Field Redevelopment Project, Tax Allocation Bonds, Series 2005

On February 2, 2005 the Agency issued Hamilton Field Redevelopment Project-Tax Allocation Bonds, Series 2005 ("Hamilton TAB-Series 2005 Bonds") in the amount of $24,835,000 to (i) pay a portion of an obligation incurred by the Agency under an owner participation agreement with respect to the Original Area of the Agency's Hamilton Field Redevelopment Project (the "Project Area"), (ii) establish a reserve fund for the Hamilton TAB-Series 2005 Bonds and (iii) to pay the cost of issuance of the bonds. The bonds are payable from and secured by Tax Revenues allocated to the Agency from the Project Area. Interest on the Bonds is payable on March 1 and September 1 of each year, commencing September 1, 2005. Principal is payable on September 1 of each year, commencing September 1, 2006.

Hamilton Field Redevelopment Project, 2005 Tax Allocation Housing Bonds, Series A

On February 2, 2005 the Agency issued Hamilton Field Redevelopment Project- 2005 Tax Allocation Housing Bonds, Series A ("Hamilton 2005 Housing Bonds") in the amount of $9,520,000 to (i) pay a portion of an obligation incurred by the Agency under an owner participation agreement with respect to the Original Area of the Agency's Hamilton Field Redevelopment Project (the "Project Area"), (ii) establish a reserve fund for the Hamilton 2005 Housing Bonds and (iii) to pay the cost of issuance of the bonds. The bonds are payable from and secured by Housing Tax Revenues allocated to the Agency from the Project Area. Housing Tax Revenues is defined in the indenture as the 20 percent (20%) portion of tax increment revenues derived from the Project Area which must be deposited in the Agency's Low and Moderate Income Housing Funds (the "Housing Set-Aside"). Interest on the Bonds is payable on March 1 and September 1 of each year, commencing September 1, 2005. Principal is payable on September 1 of each year, commencing September 1, 2005.

D-82

J. Promissory notes - Senior and Subordinate

The Novato Financing Authority has two promissory notes with the California Local Government Financing Authority. On March 1, 1997 the California Local Government Financing Authority issued Senior Revenue Bonds, Series 1997A in the amount of $15,485,000 and Subordinate Revenue Bonds, Series 1997 in the amount of $1,585,000 for the benefit of the NFA. The proceeds were used to permanently finance the acquisition of certain real property constituting the Marin Valley Mobile Country Club Park and any structures, site improvements, facilities and fixtures on the site. The real property serves as collateral for the promissory note.

The annual debt service for the promissory notes is as follows is as follows:

Fiscal year ending June 30,	Senior Promissory Note			Subordinate Promissory Note		
	Principal	Interest	Total	Principal	Interest	Total
2006	$ 290,000	$ 787,630	$ 1,077,630	$ 30,000	$ 105,375	$ 135,375
2007	305,000	773,565	1,078,565	35,000	103,125	138,125
2008	320,000	758,468	1,078,468	35,000	100,500	135,500
2009	335,000	742,307	1,077,307	40,000	97,875	137,875
2010	350,000	724,888	1,074,888	45,000	94,875	139,875
2011-2015	2,065,000	3,316,267	5,381,267	270,000	420,000	690,000
2016-2020	2,735,000	2,650,328	5,385,328	385,000	303,375	688,375
2021-2025	3,630,000	1,757,602	5,387,602	565,000	134,250	699,250
2026-2028	3,750,000	504,270	4,254,270	-	-	-
Total payments	$ 13,780,000	$ 12,015,325	$ 25,795,325	$ 1,405,000	$ 1,359,375	$ 2,764,375

In addition to principal and interest payments, the promissory notes also have scheduled bond expenses through the fiscal year 2028. These bond expenses are fees expected to be paid to fiscal agents and for insurance costs. Anticipated payments are as follows:

Fiscal year ending June 30,	Deferred Annual Payments
2006	$ 97,680
2007	95,940
2008	94,110
2009	92,190
2010	90,180
2011-2015	416,970
2016-2020	347,430
2021-2025	255,300
2026-2028	96,720
Total	$ 1,586,520

K. Future governmental activities debt service

Future governmental activities debt service at June 30, 2005 is as follows:

General Obligation Bonds

Fiscal year ending June 30,	Principal				
	Series 2004	Series 2000A	Series 1997A	Series 1993A	Total
2006	$ -	$ 170,000	$ 605,000	$ 255,000	$ 1,030,000
2007	130,000	180,000	645,000	265,000	1,220,000
2008	145,000	190,000	685,000	280,000	1,300,000
2009	160,000	195,000	720,000	300,000	1,375,000
2010	170,000	205,000	775,000	315,000	1,465,000
2011-2015	1,090,000	1,205,000	3,630,000	1,465,000	7,390,000
2016-2020	1,325,000	1,545,000	3,180,000	-	6,050,000
2021-2025	1,615,000	740,000	765,000	-	3,120,000
2026	365,000	-	-	-	365,000
Total	$ 5,000,000	$ 4,430,000	$ 11,005,000	$ 2,880,000	$ 23,315,000

Fiscal year ending June 30,	Interest				
	Series 2004	Series 2000A	Series 1997A	Series 1993A	Total
2006	$ 317,241	$ 227,233	$ 603,906	$ 170,863	$ 1,319,243
2007	247,293	216,058	555,606	156,828	1,177,685
2008	233,543	206,808	508,744	141,600	1,092,695
2009	219,093	199,183	465,931	124,800	1,009,007
2010	204,243	189,183	429,931	106,800	930,157
2011-2015	807,800	775,032	1,544,749	225,900	3,353,481
2016-2020	567,551	421,065	722,121	-	1,710,737
2021-2025	265,945	41,250	40,163	-	347,358
2026	8,210	-	-	-	8,210
Total	$ 2,870,919	$ 2,279,812	$ 4,871,051	$ 926,791	$ 10,948,573

Other notes

The annual debt service for the OPA note and lease anticipation note – Series 1999 A is as follows as of June 30, 2005:

Fiscal year ending June 30,	OPA			Lease anticipation note- Series 1999 A		
	Principal	Interest	Total	Principal	Interest	Total
2006	$ 391,114	$ 408,886	$ 800,000	$ 24,575	$ 69,732	$ 94,307
2007	424,455	375,545	800,000	26,072	68,235	94,307
2008	460,639	339,361	800,000	27,660	66,647	94,307
2009	499,907	300,093	800,000	29,344	64,963	94,307
2010	542,523	257,477	800,000	31,131	63,176	94,307
2011-2015	2,673,719	526,281	3,200,000	186,511	285,024	471,535
2016-2020			-	250,656	220,879	471,535
2021-2025	-	-	-	336,861	134,674	471,535
2026-2028	-	-	-	255,439	27,482	282,921
Total	$ 4,992,357	$ 2,207,643	$ 7,200,000	$ 1,166,249	$ 1,000,812	$ 2,169,061

The annual debt service for the CIEDB loan is as follows as of June 30, 2005:

Fiscal years ending June 30	Payment	Principal	Interest
2006	$ 217,699	$ 84,029	$ 122,714
2007	217,307	86,877	119,636
2008	217,046	89,822	116,881
2009	216,777	92,867	113,836
2010	216,499	96,018	
2011 - 2015	1,077,967	531,165	500,606
2016 - 2020	1,069,438	627,513	404,176
2021 - 2025	1,069,368	741,336	290,024
2026 - 2030	1,047,467	875,805	155,164
2031 - 2032	415,181	393,297	18,361
	$ 5,754,649	$ 3,618,727	$ 1,841,787

The annual debt service for the Hamilton Tax Allocation Bonds-Series 2005 Bonds and the Hamilton 2005 Housing Bonds, Series A are as follows as of June 30, 2005:

Fiscal Year Ending June 30,	Hamilton TAB Series 2005 Bonds			Hamilton 2005 Housing Bonds, Series A		
	Principal	Interest	Total	Principal	Interest	Total
2006	$ 460,000	$ 1,040,197	$ 1,500,197	$ 100,000	$ 436,327	$ 536,327
2007	490,000	989,169	1,479,169	80,000	415,860	495,860
2008	500,000	975,544	1,475,544	185,000	409,898	594,898
2009	510,000	959,756	1,469,756	190,000	401,460	591,460
2010	525,000	942,938	1,467,938	195,000	392,798	587,798
2011-2015	2,880,000	4,433,261	7,313,261	1,080,000	1,854,656	2,934,656
2016-2020	3,435,000	3,866,078	7,301,078	1,310,000	1,632,385	2,942,385
2021-2025	4,205,000	3,096,663	7,301,663	1,635,000	1,320,203	2,955,203
2026-2030	5,235,000	2,085,520	7,320,520	2,080,000	901,250	2,981,250
2031-2035	6,595,000	769,613	7,364,613	2,665,000	337,903	3,002,903
	$ 24,835,000	$ 19,168,738	$ 43,993,738	$ 9,520,000	$ 8,102,740	$ 17,622,740

NOTE 7 - Special assessment bonds:

The City acts as a collecting agent on the Assessment District No. 93-1 (Golden Gate Plaza). The City is not obligated in any manner for this special assessment debt, and is in no way liable for repayment. The City collects the assessment revenue and delivers the appropriate funds to the bond escrow agent. At June 30, 2005, the outstanding principal of the Assessment District No. 93-1 (Golden Gate Plaza) bond issue was $1,930,000.

The City acts as a collecting agent on the City of Novato Community Facilities District No. 1 (Vintage Oaks Public Improvements) Special Tax Refunding bonds. The City is not obligated in any manner for this special assessment debt, and is in no way liable for repayment. The City collects the assessment revenue and delivers the appropriate funds to the bond escrow agent. During June 30, 2005, the outstanding principal of the City of Novato Community Facilities District No. 1 (Vintage Oaks Public Improvements) Special Tax Refunding bond issue of $23,535,000 was retired.

The City acts as a collecting agent on the City of Novato Community Facilities District No. 1994-1 (Hamilton Field) Special Tax bonds. The City is not obligated in any manner for this special assessment debt, and is in now way liable for repayment. The City collects the assessment revenue and delivers the appropriate funds to the bond escrow agent. At June 30, 2005, the outstanding principal of the City of Novato Community Facilities District No. 1994-1 (Hamilton Field) Special Tax Refunding bond issue was $21,535,000.

The City acts as a collecting agent on the City of Novato Community Facilities District No. 2002-1 (Pointe Marin) Special Tax bonds. The City is not obligated in any manner for this special assessment debt, and is in no way liable for repayment. The City collects the assessment revenue and delivers the appropriate funds to the bond escrow agent. At June 30, 2005, the outstanding principal of the City of Novato Community Facilities District No. 2002-1 (Pointe Marin) Special Tax Refunding bond issue was $11,730,000.

NOTE 8 - Deficit fund balance/retained earnings:

The following funds had deficits in fund balances or retained earnings at June 30, 2005:

Major funds:	
Capital Projects	$ 288,626
Other governmental funds:	
Other Special Revenue Funds:	
RDA Housing	20,557,061
Chapter 27 Assessment	56,896
Proposition 12 State Park	73,406
Other Capital Projects Funds:	
City Hall Rehab	106,663
Clean Stormwater CIP	953
Restricted Revenue	83,185
Internal service funds:	
Equipment Maintenance	67,370
Insurance	2,458,552

NOTE 9 - Employees' retirement plan:

A. Plan description

The City of Novato contributes to the California Public Employees' Retirement System ("PERS"), an agent multiple-employer public employee retirement system. PERS provides retirement, disability, and death benefits. Such benefits are integrated with Social Security and based on an employee's years of service, age and final compensation. All regular City employees participate. Employees vest after five years of service and qualify to receive retirement benefits at age fifty. 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. PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained from the Executive Office, 400 P Street, Sacramento, CA 95814.

B. Funding policy

Miscellaneous employees are required to contribute seven percent of their annual salary to PERS and Public Safety employees are required to contribute nine percent of their annual salary to PERS. The employees' required contribution is paid by the City on behalf of the employees. The City is required to contribute the remaining amounts necessary to fund the benefits for its members using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. For the fiscal year 2005, the present rate is 9.735% for the miscellaneous plan and 30.60% for the safety plan.

C. Annual pension cost

For fiscal year 2005, the City's annual pension cost of $3,743,861 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2002 actuarial valuation which is the latest available valuation. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8.25% per year compounded annually, (b) projected salary increases of 3.75% per year compounded annually, attributable to inflation, (c) additional projected salary increases that vary by duration of service and (d) no postretirement benefit increases. The actuarial value of PERS' assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a period of two to five years. PERS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

D. Three-year trend information for PERS

	Annual pension cost (APC)	Percentage APC contributed	Net pension obligation
Miscellaneous employees			
Fiscal year ended:			
6/30/2003	$ 572,809	100%	$ -
6/30/2004	1,075,742	100%	-
6/30/2005	1,699,432	100%	-
Safety employees			
Fiscal year ended:			
6/30/2003	$ 904,346	100%	$ -
6/30/2004	1,359,337	100%	-
6/30/2005	2,044,429	100%	-

NOTE 10 - Deferred compensation plan:

The City offers its eligible employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all regular employees, permits them to defer a portion of their salary. The deferred compensation is not available to employees until termination, retirement, disability, death, or unforeseen emergency.

During fiscal year 1999, the City adopted GASB No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.* GASB 32 was issued in response to a change in federal law that removes the assets in deferred compensation plans from the general creditors in the event of a government bankruptcy. Therefore, the City is not required to report its Section 457 Deferred Compensation Plans. As required by the Internal Revenue Code, the City established a trust for the assets and income of the Plan with an independent trustee for the exclusive benefit of participants and their beneficiaries and no longer holds assets in a trustee capacity. Therefore, the City discontinued its practices of accounting for and reporting the deferred compensation plan.

NOTE 11 - Risk management:

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, and natural disasters. The City manages risk by participating in the public entity risk pools described below and by retaining certain risks.

Public entity risk pools are formally organized separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these risk pools exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each risk pool is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective risk pool, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the board. Obligations and liabilities of these risk pools are the City's responsibility.

A. Risk Pools

Bay Cities Joint Powers (BCJPIA) Insurance Authority covers general liability claims in an amount up to $14,000,000. The City has a deductible or uninsured liability of up to $250,000 per claim. Once the City's deductible is met BCJPIA becomes responsible for payments of all claims up to the limit. The City paid $192,057 for claims and $256,546 for insurance premiums during the fiscal year ended June 30, 2005.

Condensed audited financial information of BCJPIA at and for the fiscal year ended June 30, 2005 is as follows:

Total assets	$ 13,090,975
Total liabilities	9,815,445
Net assets	$ 3,275,530
Total revenues	$ 9,006,507
Total expenditures	10,481,934
Net loss	$ (1,475,427)

The City is a participant in the BCJPIA workers compensation risk pool, which in turn participates in the Local Agency Workers Compensation Excess Insurance Joint Powers Authority's (LAWCX) risk pool, and LAWCX in turn purchases coverage above the $1 million coverage provided by its pool. The City has a self-insured retention of $150,000 for claims, and the BCJPIA pool covers claims from $150,000 to $500,000. Claims from $500,000 to $50 million are covered by LAWCX.

The City's contributions with each risk pool equal the ratio of the City's payroll to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating. During the fiscal year ended June 30, 2005, the City incurred costs of $362,336 for coverage premiums and administration of the risk pools.

During the past four fiscal (claims) years, none of the above programs have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

Financial statements for BCJPIA and LAWCX may be obtained from Bickmore & Associates, 1020 19th Street, Suite 200, Sacramento, CA 95814.

B. Liability for Uninsured Claims

The City estimates its liability for the uninsured portion of claims, including a provision for claims incurred but not reported ("IBNR"), based on claims experience. Undiscounted claims liabilities were as follows at June 30, 2005:

	Workers' Compensation	General Liability	Total
Projected known claims	$ 1,170,272	$ 98,245	$ 1,268,517
Projected IBNR	1,819,521	175,970	1,995,491
Claims liabilities, June 30, 2005	$ 2,989,793	$ 274,215	$ 3,264,008

As allowed under GASB 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, the City has recorded discounted claims liabilities to recognize investment income. The discounted claims liabilities recorded by the City were as follows at June 30, 2005:

	Workers' Compensation	General Liability	Total
Claims liabilities - current	$ 501,358	$ 89,230	$ 590,588
Claims liabilities - non-current	1,823,584	171,192	1,994,776
Total claims liabilities	$ 2,324,942	$ 260,422	$ 2,585,364

NOTE 12 - Contingencies:

The City is a defendant in a number of lawsuits and claims pending at June 30, 2005. Based on correspondence with the City's legal counsel, it is the opinion of City management that the settlement of such pending cases would not materially affect the City's financial position.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal Government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Promissory notes on shared appreciation loans

Certain housing units in the redevelopment area are part of an affordable housing program designed to create, preserve, maintain and protect housing for persons of low or moderate income. Qualified persons ("Buyer") are able to purchase the housing units at below fair market value, as a result of the Agency's investment in the project. The Agency has a promissory note ("Note") with the Buyer for the amount of the difference between the fair value and the purchase price of the unit, which is considered the Agency's initial equity contribution. No payments are due under the Note, unless the Buyer re-sells the unit to a non-eligible buyer or otherwise defaults on the Note, as defined in the agreement. The Note is cancelled if the Buyer sells the unit to another eligible buyer. If the Buyer sells to a non-eligible buyer, the Agency will receive a pro-rata share (based on the Agency's and Buyer's respective equity) of the appreciation of the Unit. As of June 30, 2005, no amounts have been recorded related to these loans as any payment is contingent on sales of units to non-eligible buyers in the future.

NOTE 13 - Post retirement health care benefits:

Police who retire from the City are eligible to receive health care benefits. The City pays $100 per month per police employee toward premiums charged for a health benefit plan. During the fiscal year ended June 30, 2005, expenditures of $18,005 were recognized for post-retirement health care for 31 retired employees.

NOTE 14 - Commitments:

The Agency leases a facility (Community Gymnastics Teen Center) from the Novato Public Financing Authority ("NPFA") under a thirty-year non-cancelable operating lease expiring in February 2028. Under the terms of the lease, rent is equal to the semi-annual payments due on the NPFA's loan obligation on the facility, as defined. Rental expense was $94,307 for fiscal 2005. Future minimum lease payments under the lease for years ending after June 30, 2005 are $94,307 per annum.

Marin Emergency Radio Authority Obligation

The City of Novato is a member of the Marin Emergency Radio Authority (MERA), along with the County of Marin and twenty-four local government agencies. MERA's purpose is to plan, finance, implement, own, and operate a multi-jurisdictional and countywide public safety and emergency radio system. To finance this system, the MERA in 1999 issued approximately $27 million in revenue bonds. Under the joint powers agreement with MERA, the City is obligated to make payments to MERA for use of MERA's systems. The City's minimum service payments are estimated to be as follows at June 30, 2005:

Fiscal year ending June 30,	Minimum Service Payments
2006	$ 222,537
2007	221,754
2008	221,546
2009	221,598
2010	221,885
2011-2015	1,108,447
2016-2020	1,108,402
2021	221,829
	$ 3,547,998

NOTE 15 - Fund equity:

Fund balances and retained earnings consist of reserved and unreserved amounts. Reserved fund balances and retained earnings represent amounts that are legally restricted to a specific use or are not available for appropriation of expenditure. The remaining portion is unreserved. Portions of the unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period. Such plans or intent are subject to change and have not been legally authorized or may not result in expenditures.

Fund balances and retained earnings reserved and unreserved/designated at June 30, 2005 are as follows:

RESERVED	
Major Funds:	
General Fund	$ 9,618,208
Other Governmental Funds:	
Special Revenue Funds:	
Novato Art Center	136,877
Capital Projects Funds:	
Civic Center	3,442,113
Debt Service Fund:	
Bond requirements	1,969,921
Total reserved	$ 15,030,242

D-87

UNRESERVED, DESIGNATED

Special Revenue Funds:		
Housing Opportunity	$	643,889
Affordable Trust		784,815
Clean Stormwater		12,036
Underground Utilities		761,592
Parking Improvement		103,310
Subdivision Park		2,553,506
O'Hair/Fuchs park		15,849
Fish America Grant		745
Hamilton Rec/Environ Fund		232,678
Art in Public Places		65,903
Hamilton Community Facilities		458,240
Assessment District San Marin		45,270
Assessment District Country Club		56,466
Assessment District Wildwood Glen		12,916
Assessment District Hillside		31,011
Assessment District Scottsdale		12,737
Downtown Lighting/Landscape		89,218
San Pablo Landscape/Lighting		11,352
Euclayptus Assessment District		225,807
State SB-300		1,120
State Gas Tax		308,693
Traffic Congestion Relief		15,429
LLEB Grants		30,864
Special Police Projects		49,732
Private Grant Fund		1,401
Insurance Reserve		1,164,627
Emergency Response		3,698,309
		4,862,936
Capital Projects Funds:		
Measure B - 2004		4,464,639
RDA Community Center Maintenance		1,037,338
RDA Community Center/ Performing Arts		2,555,542
RDA Community Center Gymnastics		222,420
RDA Community Center		780
		8,280,969
Total unreserved, designated	$	13,143,905

NOTE 16 - Excess of expenditures over appropriations:

For the fiscal year ended June 30, 2005, expenditures exceeded the budgeted expenditures in the following funds:

Fund	Expenditures exceeded budget
General fund:	
Transfers out	$ (1,452,819)

The excess expenditures were funded by available financial resources.

NOTE 17 - Prior period adjustments:

Beginning net assets of several of the City's governmental funds have been restated to correct them for recording interfund loans in the proper fund.

In addition, the beginning fund balance of the Community Center Gymnastics/Teen Center was increased by $31,435 to write-off prior period deferred revenue.

The beginning net asset balance on the Statement of Activities and Changes in Net Assets was adjusted by $132,439, comprised of the Community Center Gymnastics/Teen Center write-off of prior period deferred revenue noted above in the amount of $31,435 and the restatement of the RDA Memorandum of Understanding liability in the amount of $101,004.

City of Pacific Grove

ANNUAL FINANCIAL REPORT

Fiscal Year 2004-2005

Elected Officials:

James W. (Jim) Costello, Mayor
Daniel E. Cort, Mayor Pro-Tem
Ron Schenk
Susan Goldbeck
Scott Miller
Susan Nilmeier
Lisa Bennett

City Manager:
James J. Colangelo

Director of Administrative Services:
Carlos Olvera

MAZE & ASSOCIATES

ACCOUNTANCY CORPORATION
1931 San Miguel Drive - Suite 100
Walnut Creek, California 94596
(925) 930-0902 • FAX (925) 930-0135
E-Mail: maze@mazeassociates.com
Website: www.mazeassociates.com

INDEPENDENT AUDITORS' REPORT ON
BASIC FINANCIAL STATEMENTS

To the City Council
City of Pacific Grove, California

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pacific Grove as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly in all material respects the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pacific Grove at June 30, 2005 and the results of its operations and its cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the Untied States of America.

As discussed in Note 8D, General Fund and Internal Service Funds cash balances remained depleted at $46,120 as of June 30, 2005.

Management's Discussion and Analysis is required by the Government Accounting Standards Board, but is not part of the basic financial statements. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental section listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Pacific Grove. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The statistical section listed in the Table of Contents was not audited by us, and we do not express an opinion on this information.

Maze Associates

November 3, 2005

D-89

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Pacific Grove's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the accompanying notes to the financial statements. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

FISCAL 2005 FINANCIAL HIGHLIGHTS

The City was affected by the continuing economic slowdown and the State of California's budgetary crisis. The flat revenue expectations for this fiscal year were met, with the exception of except the State Vehicle License fee (VLF) payment, which provided $263,000 that was not budgeted. The reductions in personnel of 8 positions for the year made it possible to pay for the increases in PERS and Workers' Compensation costs. The projects for the year were funded mostly with grants to the recreation department, and the construction of the golf course clubhouse, with the issuance of 3.5 million in certificates of participation. The Sewer Fund deficit increased in June 2004 due in part to the cost of litigation ($273,000) and a Consent Decree that demanded a total of $300,000 in payments for this fiscal year leaving the fund in a deficit of nearly $900,000.

The General fund, on the current financial resources basis, reported revenues in excess of expenditures and other financing sources of $119,000. The early VLF payment of over $250,000 resulted in this extra income.

Financial highlights for the year include the following:

- The City's total net assets at June 30, 2005 totaled $13.5 million, which is $1.7 million higher than last year.
- Total City revenues, including program and general revenues, were $19.3 million, or $1.2 million higher than last year.
- Total expenses were $17.6 million in fiscal 2005, representing $0.3 million less than last year.
- Net assets in Governmental activities increased $1.2 million for a total of $7.7 million, while net assets in business activities increased $0.6 million for a total of $5.9 million.
- Governmental Program Revenues increased $1.1 million from last year to $3.9 million in fiscal 2005
- Governmental Program Expenses were reduced by $0.6 million to $14.4 million in fiscal 2005.
- Revenues from Business-Type activities were increased $0.2 million to $3.5 million in fiscal 2005.
- Expenses of Business-Type Activities increased $0.3 million to $3.1 million in fiscal 2005.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is in six parts:
1) Introductory section, which includes the Transmittal Letter and general information,
2) Management's Discussion and Analysis (this part),
3) The Basic Financial Statements, which include the Government-wide and the Fund financial statements, along with the Notes to these financial statements,
4) Required Supplemental Information,
5) Combining statements for Non-major Governmental Funds and Fiduciary Funds,
6) Statistical information.

The Basic Financial Statements

The Basic Financial Statements comprise the City-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the City's financial activities and financial position.

The City-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each the City's programs. The Statement of Activities explains in detail the change in Net Assets for the year.

All of the City's activities are grouped into Government Activities and Business-type activities, as explained below. All the amounts in the Statement of Net Assets and the Statement of Activities are separated into Governmental Activities and Business-type Activities in order to provide a summary of these two activities of the City as a whole.

The Fund Financial Statements report the City's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the City's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the City and are presented individually, while the activities of Non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major Funds are explained below.

The fiduciary statements provide financial information about the activities of the Special Assessment Districts, for which the City acts solely as agent.

D-90

The Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities present information about the following:

- ***Governmental activities***—All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, public works, sanitation, culture-recreation, public improvements, planning and zoning, and general administration services. These services are supported by general City revenues such as taxes, and by specific program revenues such as developer fees.
- ***Business-type activities***—All the City's enterprise activities are reported here, including sewer, golf and cemetery. Unlike governmental services, these services are supported by charges paid by users based on the amount of the service they use.

City-wide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called Major Funds. The concept of major funds, and the determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Subordinate schedules present the detail of these Non-major funds. Major Funds present the major activities of the City for the year, and may change from year to year as a result of changes in the pattern of City's activities.

Fund Financial Statements include governmental, enterprise and internal service funds as discussed below.

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Enterprise and Internal Service Fund financial statements are prepared on the full accrual basis, as in the past, and include all their assets and liabilities, current and long-term.

Since the City's Internal Service Funds provide goods and services only to the City's governmental and business-type activities, their activities are reported only in total at the Fund level. Internal Service Funds may not be Major Funds because their revenues are derived from other City Funds. These revenues are eliminated in the City-wide financial statements and any related profits or losses are returned to the Activities which created them, along with any residual net assets of the Internal Service Funds..

Comparisons of Budget and Actual financial information are presented only for the General Fund and other Major funds that are Special Revenue Funds.

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

This analysis focuses on the net assets and changes in net assets of the City's Governmental Activities and Business-Type Activities presented in the City-wide Statement of Net Assets and Statement of Activities that follow.

Governmental Activities

Governmental Net Assets at June 30, 2005
(in millions)

	Governmental Activities	
	2005	2004
Cash and investments	$4.1	$3.5
Other assets	3.9	4.2
Capital assets	8.6	8.1
Total assets	**16.7**	**15.8**
Long-term liabilities	5.6	5.6
Other liabilities	3.4	3.7
Total liabilities	**9.0**	**9.3**
Net assets:		
Invested in capital assets, net of debt	4.9	4.9
Restricted	1.3	1.4
Unrestricted		
Other unrestricted net assets	1.5	0.2
Total net assets	**$7.7**	**$6.5**

Fiscal Year 2005 Government Activities

As the Sources of Revenue Chart below shows, $10.4 million, or 66.4% of the City's Fiscal 2005 revenue, came from taxes in fiscal 2005. Taxes increased 8.5% from last year as explained in the chart below:

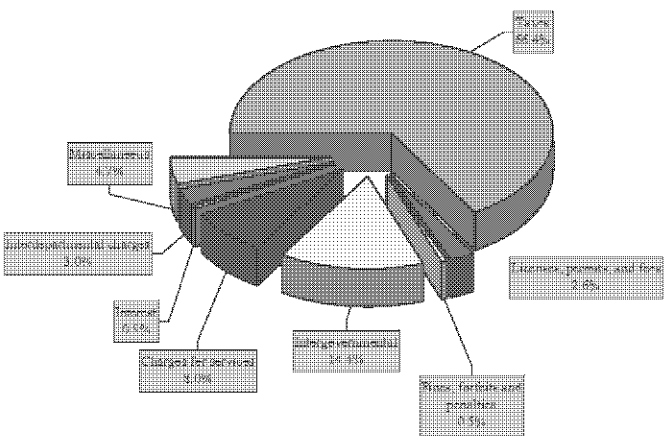
- $3.1 M. in Property Tax, increased from last year by a 1.4%
- $3.3 M. in Transient Operating Taxes, increased 15.9%
- $1.6 M. in Sale Taxes, remained flat at 0.4%
- $1.3 M. in Utility Use tax, increased 10.2%
- $0.7 M. in Franchises, increased 15.9%
- $0.4 M. for others.

The other revenues sources increased 2.4% from last year as shown in the following schedule:

- $0.4 million in Licenses, permits, and fees, increased from last year by 10.1%
- $0.08 million in Fines, Forfeits and Penalties, increased 51.4% due to increase in other fines.
- $2.3 million in Intergovernmental increased 60.5% due to grants from the State for recreation.
- $1.3 million in Charges for services increased 13.9% due to construction fees.
- $0.06 million in Interest, decreased 50.9%
- $0.5 million in Interdepartmental charges, increased 10.0%
- $0.7 million in Miscellaneous, decreased 55.4%

D-91

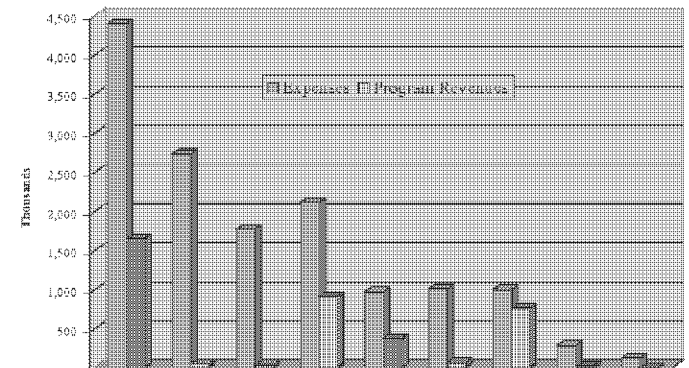
Sources of Revenues



City of Pacific Grove
Management's Discussion &Analysis

The Functional Expenses Chart below includes the comparison to last year's activity. It does not include capital outlays, which are now added to the City's capital assets. The charts provide the level in which the Governmental Activities are paid by direct fees, and the level of subsidy necessary to provide these activities. The functional revenues were increased by 38.6% from last year and the expenses were reduced by 4.2%.

Expenses & Program Revenues: Governmental Activities



	Police	Fire	General Administration	Public works	Recreation	Library	Community development	Museum	Interest on long term debt
Expenses	4,406	2,741	1,773	2,119	973	1,013	1,002	292	124
Program Revenues	1,654	51	43	911	373	67	769	24	-

Expenses & Program Revenues:
Governmental Activities

	2005		2004		Percent Changes	
Activities	Expenses	Program Revenues	Expenses	Program Revenues	Expenses	Program Revenues
Police	4,406	1,654	4,301	1,176	2.4%	40.7%
Fire	2,741	51	2,989	85	-8.3%	-39.6%
General Administration	1,773	43	1,887	26	-6.0%	64.7%
Public works	2,119	911	2,211	397	-4.2%	129.4%
Recreation	973	373	1,017	303	-4.3%	23.2%
Library	1,013	67	997	77	1.6%	-13.3%
Community development	1,002	769	1,179	710	-15.0%	8.3%
Museum	292	24	373	35	-21.8%	-32.3%
Interest on long term debt	124	-	121		2.4%	0.0%
Totals	14,443	3,892	15,075	2,809	-4.2%	38.6%

The Statement of Activities presents program revenues and expenses and general revenues in detail. All these are elements in the Charges in Governmental Net Assets summarized below.

Changes in Governmental Net Assets
(in millions)

		2005		2004
Expenses				
General Administration	$	1.8	$	1.9
Police		4.4		4.3
Fire		2.7		3.0
Community development & building inspection		1.0		1.2
Recreation		1.0		1.0
Library		1.0		1.0
Museum		0.3		0.4
Public works		2.1		2.2
Interest on long term debt		0.1		0.1
Total Governmental Activities	$	14.4	$	15.1
Revenues				
Program revenues:				
Charges for services		1.6		1.4
Operating contributions and grants		2.3		1.4
Total program revenues		3.9		2.8
General revenues:				
Taxes		10.4		9.7
Investment earnings		0.2		0.2
Rents and leases		0.2		0.3
Miscellaneous		0.9		1.8
Total general revenues		11.7		12.0
Total revenues		15.6		14.8
Change in net assets	$	1.2	$	(0.3)

Government Activities

The table below presents the net cost of each of the City's largest programs: general government, police, fire, development and engineering, public works, parks and recreation, capital asset maintenance and preservation, and interest on long-term debt. Net cost is defined as total program cost less the revenues generated by those specific activities.

Governmental Activities
(in millions)

	Net (Expense) Revenue From Services			
		2005		2004
General government	$	(1.7)	$	(1.9)
Police		(2.8)		(3.1)
Fire		(2.7)		(2.9)
Community development & building inspection		(0.2)		(0.5)
Recreation		(0.6)		(0.7)
Library		(0.9)		(0.9)
Museum		(0.3)		(0.3)
Public Works		(1.2)		(1.8)
Interest on Long-term Debt		(0.1)		(0.1)
Totals	$	(10.6)	$	(12.2)

Business-type Activities

Business-Type Net Assets
(in millions)

	Business-Type Activities			
		2005		2004
Cash and investments	$	2.4	$	0.5
Other current assets		0.5		(0.2)
Capital assets		8.9		6.5
Total assets		**11.8**		**6.8**
Long-term liabilities		5.4		1.4
Other liabilities		0.5		0.1
Total liabilities		**5.9**		**1.5**
Net assets:				
Invested in capital assets, net of debt		3.5		5.0
Restricted		1.7		
Unrestricted		0.7		0.3
Total net assets	$	5.9	$	5.3

Changes in Business-Type Net Assets
(in millions)

	Business-type Activities	
	2005	2004
Net Revenues from Business-type activities:		
Cemetery	$ 0.2	$ 0.5
Sewer	1.2	(0.0)
Golf	1.7	0.1
Total Business-type Activities	$ 3.1	$ 0.5

The City's Fund Financial Statements

Governmental Funds

At June 30, 2005, the City's governmental funds reported combined fund balances of $7.4 million.

Governmental fund revenues reported a combined total of $15.7 million. Expenditures reported a combined $15.1 million.

Proprietary Funds

D-93

Enterprise Fund net assets totaled $5.9 million at June 30, 2005, and Enterprise operating revenues were $3.6 million this year, while no non-operating revenues were $0.1 million this year.

Enterprise Fund operating expenses were $3.1 million in fiscal 2005.

Analyses of Major Governmental Funds

General Fund

General Fund revenues increased $1.2 million this fiscal year due to increases in property taxes, utility user's tax, franchise taxes, licenses and permits, and charges for services. Property Taxes increased $0.2 million as assessed valuations rose 5.8%, reflecting the increase in housing cost in our area. Transient Occupancy Taxes increased $0.4 million because of a late payment of tax due by Lighthouse Lodge. Sales Tax increased $0.006 million. Franchise Tax increased $0.1 million. Utility Taxes increase $0.1 million, Real Estate Tax increased $0.03 million, and Business License Tax decreased $.003 million. License and Permits increased $.004. Intergovernmental Revenues increased $0.4 million because of State grants for recreation projects. Charges for services increased $0.2 million due to new fees. Donations this year decreased $0.3 million.

General Fund expenditures increased $0.3 million in fiscal 2005, to a total of $12.7 million. Police expenditures increased $0.5 million to a total of $4.0 million in fiscal 2005 as a result of increases in salaries and benefits, but were still less than budgeted. Public works increase by $0.1 million to $1.6 million, and library increased $0.06 million to $0.9 million. All other departments had a combined decrease of $0.3 million for the year.

OTHER MAJOR GOVERNMENTAL FUNDS

Special Revenue funds
These funds accounts are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes. The City maintains twenty-seven Special Revenue Funds.

Senior Housing Fund

The Senior Housing fund received $1.8 million in grants, in the prior year, for the purchase and construction of the senior center. A note payable to the State for $0.8 million will be paid at completion of construction.

Housing Programs Fund

The Housing program is intended to help the citizens of Pacific Grove by providing loans to rehabilitate or provide emergency repairs of homes as well as rental assistance and more. The amount of loans receivable is $0.8 million.

State Gas Tax

Gas tax is the Highway Users Tax apportionment collected from fuel sales. This year expenditures exceed the revenues by almost eight thousand.

Proprietary Funds

Cemetery Fund

Net assets of the Cemetery Fund increased $0.2 million in the current year to a total of $0.2 million. This increase comprised $0.4 million in Operating Income for the current year. The new sites developed last fiscal year were not ready to be sold until January of 2004. The fund has a negative unrestricted Net Asset of $0.3 million.

Sewer Fund

The Sewer fund increased in net assets by $0.49 million in the current year, setting the net assets to $2.2 million. Operating revenues increased $0.6 million while operating expenses increased $0.09 million this year. The fund reduced the negative unrestricted Net Asset to $0.2 million by $0.15 million from last year.

A plan was adopted in fiscal year 2005/06 to accelerate the increase of the fees by $0.6 million. This increase will provide with the necessary income to provide the fund enough resources to implement the Sewer System Asset Plan in place.

Golf Course Fund

The Golf Course Fund decreased in net assets by $0.2 million to $3.4 million for 2005. The operating loss of $0.2 million this year compared with operating income of $0.06 million last year, is the results of the loss of revenues due to the construction of the Club House project. The City issued Certificates of

Participation for the construction of the Club House in the fiscal year 2004/05 in the amount of $3.9 million. This Fund had unrestricted Net Assets of $1.3 million, $0.3 million restricted for debt services, and $1.4 million in restricted for capital projects Net Assets for the fiscal year end.

CAPITAL ASSETS

At the end of fiscal 2005 the City had $16.5 million, net of depreciation, invested in a broad range of capital assets used in governmental activities, as shown in the table below (further detail may be found in Note 6 to the financial statements):

Capital Assets at Year-end
(in millions)

	2005	2004
Governmental Activities:		
Land	$ 2.4	$ 2.3
Buildings	11.0	10.9
Machinery and equipment	2.8	2.5
Grading, curbs, gutters, sidewalks, etc.	0.6	0.3
Less accumulated depreciation	(8.2)	(7.9)
Totals	$ 8.6	$ 8.1
Business-type Activities		
Land	$ 0.1	$ 0.1
Buildings	1.0	1.0
Machinery and equipment	1.4	1.4
Improvements	2.6	2.5
Sewer lines	4.2	4.1
Construction in progress	2.8	0.3
Less accumulated depreciation	(3.3)	(2.9)
Totals	8.8	6.5

The City depreciates all its capital assets.

DEBT ADMINISTRATION

Each of the City's debt issues is discussed in detail in Note 7 to the financial statements. In August 2004 the City issued the Golf Course Certificates of Participation Series 2004 for $3.96 million. At June 30, the City's debt comprised:

D-94

City of Pacific Grove
Management's Discussion &Analysis

Outstanding Debt
(in millions)

	2005	2004
Governmental activities		
Refund Lease notes	$ 0.90	$ 0.96
Capital Lease Obligations	1.91	2.11
Bank Loans	0.95	0.95
Total Governmental Activities	$ 3.76	$ 4.02
Business-type Activities		
Sewer Revenue Bonds	$ 1.39	$ 1.41
Golf Course Certificates of Participation	3.96	-
	$ 5.35	$ 1.41

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

These Basic Financial Statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the Authority's finances. Questions about these Statements should be directed to the Finance Department, at 300 Forest Avenue, Pacific Grove, CA 93950.

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The Statement of Net Assets and the Statement of Activities summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the City's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the City's Governmental Activities in a single column, and the financial position of all the City's Business-Type Activities in a single column; these columns are followed by a Total column that presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City's Business-type Activities include all its Enterprise Fund activities.

D-95

The Statement of Activities reports increases and decreases in the City's net assets. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities differs considerably from those used in the past. It presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities or Business-type Activities column, as appropriate, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

These new financial statements along with the fund financial statements and footnotes are called *Basic Financial Statements*; the term General Purpose Financial Statements is no longer used.

CITY OF PACIFIC GROVE
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments (Note 2)			
Available for operations	$3,283,009	$716,645	$3,999,654
Restricted		1,656,462	1,656,462
Held in trust	851,367		851,367
Receivables			
Taxes	975,979		975,979
Accounts	988,611	292,967	1,281,578
Interest	24,444	6,752	31,196
Loans (Note 5)	2,101,160	15,964	2,117,124
Internal balances (Note 4)	(152,278)	152,278	
Bond issuance costs, net of amortization		75,900	75,900
Capital assets (Note 6)			
Nondepreciable assets	2,360,058	2,944,971	5,305,029
Depreciable assets, net of accumulated depreciation	6,281,792	5,906,018	12,187,810
Total Assets	16,714,142	11,767,957	28,482,099
LIABILITIES			
Accounts payable	161,834	298,222	460,056
Interest payable		86,037	86,037
Accrued wages and benefits	420,790	31,444	452,234
Deferred revenue	198		198
Noncurrent liabilities, due within one year:			
Claims payable (Note 11)	697,292		697,292
Long-term debt (Note 7)	332,882	94,136	427,018
Noncurrent liabilities, due in more than one year:			
Claims payable (Note 11)	1,864,065		1,864,065
Compensated absences (Note 1I)	2,115,940	153,727	2,269,667
Long-term debt (Note 7)	3,425,977	5,253,127	8,679,104
Total Liabilities	9,018,978	5,916,693	14,935,671
NET ASSETS (Note 8)			
Invested in capital assets, net of related debt	4,882,991	3,503,726	8,386,717
Restricted for:			
Debt service	47,751	275,621	323,372
Capital projects		1,380,841	1,380,841
Special revenue projects	1,242,528		1,242,528
Total Restricted Net Assets	1,290,279	1,656,462	2,946,741
Unrestricted	1,521,894	691,076	2,212,970
Total Net Assets	$7,695,164	$5,851,264	$13,546,428

See accompanying notes to financial statements

City of Pacific Grove
Annual Financial Report
Year Ended June 30, 2005

Government-wide Financial Statements

D-96

CITY OF PACIFIC GROVE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:						
Public safety						
Police	4,406,295	$223,400	$1,431,013	($2,751,882)		($2,751,882)
Fire	2,741,020	33,330	18,027	(2,689,663)		(2,689,663)
General Administration	1,773,076	41,739	1,094	(1,730,243)		(1,730,243)
Public works	2,118,859	264,632	646,000	(1,208,227)		(1,208,227)
Recreation	973,291	257,384	116,000	(599,907)		(599,907)
Library	1,013,088	27,643	39,121	(946,324)		(946,324)
Community development & building inspection	1,002,229	763,648	5,600	(232,981)		(232,981)
Museum	291,530	23,712		(267,818)		(267,818)
Interest on long term debt	123,960			(123,960)		(123,960)
Total Governmental Activities	14,443,348	1,635,488	2,256,855	(10,551,005)		(10,551,005)
Business-type Activities:						
Cemetery	207,830	369,628			$161,798	161,798
Sewer	1,203,405	1,695,012			491,607	491,607
Golf	1,713,627	1,468,262			(245,365)	(245,365)
Total Business-type Activities	3,124,862	3,532,902			408,040	408,040
Total	$17,568,210	$5,168,390	$2,256,855	(10,551,005)	408,040	(10,142,965)
General revenues:						
Taxes				10,391,940		10,391,940
Investment earnings				249,677	78,450	328,127
Rents and leases				184,599		184,599
Miscellaneous				913,984	23,442	937,426
Total general revenues and transfers				11,740,200	101,892	11,842,092
Change in Net Assets				1,189,195	509,932	1,699,127
Net Assets-Beginning				6,505,969	5,341,332	11,847,301
Net Assets-Ending				$7,695,164	$5,851,264	$13,546,428

See accompanying notes to financial statements

City of Pacific Grove
Annual Financial Report
Year Ended June 30, 2005

Fund Financial Statements

D-97

Only individual major funds are presented, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between Fund types and the practice of combining like funds and presenting their totals in separate columns (Combined Financial Statements) has been discontinued, along with the use of the General Fixed Assets and General Long-term Debt Account Groups.

The funds described below were determined to be Major Funds by the City. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND

The General Fund accounts for the revenues and expenditures to carry out basic governmental activities of the City such as general government, public safety, public works, and parks and recreation. This fund accounts for all financial transactions not accounted for in the other funds.

SENIOR HOUSING SPECIAL REVENUE FUND

This fund accounts for senior housing activities.

HOUSING PROGRAMS SPECIAL REVENUE FUND

This fund accounts for housing program loans under a federal program funded by CDBG.

STATE GAS TAX

This fund accounts for the expenditure of State Gas Tax monies received.

CITY OF PACIFIC GROVE
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2005

	General	Senior Housing	Housing Program	State Gas Tax	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments (Note 2):						
Available for operations	$44,664	$8,752	$377,268	$61,764	$2,789,105	$3,281,553
Held in trust					851,367	851,367
Receivables						
Taxes	975,979					975,979
Accounts	499,345			27,189	314,771	841,305
Interest and other	19,701				4,743	24,444
Loans receivable (Note 5)		800,000	796,675		504,485	2,101,160
Due from other funds (Note 4)	197,326			29,935		227,261
Long-term interfund receivable (Note 4)	175,768				461,031	636,799
Total Assets	$1,912,783	$808,752	$1,173,943	$118,888	$4,925,502	$8,939,868
LIABILITIES						
Accounts payable	$96,996			$17,041	$28,676	$142,713
Accrued wages and benefits	408,450		3,354	3,963	3,260	419,027
Deferred revenue	198	$800,000				800,198
Due to other funds (Note 4)					189,630	189,630
Total Liabilities	505,644	800,000	3,354	21,004	221,566	1,551,568
FUND BALANCES						
Fund balance						
Reserved for:						
Long-term interfund receivable	175,768				461,031	636,799
Long-term loan receivable			796,675		504,485	1,301,160
Debt service					47,751	47,751
Unreserved:						
Designated for:						
Contingencies	429,902					429,902
Tax interim	750,000					750,000
Undesignated, reported in:						
General Fund	51,469					51,469
Special Revenue Funds		8,752	373,914	97,884	1,473,785	1,954,335
Capital Projects Funds					190,172	190,172
Permanent Funds					2,026,712	2,026,712
Total Fund Balances	1,407,139	8,752	1,170,589	97,884	4,703,936	7,388,300
Total Liabilities and Fund Balances	$1,912,783	$808,752	$1,173,943	$118,888	$4,925,502	$8,939,868

See accompanying notes to financial statements

D-98

CITY OF PACIFIC GROVE
Reconciliation of the
GOVERNMENTAL FUNDS – BALANCE SHEET
with the
STATEMENT OF NET ASSETS
JUNE 30, 2005

Total fund balances reported on the governmental funds balance sheet	$7,388,300
Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:	
CAPITAL ASSETS	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	8,641,850
ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS	
Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the following line items in the Statement of Net Assets.	
Cash and investments	1,456
Accounts receivable	147,306
Accounts payable	(19,121)
Accrued wages and benefits	(1,763)
Claims payable	(2,561,357)
Internal balances	(826,708)
ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES	
Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.	800,000
LONG TERM ASSETS AND LIABILITIES	
The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:	
Long-term debt	(3,758,859)
Non-current portion of compensated absences	(2,115,949)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$7,695,164

See accompanying notes to financial statements

D-99

CITY OF PACIFIC GROVE
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2005

	General	Senior Housing	Housing Programs	State Gas Tax	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	$10,327,466				$63,951	$10,391,417
Licenses, and permits	401,750					401,750
Fines, forfeits and penalties	77,289					77,289
Intergovernmental	1,266,332			$274,274	718,325	2,258,931
Charges for current services	1,116,375		$60,717		77,770	1,254,862
Use of money and property	5,423	$634	4,316	521	44,655	55,549
Interdepartmental charges	457,986		6,398			464,384
Other	252,497				495,861	728,358
Total Revenues	13,885,121	634	71,431	274,795	1,400,567	15,632,543
EXPENDITURES						
Current:						
Public safety						
Police	4,004,097				236,052	4,240,149
Fire	2,327,406				55,162	2,382,568
General administration	1,657,220					1,657,220
Public works	1,632,177			268,381	58,067	1,958,625
Recreation	850,618				80,199	930,817
Library	891,256				92,950	984,206
Community development & building inspection	826,463		152,070		8,842	987,375
Museum	284,085					284,085
Capital outlay	75,462	48,550		10,000	806,863	940,975
Debt service						
Principal					365,603	365,603
Interest and fiscal charges					123,960	123,960
Total Expenditures	12,748,784	48,550	152,070	278,381	1,827,698	15,055,583
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,136,337	(48,016)	(80,639)	(3,586)	(427,136)	576,960
OTHER FINANCING SOURCES (USES)						
Issuance of long-term debt (Note 7)					138,429	138,429
Transfers in (Note 4)	4,000				549,842	553,842
Transfers (out) (Note 4)	(913,100)			(4,000)	(20,000)	(937,100)
Total Other Financing Sources (Uses)	(909,100)			(4,000)	668,271	(244,829)
NET CHANGE IN FUND BALANCES	227,237	(48,016)	(80,639)	(7,586)	241,135	332,131
BEGINNING FUND BALANCES	1,179,902	56,758	1,251,228	105,470	4,462,801	7,056,169
ENDING FUND BALANCES	$1,407,139	$8,732	$1,170,589	$97,884	$4,703,936	$7,388,300

See accompanying notes to financial statements

CITY OF PACIFIC GROVE
Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the Change in
GOVERNMENTAL NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Stateme Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and curre liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in tl Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	$332,131
Amounts reported for governmental activities in the Statement of Activities are different because of the following:	
CAPITAL ASSETS TRANSACTIONS	
Governmental Funds report capital outlays 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.	
The capital outlay expenditures are therefore added back to fund balance	822,447
Retirement of capital assets is deducted from fund balance	(6,087)
Depreciation expense is deducted from the fund balance	(259,659)
LONG TERM DEBT PROCEEDS AND PAYMENTS	
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities 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.	
Proceeds from the issuance of debt are deducted from fund balance	(138,429)
Repayment and other reductions of debt principal is added back to fund balance	407,317
ACCRUAL OF NON-CURRENT ITEMS	
The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change).	
Compensated absences	(122,605)
ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY	
Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.	
Change in Net Assets - All Internal Service Funds	154,080
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$1,189,195

See accompanying notes to financial statements

D-100

CITY OF PACIFIC GROVE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual Amounts	(Negative)
REVENUES:				
Taxes:				
Property taxes	$2,993,300	$2,993,300	$3,013,042	$19,742
Sales tax	1,650,000	1,650,000	1,556,246	(93,754)
Transient occupancy tax	3,303,000	3,303,000	3,275,108	(27,892)
Franchise taxes	725,000	725,000	742,655	17,655
Utility users	1,190,000	1,190,000	1,287,495	97,495
Business license	310,000	310,000	295,605	(14,395)
Real estate transfer taxes	100,000	100,000	157,315	57,315
Licenses, and permits	374,000	374,000	401,750	27,750
Fines, forfeits and penalties	60,000	60,000	77,289	17,289
Intergovernmental	681,835	681,835	1,266,332	584,497
Charges for current services	1,253,093	1,251,093	1,116,378	(134,715)
Use of money and property	50,000	50,000	5,423	(44,577)
Interdepartmental charges	472,000	472,000	457,986	(14,014)
Other	368,500	368,500	232,497	(136,003)
Total Revenues	13,480,728	13,528,728	13,885,121	356,393
EXPENDITURES:				
Current:				
Public safety				
Police	3,965,939	4,056,452	4,004,097	52,355
Fire	2,679,844	2,634,542	2,527,406	107,136
General administration	1,569,151	1,679,552	1,657,220	22,332
Public works	1,748,469	1,655,855	1,632,177	23,678
Recreation	943,417	923,808	850,618	73,190
Library	934,153	916,140	891,256	24,884
Community development & building inspection	888,217	857,507	826,463	31,044
Museum	332,013	305,804	284,085	21,719
Capital outlay	93,980	93,980	75,462	18,518
Total Expenditures	13,155,165	13,123,660	12,748,734	374,856
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	325,563	405,068	1,136,317	731,249
OTHER FINANCING SOURCES (USES)				
Operating transfers in	4,000	4,000	4,000	
Operating transfers (out)	(856,636)	(911,100)	(913,100)	(2,000)
Total other financing sources (uses)	(852,636)	(907,100)	(909,100)	(2,000)
NET CHANGE IN FUND BALANCES - BUDGETARY BASIS	($527,073)	($502,032)	227,217	729,249
BEGINNING FUND BALANCE			1,179,922	
ENDING FUND BALANCE			$1,407,139	

See accompanying notes to financial statements

CITY OF PACIFIC GROVE
SENIOR HOUSING SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual Amounts	(Negative)
REVENUES				
Interest			$634	$634
Total Revenues			634	634
EXPENDITURES:				
Capital Outlay	$92,500	$92,500	48,650	43,850
Total Expenditures	92,500	92,500	48,650	43,850
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	($92,500)	($92,500)	(48,016)	$44,484
BEGINNING FUND BALANCE			56,768	
ENDING FUND BALANCE			$8,752	

See accompanying notes to financial statements

CITY OF PACIFIC GROVE
HOUSING PROGRAMS SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual Amounts	(Negative)
REVENUES:				
Intergovernmental				
Charges for services	$53,000	$53,000	$60,717	7,717
Interest	3,000	3,000	4,316	1,316
Interdepartmental charges	29,000	29,000	6,398	(22,602)
Total Revenues	85,000	85,000	71,431	(13,569)
EXPENDITURES:				
Current				
Community development	265,769	265,769	152,070	113,699
Total Expenditures	265,769	265,769	152,070	113,699
NET CHANGE IN FUND BALANCE	($180,769)	($180,769)	(80,639)	$100,130
BEGINNING FUND BALANCE			1,251,228	
ENDING FUND BALANCE			$1,170,589	

See accompanying notes to financial statements

D-101

CITY OF PACIFIC GROVE
STATE GAS TAX SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual Amounts	(Negative)
REVENUES:				
Intergovernmental	$233,000	$233,000	$274,274	$41,274
Interest	500	500	521	21
Total Revenues	233,500	233,500	274,795	41,295
EXPENDITURES:				
Current:				
Public works	260,917	260,917	268,381	(7,464)
Capital outlay	10,000	10,000	10,000	
Total Expenditures	270,917	270,917	278,381	(7,464)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(37,417)	($37,417)	(3,586)	$33,831
TRANSFERS OUT			(4,000)	($4,000)
NET CHANGE IN FUND BALANCE	(37,417)	(37,417)	(7,586)	29,831
Fund balance, July 1			105,470	
Fund balance, June 30			$97,884	

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The concept of major funds established by GASB Statement 34 extends to Proprietary Funds. The City has identified the funds below as major proprietary funds in current fiscal year.

GASB 34 does not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds.

CEMETERY OPERATING FUND

The Cemetery Operating Fund accounts for revenues and expenditures of the City's cemetery.

SEWER OPERATING FUND

The Sewer Operating Fund accounts for revenues and expenses of the City's sewer operations.

GOLF ENTERPRISE FUND

The Golf Enterprise Fund accounts for revenues and expenses of the golf course.

D-102

CITY OF PACIFIC GROVE
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Activities-Enterprise Funds				Governmental Activities-Internal Service Funds
	Cemetery Operating	Sewer Operating	Golf Course	Totals	
ASSETS					
Current Assets:					
Cash and investments available for operations			$716,645	$716,645	$1,456
Restricted cash and investments			1,656,462	1,656,462	
Accounts receivable		$288,901	4,066	292,967	147,306
Interest receivable			6,752	6,752	
Total Current Assets		288,901	2,383,925	2,672,826	148,762
Capital assets (Note 6):					
Nondepreciable assets	$20		2,944,951	2,944,971	
Depreciable assets, net of accumulated depreciation	564,948	3,793,713	1,547,357	5,906,018	
Total Fixed Assets	564,968	3,793,713	4,492,308	8,850,989	
Other Assets:					
Loans receivable		15,964		15,964	
Long-term interfund receivable (Note 4)			1,071,191	1,071,191	
Deferred financing costs, net of amortization		75,900		75,900	
Total Assets	564,968	4,174,478	7,947,424	12,686,870	148,762
LIABILITIES					
Current liabilities					
Accounts payable	1,318	20,085	276,819	298,222	19,121
Interest payable			86,037	86,037	
Wages payable	428	6,654	24,362	31,444	1,763
Due to other funds (Note 4)					37,631
Accrued claims - current portion (Note 11)					697,292
Long term debt - current portion (Note 7)		29,136	65,000	94,136	
Total Current Liabilities	1,746	55,875	452,218	509,839	755,807
Noncurrent liabilities					
Long-term interfund payable (Note 4)	332,986	585,927		918,913	789,077
Compensated absences			153,727	153,727	
Long term debt (Note 7)		1,358,127	3,895,000	5,253,127	
Accrued claims (Note 11)					1,864,065
Total Liabilities	334,732	1,999,929	4,500,945	6,835,606	3,408,949
NET ASSETS					
Invested in capital assets, net of related debt	564,968	2,406,450	532,308	3,503,726	
Restricted for:					
Debt service			275,621	275,621	
Capital project			1,380,841	1,380,841	
Unrestricted	(334,732)	(231,901)	1,257,709	691,076	(3,260,187)
Total Net Assets (Deficit)	$230,236	$2,174,549	$3,446,479	$5,851,264	($3,260,187)

D-103

CITY OF PACIFIC GROVE
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Activities-Enterprise Funds				Governmental Activities- Internal Service Funds
	Cemetery Operating	Sewer Operating	Golf Course	Totals	
OPERATING REVENUES					
Charges for current services	$369,628	$1,695,012	$1,468,262	$3,532,902	$970,042
Other revenues	6,800	2,885	13,757	23,442	
Total Operating Revenues	376,428	1,697,897	1,482,019	3,556,344	970,042
OPERATING EXPENSES					
Personnel services	94,398	242,977	900,132	1,237,507	53,678
Operating services	81,732	759,383	604,163	1,445,278	171,285
Insurance premiums, claims and settlements					974,257
Depreciation	31,700	133,607	209,332	374,639	
Total Operating Expenses	207,830	1,135,967	1,713,627	3,057,424	1,199,220
Operating Income (Loss)	168,598	561,930	(231,608)	498,920	(229,178)
NONOPERATING REVENUES (EXPENSES)					
Interest income	9,243		69,207	78,450	
Interest expense		(67,438)		(67,438)	
Total Nonoperating Income (Loss)	9,243	(67,438)	69,207	11,012	
Income (Loss) Before Operating Transfers	177,841	494,492	(162,401)	509,932	(229,178)
Transfers in (Note 4)					383,258
Change in Net Assets	177,841	494,492	(162,401)	509,932	154,080
BEGINNING NET ASSETS (DEFICIT)	52,395	1,680,057	3,608,880	5,341,332	(3,414,267)
ENDING NET ASSETS (DEFICIT)	$230,236	$2,174,549	$3,446,479	$5,851,264	($3,260,187)

See accompanying notes to financial statements

CITY OF PACIFIC GROVE
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Activities-Enterprise Funds				Governmental Activities Internal Service Funds
	Cemetery Operating	Sewer Operating	Golf Course	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	$376,428	$1,727,532	$1,482,301	$3,586,261	$854,030
Payments to suppliers	(88,538)	(747,560)	(365,433)	(1,201,531)	(1,172,632)
Loan disbursements		(15,964)		(15,964)	
Receipts (payments) to employees	(96,243)	(265,662)	(736,232)	(1,098,137)	(53,364)
Cash Flows from Operating Activities	191,647	698,346	380,636	1,270,629	(371,966)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Interfund receipts (disbursements)	(200,890)	(448,029)	(59,924)	(708,843)	373,422
Cash Flows from Noncapital Financing Activities	(200,890)	(448,029)	(59,924)	(708,843)	373,422
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Retirement of long-term debt		(24,136)		(24,136)	
Proceeds from issuance of long-term debt			3,960,000	3,960,000	
Interest expense		(67,438)	86,037	18,599	
Fixed asset additions		(158,743)	(2,575,533)	(2,734,276)	
Cash Flows from Capital and Related Financing Activities		(250,317)	1,470,504	1,220,187	
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments			(1,656,462)	(1,656,462)	
Interest	9,243		62,455	71,698	
Cash Flows from Investing Activities	9,243		(1,594,007)	(1,584,764)	
Net Cash Flows			197,209	197,209	1,455
Cash and cash equivalents at beginning of year			519,436	519,436	
CASH AND CASH EQUIVALENTS AT END OF YEAR			$716,645	$716,645	1,455
Reconciliation of Operating income (Loss) to Cash Flows from Operating Activities:					
Operating income (loss)	$168,598	$561,930	($231,608)	$498,920	($229,178)
Adjustments to reconcile operating income to cash flows from operating activities:					
Depreciation and amortization	31,700	133,607	209,332	374,639	
Change in assets and liabilities:					
Accounts receivable		29,635	282	29,917	(116,012)
Loans receivable		(15,964)		(15,964)	
Other assets		864		864	
Accounts payable and other liabilities	(6,806)	10,959	238,730	242,883	(6,808)
Wages payable	(1,845)	(22,685)	10,173	(14,357)	314
Compensated absences			153,727	153,727	
Claims payable					(20,282)
Cash Flows from Operating Activities	$191,647	$698,346	$380,636	$1,270,629	($371,966)

See accompanying notes to financial statements

City of Pacific Grove
Annual Financial Report
Year Ended June 30, 2005

Notes to Financial Statements

D-104

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The City of Pacific Grove is a California charter city using the Council-Manager form of government which provides the following services; public safety (police and fire); community development; library, museum, parks and recreation, golf course, cemetery, butterfly habitat preserve and general administration services.

A. *Reporting Entity*

The City is governed by a seven-member council elected by City residents. These financial statements present the financial activities of the City, which is legally separate and fiscally independent, can issue debt, set and modify budgets and fees and sue or be sued. The City has no component units.

B. *Basis of Presentation*

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These Statements require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental, proprietary,* and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. *Major Funds*

GASB Statement 34 defines major funds and requires that the City's major governmental and business-type funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

GENERAL FUND - The General Fund is established to account for the revenues and expenditures to carry out basic governmental activities of the City such as general government, public safety, public works, and parks and recreation. This fund accounts for all financial transactions not accounted for in the other funds.

SENIOR HOUSING SPECIAL REVENUE FUND - This fund accounts for senior housing activities.

HOUSING PROGRAMS SPECIAL REVENUE FUND - This fund accounts for housing program loans under a federal program funded by CDBG.

STATE GAS TAX - This fund accounts for the expenditure of State Gas Tax monies received.

The City reported all its enterprise funds as major funds in the accompanying financial statements:

GOLF ENTERPRISE FUND - The Golf Enterprise Fund accounts for revenues and expenses of the golf course.

SEWER OPERATING ENTERPRISE FUND - The Sewer Operating Fund accounts for revenues and expenses of the City's sewer operations.

CEMETERY OPERATING ENTERPRISE FUND - The Cemetery Operating Fund accounts for revenues and expenditures of the City's cemetery.

The City also reports the following fund types:

Internal Service Funds - The funds account for health insurance, worker's compensation insurance and liability insurance; all of which are provided to other departments on a cost-reimbursement basis.

D-105

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. *Basis of Accounting*

The government-wide, proprietary, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are property, sales, transient occupancy and franchise taxes, special assessments, licenses for services and interest revenue. Fines, permits, and charges for services are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The City may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

The City follows statements and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

E. *Utility Service Billing*

Sewer customers are billed every other month by a separate government agency which forwards the collections to the City. Revenues earned but not collected by year-end are accrued.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. ***Budgets and Budgetary Accounting***

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

1. Prior to June 30, 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 expenditures and the means of financing them. At mid-year, normally in February or March, the budget is reviewed by the Council and may be amended at that time.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through the passage of an ordinance during the first City Council meeting in the month of May.
4. The City Manager may transfer budgeted amounts within a department or fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Enterprise Funds and Capital Project Funds.
6. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Budgeted amounts are as originally adopted or as amended by City Council. Individual amendments were not material in relation to the original appropriations.

D-106

G. ***Expenditures in Excess of Budget***

The funds below incurred expenditures in excess of their budgets in the amounts below as the result of unanticipated disbursements, for which sufficient additional revenues were available, for the year ended June 30, 2005:

Special Revenue Funds	
State Gas Tax	$7,464
Museum Improvement	8,654
Library Book	4,132
Fire Department Emergency Equipment	14,615
Civic Center Site	222,545
Vehicle Replacement	131,134
Yount Trust Income	2,599
Poetry Promotion	712

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. ***Deferred Compensation Plan***

City employees may defer a portion of their compensation under a City sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, and death or in an emergency as defined by the Plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

I. ***Post Employment Benefits Other Than Pensions***

The City provides limited health care benefits through PERS to retired employees. Benefits provided require sharing of cost from retirees eligible to participate in the program. During the year ended June 30, 2005 the City paid $23,117 for its share of benefits on behalf of 49 participants.

J. ***Compensated Absences***

Compensated absences comprise of unpaid vacation and the vested portion of sick leave, which are accrued as earned. The City's liability for compensated absences is recorded in various Governmental funds or Proprietary funds as appropriate. The liability for compensated absences is determined annually. For all governmental funds, amounts expected to be paid out of current financial resources are recorded as fund liabilities; the long-term portion is recorded in the Statement of Net Assets.

The changes of the compensated absences were as follows:

	Governmental Activities	Business-type Activities
Beginning Balance	$2,293,744	
Additions	189,692	$153,727
Payments	(367,496)	
Ending Balance	$2,115,940	$153,727

Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. *Property Tax*

Monterey County assesses properties and it bills, collects, and distributes actual property taxes collected to the City. Secured and unsecured property taxes are levied on January 1.

Secured property tax is due in two installments, on November 1 and March 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed.

Property taxes levied are recorded as revenue and receivables in the fiscal year of levy, provided they are collected within the fiscal year or within 60 days of the fiscal year end.

NOTE 2 - CASH AND INVESTMENTS

A. *Policies*

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the City's name and places the City ahead of general creditors of the institution.

D-107

The City invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the City employs the Trust Department of a bank as the custodian of certain City managed investments, regardless of their form.

The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year

The City pools cash from all sources and all funds so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

B. *Classification*

The City's total cash and investments, the following shows the allocation as presented on the accompanying statements of net assets:

Statement of Net Assets:	
Cash and investments available for operations	$3,999,654
Restricted Cash and Investments	1,656,462
Cash and Investments held in trust	851,367
Total City Cash and Investments	$6,507,483

NOTE 2 - CASH AND INVESTMENTS (Continued)

The City's cash and investments consist of the following:

Investments	$6,313,961
Petty Cash	1,484
Cash with Banks	192,038
Total City Cash and Investments	$6,507,483

C. *Investments Authorized by the California Government Code and the City's Investment Policy*

The City's Investment Policy and the California Government Code allow the City to invest in the following, provided that the credit ratings of the issuers are acceptable to the City. The following also identifies certain provisions of the City and California Government Code that address interest rate risk, credit risk, and concentration of credit risk. This does not address the City's investments of debt proceeds held by fiscal agents that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the Entity's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio
Certificates of Deposit	5 years	10%
U.S. Treasury Obligations	5 years	None
U.S. Agency Securities (A)	5 years	None
California Local Agency Investment Fund	N/A	None
Repurchase Agreements	30 days	None

(A) Securities issued by agencies of the federal government agencies such as the Federal Home Loan Bank (FHLB), Government National Mortgage Association (GNMA), Federal Farm Credit System, Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA) or obligations issued by a federal agency.

NOTE 2 - CASH AND INVESTMENTS (Continued)

D. *Investments Authorized by Debt Agreements*

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City ordinances, bond indentures or State statutes. The following identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
U.S. Treasury Obligations	None	N/A
U.S. Agency Securities (A)	None	None
Unsecured Certificates of Deposit	30 days	A-1
Commercial Paper	270 days	A-1+
Money Market Funds	N/A	AAA-m/AAAm-G
Repurchase Agreement	None	A
State Obligations	None	A-1
Investment Agreement	None	AA
California Local Agency Investment Fund	N/A	N/A

(A) Securities issued by agencies of the federal agencies which obligations represent full faith and credit of the United States of America, including: Export-Import Bank, Farmers Home Administration, General Services Administrating, U.S. Maritime Administration, Small Business Administration, Government National Mortgage Association, U.S. Department oh Housing & Urban Development, and Federal Housing Administration

D-108

NOTE 2 - CASH AND INVESTMENTS (Continued)

E. *Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's's investments by maturity or earliest call date:

Investment Type	12 Months or less	13 to 36 Months	37 to 60 Months	Total
Investments				
U.S. Agency Securities				
Non-callable	$264,256	$582,872		$847,128
Callable	98,250	794,312	$98,875	991,437
Certificates of Deposit	200,000	375,310		575,310
Money Market Funds	282,671			282,671
Income held in trust (Note 5)	6,323			6,323
California Local Agency Investment Fund	3,611,092			3,611,092
Total Investments	$4,462,592	$1,752,494	$98,875	6,313,961
Cash				
Cash in banks				192,038
Petty cash				1,484
Total Cash and Investments				$6,507,483

NOTE 2 - CASH AND INVESTMENTS (Continued)

F. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the City's investment policy, or debt agreements and the actual rating as of June 30, 2005 for each investment type as provided by Moody's:

Investment Type	AAA	Not Rated	Total
Investments			
U.S. Agency Securities			
Non-callable	$453,418	$393,710	$847,128
Callable	991,437	0	991,437
Certificates of Deposit		575,310	575,310
Money Market Funds	282,671		282,671
Income held in trust (Note 3)		6,323	6,323
California Local Agency Investment Fund		$3,611,092	3,611,092
Total Investments	$1,727,526	$4,586,435	6,313,961
Cash			
Cash in bank			192,038
Petty cash			1,484
Total cash and investments			$6,507,483

G. Concentration Risk

The City's investment policy contains limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code for investments in a County Agency Investment Fund, Negotiable Certificates of Deposit, Repurchase Agreements and Reverse Repurchase Agreements. Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of total Entity-wide investments are as follows at June 30, 2005.

At June 30, 2005 the City had investments in Federal Home Loan Bank securities that totaled $1,674,098. The amount represents more than 5% of total investments in any one issuer by reporting unit (governmental activities, business-type activities, major fund, nonmajor funds in the aggregate).

D-109

CITY OF PACIFIC GROVE
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 2 - CASH AND INVESTMENTS (Continued)

H. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City 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. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of the City's cash on deposit. All of the City's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions in the City's name.

Local Agency Investment Fund - The City is a voluntary participant in the Local Agency Investment Fund (LAIF). LAIF is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. The carrying value of LAIF approximates fair value.

I. Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Proprietary fund types' cash and investments balances classified as Available for Operations are considered cash equivalents for purposes of the statement of cash flows.

NOTE 3 – PERMANENT FUNDS

The City is the beneficiary of several trusts established for its citizens. These trusts generally provide for the preservation of trust principal and allow the expenditure of trust income for purposes allowed under the trust. Only trust income may be expended. GASB 34 requires the City to categorize these funds as Permanent Funds in the accompanying financial statements. These funds are:

Lawrence and Millie Yount Trust, established in 1992, in the amount of approximately $900,000, including the Yount's residence. The income from this Trust may be expended for the beautification of the City and for minor improvements on the educational and/or recreational facilities maintained by the City.

Cemetery Endowment Care Trust, which accounts for "Endowment Care" revenue received in trust for the care of decedents graves.

Library Endowment Trust, established to finance the purchase of additional books and materials for the Library.

In addition, the City is the beneficiary of the Bertha L. Strong Trust, established in 1956. Under its terms the principal of the Trust may only be used for the construction of a new City Hall or the expansion of certain City facilities used for education or recreation, except those usually authorized to be constructed or expanded by taxing, bonding or assessing. Trust income may only be used for the beautification of the City, and is released by the Trustee only on application by the City. Since neither the principal nor the income of the Trust are under the control of the City, these amounts are not reflected in these financial statements. The results of the Trust's financial activities for the year ended June 30, 2005, as reported by the Trustee, were as follows:

Balance held by Trustee at beginning of year, at fair value	$897,860
Add:	
Trust income	38,764
Change in market value of Trust investments	13,609
Total Additions	52,373
Deduct:	
Trustee fees	20,482
Withdrawals	14,000
Total Deductions	34,482
Balance held by Trustee at end of year, at fair value	$915,751

D-110

NOTE 4 - INTERFUND TRANSACTIONS

A. Transfers Between City Funds

With 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 an expenditure on behalf of another fund.

Transfers comprised the following:

	Operating Transfers			
	In		Out	
General Fund	$4,000	(A)	$913,100	(B)
Special Revenue Funds				
Civic Center Site	284,000	(B)		
State Gas Tax			4,000	(A)
Vehicle Replacement	132,100	(B)		
Yount Trust Income			20,000	(C)
Public Safety Augmentation	27,742	(C)		
Capital Projects Fund				
Rocky Shores Preservation	100,000	(B)		
Buildings & Facilities Improvement	6,000	(B)		
Total Governmental Funds	553,842		937,100	
Internal Service Funds				
Liability Insurance	383,258			
Total Proprietary Funds	383,258			
Total All Funds	$937,100		$937,100	

(A) Engineering cost from Gas Tax to General Fund.
(B) Budget transfers to fund operating expenses.
(C) Yount Trust to pay for County communications .

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

B. *Current Interfund Balances*

Current interfund balances arise in the normal course of business and are expected to be repaid within the next fiscal year. At June 30, 2005 current interfund balances were as follows:

	Current Interfund Balances	
	Receivable	Payable
General Fund	$197,326	
Special Revenue Funds		
State Gas Tax	29,935	
RSTP - (TAMC)		$79,695
Chautauqua Hall		57,253
Public Safety Augmentation		52,682
Rebate and Refund Internal Service Fund		37,631
Total All funds	$227,261	$227,261

C. *Long-term Interfund Balances*

At June 30, 2005, long-term interfund balances were as follows:

	Long-term Interfund Balances	
	Receivable	Payable
General Fund	$175,768	
Special Revenue Fund		
Rocky Shores Preservation	162,986	
Capital Projects		
Building and Facility Improvement	298,045	
Enterprise Funds		
Cemetary		332,986
Sewer Operating		585,927
Golf Operating	1,071,191	
Internal Service Funds		
Health Insurance		$188,663
Worker's Compensation Insurance		528,664
Liability Insurance		71,750
	$1,707,990	$1,707,990

D. *Internal Balances*

Internal balances are presented in the Entity-wide financial statements only. They represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

D-111

CITY OF PACIFIC GROVE
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5 - LOANS AND MORTGAGES RECEIVABLE

A. *Housing Assistance Loans*

The City engages in programs designed to encourage construction or improvement in low-to-moderate income housing. Under these programs, loans are provided under favorable terms to homeowners or developers who agree to spend these funds in accordance with the City's terms. Terms include interest rates of three to five percent and deferral of principal and interest payment until the property changes hands. All loans are secured by a deed of trust on the property.

Although these loans and notes are expected to be repaid in full, their balance has been offset by a reservation of fund balance, as they are not expected to be repaid during the current fiscal year. The balance of the loans receivable arising from these programs at June 30, 2005 was $1,301,160.

B. *Senior Housing HELP Loan*

On May 28, 2002, the City entered into an $800,000 10-year deferred loan agreement with the California Housing Finance Agency which the City loaned to a developer on November 6, 2002 for land acquisition and construction of an affordable senior housing project.

C. *Sewer Lateral Replacement Loan*

The City has a Sewer Lateral Repair/ Replacement Loan Program to improve sewer laterals lines connected to homeowners' residences. These loans carry an interest rate of 3% per annum. Repayment on loan principal and interest are deferred until the property is sold. All loans are secured by a deed of trust on the property. The balance of these loan receivables at June 30, 2005 was $15,964.

NOTE 6 - CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City defines capital assets with an initial individual cost of more than $1,000 and an estimated useful life in excess of three years.

GASB Statement 34 allows the City up to four years to record infrastructure assets acquired in prior years. With the implementation of GASB 34 the City has recorded current year additions and improvements to infrastructure. Historical values for infrastructure assets acquired since 1980 will be recorded by June 30, 2006.

GASB Statement 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Alternatively, the "modified approach" may be used for certain capital assets. Depreciation is not provided under this approach, but all expenditures on these assets are expensed, unless they are additions or improvements.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

D-112

NOTE 6 - CAPITAL ASSETS (Continued)

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets:

Buildings	15-70 years
Improvements	10-20 years
Sewer lines	40 years
Vehicles	3-5 years
Equipment	3-30 years
Infrastructure	70 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Changes in fixed assets during the year ended June 30, 2005 comprise:

	Balance at June 30, 2004	Additions	Retirements	Balance at June 30, 2005
Governmental activities				
Capital assets not being depreciated:				
Land	$2,338,290			$2,338,290
Construction in Progress		$21,768		21,768
Total capital assets not being depreciated	2,338,290	21,768		2,360,058
Capital assets being depreciated:				
Building	10,860,619	226,178		11,086,797
Machinery and equipment	2,514,486	233,070	($20,302)	2,727,254
Infrastructure	285,919	341,431		627,350
Total capital assets being depreciated	13,661,024	800,679	(20,302)	14,441,401
Less accumulated depreciation for:				
Building	(6,182,523)	(75,561)		(6,258,084)
Machinery and equipment	(1,731,499)	(164,318)	14,215	(1,881,602)
Infrastructure	(143)	(19,780)		(19,923)
Total accumulated depreciation	(7,914,165)	(259,659)	14,215	(8,159,609)
Net capital assets being depreciated	5,746,859	541,020	(6,087)	6,281,792
Governmental activity capital assets, net	$8,085,149	$562,788	($6,087)	$8,641,850

NOTE 6 - CAPITAL ASSETS (Continued)

	Balance at June 30, 2004	Additions	Balance at June 30, 2005
Business-type activities			
Capital assets, not being depreciated:			
Land	$123,520		$123,520
Construction in progress	339,612	$2,481,839	2,821,451
Total capital assets not being depreciated	463,132	2,481,839	2,944,971
Capital assets, being depreciated:			
Building	1,027,052		1,027,052
Improvements	2,480,888	93,693	2,574,581
Machinery and equipment	1,371,540	5,662	1,377,202
Sewer Lines	4,067,180	153,086	4,220,266
Total capital assets being depreciated	8,946,660	252,441	9,199,101
Less accumulated depreciation for:			
Building	(612,697)	(16,496)	(629,193)
Improvements	(855,694)	(166,544)	(1,022,238)
Machinery and equipment	(1,013,720)	(89,193)	(1,102,913)
Sewer lines	(436,329)	(102,410)	(538,739)
Total accumulated depreciation	(2,918,440)	(374,643)	(3,293,083)
Net capital assets being depreciated	6,028,220	(122,202)	5,906,018
Business-type activity capital assets, net	$6,491,352	$2,359,637	$8,850,989

A. Capital Asset Contributions

Some capital assets may be acquired using federal and State grant funds, or they may be contributed by developers or other governments. GASB Statement 34 requires that these contributions be accounted for as revenues at the time the capital assets are contributed.

NOTE 6 - CAPITAL ASSETS (Continued)

B. *Depreciation Allocation*

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

General Administration	$49,811
Police	76,066
Fire	73,827
Public Works	37,447
Recreation	12,939
Museum	71
Library	9,498
Total Governmental Activities	$259,659
Business-Type Activities	
Cemetery Operating	$31,700
Sewer Operating	133,607
Golf Enterprise	209,332
Total Business-Type Activities	$374,639

D-113

CITY OF PACIFIC GROVE
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 7 - LONG TERM DEBT

A. *Current Year Transactions and Balance*

Type of Obligation	Authorized and Issued	June 30, 2004 Balance	Additions	Retirements	June 30, 2005 Balance	Current Portion
Governmental Activity Debt:						
General obligation refunding note						
2003 Refunding Butterfly Habitat Note						
4.45%, due 8/01/17	$963,793	$963,793		$63,451	$900,342	$59,753
Housing rehabilitation bank loan:						
No interest, due 5/18/16	150,000	150,000			150,000	
California Housing Fin. Auth. Loan						
HELP Loan						
3% simple per annum, due 5/28/12	800,000	800,000			800,000	
Capital lease obligations:						
2003 Civic Center financing lease						
3.85%, due serially until 2/08/14	1,909,387	1,834,747		153,620	1,681,127	159,591
Fire trucks, 4.52%-5.4%,						
Due serially until 9/01/07		167,312		52,864	114,448	55,719
Police and utility vehicles, 3.75% - 5.4%						
Due serially until 6/19/05	89,000	29,654		29,654		
Police Vehicles, 3.95%						
Due annually in advance until 5/01/06	62,000	40,528		19,872	20,656	20,656
Copiers, 5.0%-5.5%, various due dates						
with last due date on 12/01/06	Various	41,713		41,713		
Police and Public Works Vehicles, 3.3%						
Due annually in advance until 01/03/07	138,429		$138,429	46,143	92,286	46,143
Total capital lease obligations		2,113,954	138,429	343,866	1,908,517	282,129
Total Governmental Activity Debt		4,027,747	138,429	407,317	3,758,859	332,882
Business-type Activity Debt:						
Enterprise Long Term Debt						
Revenue Bonds						
California Statewide Community Dev. Auth	1,475,000	1,435,000		25,000	1,410,000	30,000
Series 2001B, 3.25%-5.13% due 10/1/31.						
Less unamortized discount/issuance cost		(23,601)		(864)	(22,737)	(864)
Certificates of Participation						
2004 Golf Course Project, 2.75 - 5.65%	3,960,000		3,960,000		3,960,000	65,000
Due serially until August 1 2034						
Total Business-Type Obligations		1,411,399	3,960,000	24,136	5,347,263	94,136
Total Long-Term Debt		$5,439,146	$4,098,429	$431,453	$9,106,122	$427,018

NOTE 7 - LONG TERM DEBT (Continued)

B. 2003 General Obligation Refunding Note

The City issued the Butterfly Habitat Bonds in the principal amount of $1,230,000 in 1990 to acquire and improve an ancient wintering site for Monarch Butterflies consisting of a 2.2 acres parcel.

On November 1, 2003, the City entered into a $963,793 General Obligation Refunding Note. This Note was issued to refund the remaining principal amount and accrued interest from the1990 Butterfly Habitat Bonds. Semi-annual principal and interest are due February 1 and August 1.

C. Housing Rehabilitation Bank Loan

On March 28, 2000, the City entered into a $150,000 no-interest loan agreement with a bank. The loan agreement requires the loan proceeds to be used only to fund the City's housing rehabilitation loan program. At the end of 5 years, the loan agreement calls for $75,000 of the loan balances to be forgiven, with the remaining $75,000 due and payable at the end of 10 years.

D. California Housing Financing Authority Loan

On May 28, 2002, the City entered into an $800,000 three percent simple per annum loan agreement with the California Housing Financing Authority. This Housing Enabled by Local Partnership (HELP) Loan funds shall be used exclusively to provide for a revolving source of funds from which to assist in financing the acquisition and construction of apartments for senior citizens. Principal and interest become due and payable upon the tenth anniversary of the loan.

E. 2003 Civic Center Financing Leases

On November 18, 1998 the City entered into a financing lease agreement for $1,500,000 to fund the Civic Center site improvement project. Included in the project are the construction of a civic plaza, parking lot and new building, rehabilitation of the existing City hall building, demolition of some existing buildings and landscaping. On August 1, 2003 the City refinanced the lease by entering into a new Civic Center Financing lease in the amount of $1,909,387. Semi-annual principal and interest are due on February 8 and August 8.

F. Capital lease obligations

Capital lease obligations are repayable from future General Fund revenues.

G. California Statewide Community Development Authority Series 2001B Revenue Bond

On August 1, 2001, the City issued Wastewater Revenue Bonds in the principal amount of $1,475,000. The bonds were part of the California Statewide Communities Development Authority Water and Wastewater Revenue Bond pooled financing program. The purpose of the bonds is to construct certain improvements to the City of Pacific Grove's sewer system. Semi-annual interest payments are due on April 1 and October 1 and annual principal payments are due October 1. Repayments are secured by future sewer service revenues. Interest rates on the bonds range from 3.25 percent to 5.125 percent.

NOTE 7 - LONG TERM DEBT (Continued)

H. 2004 Certificates of Participation (Golf Course Project)

On August 1, 2004 the City issued 2004 Certificates of Participation (Golf Course Project) in the principal amount of $3,960,000. Proceeds were used to finance capital improvements to the City's municipal golf course. Semi-annual interest payments are due on February 1 and August 1 and annual principal payments are due August 1. Repayments are secured by future revenues from the operation of the City's Golf Course Enterprise Fund. Interest rates on the bonds range from 2.75 percent to 5.75 percent.

I. Debt Service Requirements

Future principal and interest payments on all long-term debt were as follows at June 30:

For the Years Ended June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2006	$407,882	$158,302	$95,000	$274,536
2007	325,959	98,273	95,000	271,693
2008	227,013	84,681	95,000	268,545
2009	238,144	75,449	100,000	265,000
2010	1,134,435	305,763	100,000	261,155
2011-2015	1,177,987	171,080	590,000	1,233,589
2016-2020	257,439	17,490	750,000	1,071,380
2021-2025			965,000	844,921
2026-2030			1,250,000	547,334
2031-2035			1,330,000	179,084
Totals	$3,758,859	$911,038	$5,370,000	$5,217,237

NOTE 8 – NET ASSETS AND FUND BALANCES

GASB Statement 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

A. Net Assets

Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

Invested in Capital Assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income purposes.

Unrestricted describes the portion of Net Assets which is not restricted to use.

NOTE 8 – NET ASSETS AND FUND BALANCES (Continued)

Fund balances and retained earnings consist of reserved and unreserved amounts. Reserved fund balances and retained earnings represent amounts that are legally restricted to a specific use or are not available for appropriation of expenditure. The remainder is unreserved.

Portions of unreserved fund balance may be designated by the City Council or management for tentative future spending plans. Designated portions of fund balance represent financial resources legally available for uses other than those tentatively planned. Such plans or intent are subject to change, have not been legally authorized, and may not result in expenditures.

Grants and transfers restricted for use as proprietary fund type capital expenditures are reflected as contributed capital upon expenditure of funds for capital assets.

B. Reservations

Reserves for **loans receivable** are the portions of fund balance that are not available for appropriation.

Reserve for **debt service** is the portion of fund balance legally restricted for the payment of principal and interest on long term obligations.

C. Designations

Designated for **tax interim** is the portion of fund balance to be used to pay for certain estimated costs

Designated for **contingencies** is the 10% portion of General Fund balance to be used for emergencies.

D. General Fund and Internal Service Fund Finances

As of June 30, 2005 General Fund cash balance remained depleted at $44,664. Internal Service Funds cash remained depleted at $1,456.

General Fund revenues of $13.9 million increased by 9% from prior year mainly due to Intergovernmental Revenue, Transient Occupancy Tax and Charges for Current Services. General Fund expenditures of $12.7 million increased by 3% over the last year's General Fund expenditure. In addition, General Fund transferred $0.91million to other funds. As a result, the General Fund's fund balance increased from $1.2 million at June 30, 2004 to $1.4 million at June 30, 2005.

Management projects a balanced budget in fiscal 2005-2006.

Over the past fiscal year, the City instituted a variety of cost cutting measures to achieve the goal of providing a balanced budget for the General Fund. These measures include revenue raising and cost cutting alternatives that were presented to the Council during the budget process.

Internal Service Funds reported a net gain of $154,080 for fiscal 2004-05 which decreased the accumulated deficit to $3,260,187. See discussion below.

D-115

NOTE 8 – NET ASSETS AND FUND BALANCES (Continued)

E. Fund Balance/Net Asset Deficits

The following funds had deficits as of the June 30, 2005:

	Amount of Deficit
Special Revenue Funds	
RSTP	$29,935
Public Safety Augmentation	15,004
Internal Service Funds	
Health Insurance	188,412
Workers Compensation	2,080,497
Liability Insurance	991,278

The RSTP Special Revenue Fund deficit will be eliminated with reimbursement claims to the County for STIP funds and a State grant for the Congress Avenue Curb and Gutter capital project. The Public Safety Augmentation Special Revenue Fund deficit will be eliminated with a $107,558 transfer in fiscal year 2005-06.

The unpredictable nature of the three Internal Service Funds makes it hard to predict what to expect from year to year. During fiscal 2004-05, the City experienced a higher amount of claims than anticipated during the budget process. As a result, Internal Service Funds' revenues were not sufficient to decrease the deficit as anticipated.

The Health Insurance Internal Service Fund deficit will be eliminated in fiscal 2005-06 with charges to departments that participate in the programs.

The Workers Compensation Internal Service Fund total claims liability as of June 30, 2005 was in the amount of $1,567,737, of which $406,292 is expected to be paid during fiscal 2005-06. The remainder is expected to be paid in years after fiscal 2005-06. Commencing July 1, 2005, the City was accepted as a participant in the PARSAC Workers' Compensation Program with a self-insured retention of $100,000 per occurrence. Fund deficit will be eliminated in future years by direct charges to departments with claims.

The Liability Insurance Internal Service Fund total claims liability as of June 30, 2005 was in the amount of $993,620, of which $109,643 is expected to be paid during fiscal 2005-06. The remainder of the claims liability is expected to be paid in years after fiscal 2005-06. Fund deficit will be eliminated through future years' budgets.

NOTE 9 - PENSION PLANS

CALPERS Safety and Miscellaneous Employees Plans

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts.

The Plans' provisions and benefits in effect at June 30, 2003, are summarized as follows:

	Safety	Miscellaneous
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	50
Monthly benefits, as a % of annual salary	3%	1.426%-2.418%
Required employee contribution rates	9%	7%
Required employer contribution rates	32.377%	14.399%

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the City must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. The City does not have a net pension obligation since it pays these actuarially required contributions monthly.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 8.25% is assumed, including inflation at 3.5%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and ten percent of the net balance is amortized annually.

NOTE 9 - PENSION PLANS (Continued)

The Plans' actuarial values (which differs from market value) and funding progress over the past three years are set forth below at their actuarial valuation date of June 30:

Safety Plan:

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
6/30/2001	$31,907,437	$30,323,387	$1,584,050	95.0%	$3,315,776	47.773%
6/30/2002	35,357,212	27,475,234	$7,881,978	77.7%	3,791,128	207.906%
6/30/2003	38,497,789	27,626,006	$10,871,783	71.8%	3,843,871	282.834%

Miscellaneous Plan:

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
6/30/2001	$25,620,834	$27,607,031	($1,986,197)	107.8%	$5,109,232	(38.875%)
6/30/2002	28,757,262	25,941,375	$2,815,887	90.2%	5,856,057	48.085%
6/30/2003	32,263,400	26,108,928	$6,154,472	80.9%	5,703,741	107.902%

Audited annual financial statements are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

PERS has reported that the value of the net assets in the Plans held for Pension Benefits changed as follows during the year ended June 30, 2003:

	Safety	Miscellaneous
Beginning Balance June 30, 2002	$27,475,234	$25,941,375
Contributions received	692,420	600,207
Benefits and Refunds Paid	(1,399,861)	(1,269,455)
Transfers and Miscellaneous Adjustments Paid	(78,620)	(23,379)
Expected Investment Earnings Credited	2,234,924	2,112,159
Expected Actuarial Value of Assets 6/30/2003	$28,924,097	$27,360,907
Market Value of Assets 6/30/2003	$25,114,551	$23,735,389
Actuarial Value of Assets 6/30/2003	$27,626,006	$26,108,928

Actuarially required contributions for fiscal years 2005, 2004 and 2003 were $2,152,237, $1,740,577 and $1,109,958 respectively. The City made these contributions as required, together with certain immaterial amounts required as the result of the payment of overtime and other additional employee compensation.

NOTE 9 - PENSION PLANS (Continued)

As required by new State law, effective July 1, 2005, the City's Miscellaneous and Safety Plans were terminated, and the employees in those plans were required by CALPERS to join new State-wide pools. One of the conditions of entry to these pools was that the City true-up any unfunded liabilities in the former Plans, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. The City satisfied its Miscellaneous Plan's unfunded liability of $6,830,853 by agreeing to contribute that amount to the Side Fund through an addition to its normal contribution rates over the next 17 years. It satisfied its Safety Plan's liability of $11,502,056 by agreeing to contribute that amount to the Side Fund through an addition to its normal contribution rates over the next 23 years.

NOTE 10 - PUBLIC AGENCY RETIREMENT SYSTEM

The Omnibus Budget Reconciliation Act of 1990 (OBRA) mandates that public sector employees who are not members of their employer's existing retirement system as of January 1, 1992 be covered by either Social Security or an alternative plan. Effective May 22, 2005, the City contracted with the Public Agency Retirement System (PARS), a defined contribution plan. This Plan covers part-time, seasonal and temporary employees and all employees not covered by another retirement system. All eligible employees covered by the Plan are fully vested. Employer liabilities are limited to the amount of current contributions.

Under PARS, employees contribute 6.2 % and the City contributes 6.2 % of the employees' salary each pay period. For the fiscal year ending June 30, 2005, total contributions of $1,939 were made.

D-117

NOTE 11 - RISK MANAGEMENT

A. Insurance Coverage

The City is a member of the Public Agency Risk Sharing Authority of California (PARSAC), a joint powers authority which provides annual general liability coverage up to $14,000,000 in the aggregate. The City retains the risk for the first $100,000 in the general liability claims.

PARSAC is governed by a board consisting of representatives from member municipalities. The board controls the operations of PARSAC, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

The City's premiums are based upon the following factors: claims history, total payroll, the City's exposure, the results of an on-site underwriting inspection, total insurable values, and employee classification ratings. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating which generally occurs in the third year after the completion of the program year.

Financial statements for the Authority may be obtained from PARSAC, 1525 Response Road, Suite One, Sacramento, CA 95815.

NOTE 11 - RISK MANAGEMENT (Continued)

The City is a member of the California Public Entity Insurance Authority (CPEIA); a joint power authority which provides excess worker's compensation liability claims coverage above the City's self-insured retention of $300,000 per occurrence. Losses above the self-insured retention are pooled with excess reinsurance purchased to a $45,000,000 limit. CPEIA was established for the purpose of creating a risk management pool for all California public entities. CPEIA is governed by a Board of Directors consisting of representatives of its member public entities.

As of July 1, 2005 the City joined PARSAC for its worker's compensation liability coverage.

B. Liability for Uninsured Claims

Municipalities are required to record their liability for uninsured claims and reflect the current portion of this liability as an expenditure in their financial statements. As discussed, above, the City has coverage for such claims, but it has retained the risk for the deductible, or uninsured portion of these claims.

The City's liability for uninsured claims is limited to worker's compensation, general liability and medical and vision care claims, as discussed above, and was estimated by management based on prior years' claims experience as follows:

	Worker's Compensation	Liability Insurance	Total
Ending balance, June 30, 2004	$1,807,675	$773,964	$2,581,639
Provision for claims and claims incurred but not reported (IBNR)	166,354	329,299	495,653
Claims paid	(406,292)	(109,643)	(515,935)
Ending balance, June 30, 2005	$1,567,737	$993,620	$2,561,357
Current Portion	$406,292	$109,643	$515,935

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of the City.

CITY OF PINOLE
ANNUAL FINANCIAL REPORT
AS OF JUNE 30, 2005
WITH
INDEPENDENT AUDITOR'S REPORT

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D-119

INDEPENDENT AUDITOR'S REPORT

To The Honorable Mayor and Members of the City Council
City of Pinole
Pinole, California

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Pinole (the City) as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These basic 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, and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure 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.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pinole as of June 30, 2005, and the respective changes in the financial position and cash flows, where applicable, thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and Required Supplemental Information is supplementary information required by the Government Accounting Standards Board, but is not a part of the basic financial statements. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements of City of Pinole taken as a whole. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Pinole. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section listed in the table of contents were not audited by us and we do not express an opinion on this information.

Mann, Urrutia, Nelson CPAs

Sacramento, CA
October 19, 2005

PRINCIPALS
Chris A. Mann, CPA, CFP ♦ John R. Urrutia, CPA ♦ Michelle O. Nelson CPA, CFE, CVA ♦ Christine L. Collins, BA ♦ Kris Ann Mann, CPA, CCPS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal 2005 marks the fourth year the City has issued its financial statements in the format prescribed by the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34), which requires the City to provide this overview of its financial activities for the fiscal year. Please read it in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

FISCAL 2005 FINANCIAL HIGHLIGHTS

The City's overall financial condition continues to reflect the negative impact of the State's ongoing budget crisis, as the 2005 financial highlights show:

Citywide:

- The City's total net assets increased $3,677,399 in fiscal 2005. At June 30, 2005, net assets totaled $54,961,963.
- Citywide revenues totaled $26,206,499, including program revenues of $5,523,391 and general revenues of $20,683,108, an increase of $2,811,896 from the prior year's $23,394,603.
- Total Citywide expenses were $27,082,341, an increase of $1,111,323 from the prior year's $25,971,018.
- Net assets in Governmental funds increased $3,665,754, while net assets in business activities increased $11,645.
- Governmental Program Revenues decreased to $2,296,020 from fiscal 2004's $4,656,516.
- Governmental Program Expenses increased to $23,388,738 in fiscal 2005, up $1,418,769 from the prior year's $21,969,969.
- Program revenues from Business-Type activities increased to $3,227,371 in fiscal 2005, up from $3,199,001 in the prior year.
- Expenses of Business-Type Activities decreased to $3,693,603 in fiscal 2005, a $307,446 decrease from the prior year's level of $4,001,049.

Fund Level:

- Governmental Fund balances increased to $60,967,419 in fiscal 2005 from the prior year's $30,247,025.
- Governmental Fund revenues increased to $27,779,696 in fiscal 2005, up $6,274,416 from the prior year's $21,505,280.
- Governmental Fund expenditures increased to $26,796,634 in fiscal 2005, up $886,294 from fiscal 2004's level of $25,910,340.
- General Fund revenues of $10,366,365 represented an increase of $868,203 from fiscal 2004's revenues of $9,498,162.
- General Fund balance of $3,061,379 at June 30, 2005 was lower by $156,219 than fiscal 2004's fund balance of $3,217,598.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is in six parts:

1) Introductory section, which includes the Transmittal Letter and general information,
2) Management's Discussion and Analysis (this part),
3) The Basic Financial Statements, which include the Government-wide and the Fund financial statements, along with the Notes to these financial statements,
4) Required Supplemental Information,
5) Combining statements for Non-major Governmental Funds and Fiduciary Funds,
6) Statistical information.

D-120

The Basic Financial Statements

The Basic Financial Statements comprise the Citywide Financial Statements and the Fund Financial Statements. These two sets of financial statements provide two different views of the City's financial activities and financial position—long-term and short-term.

The Citywide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each the City's programs. The Statement of Activities explains in detail the change in Net Assets for the year.

The Citywide Financial Statements group all the City's activities into Government Activities and Business-type Activities, as explained below. All the amounts in the Statement of Net Assets and the Statement of Activities are separated into Governmental Activities and Business-type Activities in order to provide a summary of these two activities of the City as a whole.

The Fund Financial Statements report the City's operations in more detail than the Citywide statements and focus primarily on the short-term activities of the City's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures, current assets, liabilities and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the City and are presented individually, while the activities of Non-major Funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major Funds are explained below.

The City acts solely as a depository agent for various community groups and functions. The fiduciary statements provide information about the cash balances and activities of these functions. These statements are separate from, and their balances are excluded from, the City's financial statements.

Together, all these statements are now called the Basic Financial Statements; formerly they were called the general-purpose financial statements.

The Citywide Financial Statements

The Statement of Net Assets and the Statement of Activities present information about the following:

- ***Governmental activities***—All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, public works, culture-recreation, public improvements, planning and zoning, and general administration services. These services are supported by general City revenues such as taxes, and by specific program revenues such as developer fees.
- The City's governmental activities include the activities of a separate legal entity, the City of Pinole Redevelopment Agency, because the City is financially accountable for the Agency.
- ***Business-type activities***—The City's enterprise activity is reported in the wastewater fund. Unlike governmental services, this service is supported by charges paid by users based on the amount of the service they use.

Citywide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

Fund Financial Statements

Governmental Fund financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are presented only in the Citywide financial statements.

The Fund financial statements provide detailed information about each of the City's most significant funds, called Major Funds. The concept of major funds, and the determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Subordinate schedules present the detail of these Non-major Funds. Major Funds present the major activities of the City for the year. The General fund is always a Major Fund, but other funds may change from year to year as a result of changes in the pattern of City's activities.

The City has four Major Funds in 2005 in addition to the General Fund. These are the Public Works Capital Projects Fund, the Redevelopment Agency Projects Fund, Housing Set-Aside Fund and the Debt Service Fund, each of which is discussed in detail below.

Comparisons of Budget and Actual financial information are presented for the General Fund and the Housing Set-aside Special Revenue Fund.

Fiduciary Statements

The City is the agent for certain community organizations, for which it collects and disburses cash and maintains separate cash accounts. These fiduciary activities are reported in the separate Statements of Fiduciary Net Assets. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations.

D-121

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

The City's combined net assets changed from a year ago, increasing from $51,284,564 to $54,961,963, primarily as a result of changes in net assets used in Governmental Activities, as described in Table 1, below:

Table 1

Net Assets at June 30, 2005 (in millions)

	Governmental Activities			Business Activities			Total Government		
	2004	2005	Net Change	2004	2005	Net Change	2004	2005	Net Change
Cash and investments	$ 14.2	$ 38.5	$ 24.3	$ 0.4	$ 0.2	$ (0.2)	$ 14.6	$ 38.7	$ 24.1
Other assets	34.9	27.2	(7.7)	0.3	0.3		35.2	27.5	(7.7)
Capital assets	40.2	52.3	12.1	7.6	8.0	0.4	47.8	60.3	12.5
Total assets	89.4	118.0	28.6	8.3	8.5	0.2	97.6	126.5	28.9
Long-term debt outstanding	38.2	67.3	29.1				38.2	67.3	29.1
Other liabilities	7.8	3.6	(4.2)	0.4	0.6	0.2	8.2	4.2	(4.0)
Total liabilities	46.0	70.9	(24.9)	0.4	0.6	(0.2)	46.4	71.5	(25.1)
Net assets:									
Invested in capital assets, net of debt	16.8	52.3	35.5	7.6	8.0	0.4	24.4	60.3	35.9
Restricted	25.4	30.4	5.0				25.4	30.4	5.0
Unrestricted (deficit)	1.2	(35.7)	(36.9)	0.3	(0.1)	(0.4)	1.5	(35.8)	(37.3)
Total net assets	$43.4	$47.1	$ 3.7	$7.9	$7.9	$ -0-	$51.3	$54.9	$ 3.6

The net assets of the City's governmental activities increased by 8.5% percent, $47.1 million compared to $43.4 million. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased reflecting the net effects of increasing capital assets and debt borrowing. Restricted net assets, those restricted primarily for housing programs and redevelopment capital projects, increased significantly, as the increase in cash held at June 30, 2005 may only be used for redevelopment program activities.

The net assets of business-type activities remains unchanged from the prior year. Unrestricted net assets decreased by $391,810 reflecting a deficit fiscal condition for this program activity. This is a significant change that suggests that consideration for an increase in user rates may be necessary to sustain the operation of this activity. The City can only use these net assets for operations related to the collection, treatment and disposal of wastewater.

The following Financial Ratios can be used to assess the financial stability of the City over an extended period of time. The Ratios of Working Capital and Days Cash demonstrate the continuing ability to finance on-going operations. The strengthening of Working Capital on an entity wide and governmental basis reflects the effects of financing capital projects with borrowing (using Tax Allocation Bonds to construct redevelopment projects). Conversely the decrease in Working Capital for business-type activities suggests that this is an appropriate time to consider an increase in service charges rates currently used to finance this program activity. The continued decline in the Days Cash statistic for all activities signals a weakening of the City's overall financial condition, and continued reliance on a drawdown of cash reserves (accumulated in prior fiscal periods) to maintain service levels for current operations.

"Working Capital" is the amount by which current assets exceed current liabilities.

Working Capital	2002	2003	2004	2005
Entity Wide Summary	$ 25,325,833	$21,009,249	$ 41,562,909	$62,315,049
Governmental	$ 23,033,096	$10,879,906	$ 41,288,949	$62,072,895
Business-type	$ 2,292,737	$ 1,044,925	$ 273,960	$ (117,846)

"Days Cash" represents the number of days normal operations could continue with no revenue collection.

Days Cash	2002	2003	2004	2005
Entity Wide Summary	294	265	153	173
Governmental	288	290	175	197
Business-type	332	115	36	24

Governmental Activities

This analysis focuses on the net assets and changes in net assets of the City's Governmental Activities (Tables 2, 3 and 4), presented in the Citywide Statement of Net Assets and Statement of Activities that follow:

Table 2

Governmental Net Assets at June 30, 2005

	Governmental Activities		
	2004	2005	Net Change
Cash and investments	$ 14,172,244	$ 38,527,092	$ 24,354,848
Other assets	34,927,345	27,120,656	(7,806,689)
Capital assets	40,257,003	52,324,816	12,067,813
Total assets	89,356,592	117,972,564	28,615,972
Long-term debt outstanding	38,151,221	67,337,226	29,186,005
Other liabilities	7,810,640	3,574,853	(4,235,787)
Total liabilities	45,961,861	70,912,079	24,950,218
Net assets:			
Invested in capital assets, net of debt	16,769,905	52,324,816	35,554,911
Restricted	25,402,082	30,458,219	5,056,137
Unrestricted	1,222,744	(35,722,550)	(36,945,294)
Total net assets	$43,394,731	$ 47,060,485	$ 3,665,754

The City's net assets for Governmental Activities increased $3,665,754 in 2005. This increase is the Change in Net Assets reflected in the Statement of Activities shown in Table 2 and is explained below:

- Cash and investments increased $24,454,848 principally as a result of the sales of tax allocation bonds to support future redevelopment projects. Additionally, other assets decreased substantially ($7,806,689) as a result of re-evaluation of the collectibility of redevelopment loans as discussed in Section "M" of Note 5.

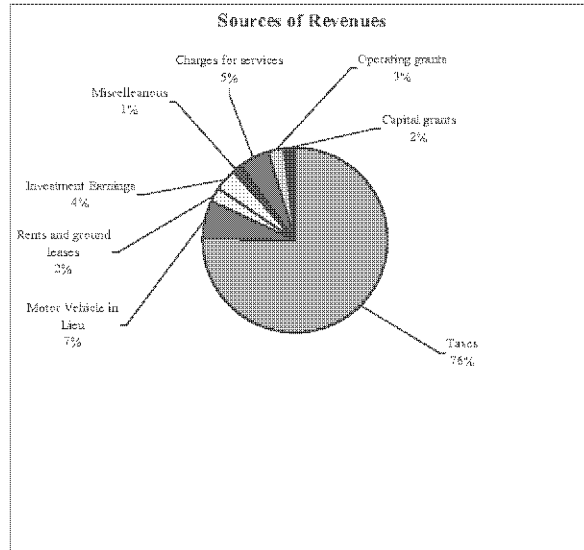
- Capital assets increased $12,067,813, reflecting valuation adjustments for infrastructure (public facilities) funded through redevelopment agency activities in prior fiscal periods (Notes 7 and 15).

- Long-term debt was increased by $29,186,005, primarily due to the issuance of new tax allocation bonds in the combined amount of $29,995,000 (September 2004).

- Other liabilities decreased by $4,235,787, reflecting the refinancing of a bank line of credit used for the construction redevelopment projects with part of the proceeds of the new long-term debt (tax allocation bonds, as described in Section "A" of Note 10).

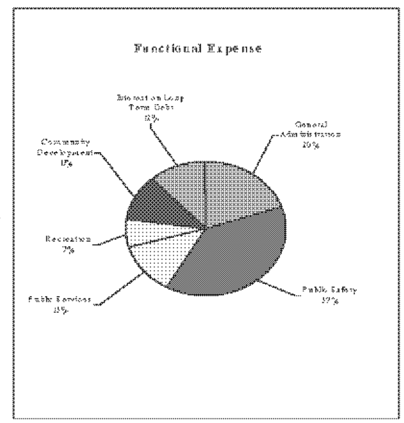
- Net assets increased $3,665,754 in 2005. Unrestricted net assets are reported in the amount of $(35,722,550).

Fiscal Year 2005 Government Activities
(See Table 2)



As the Sources of Revenue Chart shows, $17,351,108, or 76% of the City's fiscal 2005 revenue, came from taxes. Another $1,555,392 (7% of total) came from Motor Vehicle licensing fees. Charges for services accounted for $1,196,806 or 5% of revenues.

The Functional Expenses Chart includes only current year expenses, which are discussed in detail below. It does not include capital outlays, which are now added to the City's capital assets. In fiscal 2005, the City increased capital assets (net of depreciation) in the amount of $12,067,813. The composition of Fiscal 2005's adjustments is shown in detail at Table 5.



D-123

The Statement of Activities presents program revenues and expenses and general revenues in detail. All these are elements in the Changes in Governmental Net Assets summarized below.

Table 3

Changes in Governmental Net Assets

	Governmental Activities		
	2004	2005	Net Change
Expenses			
General Administration	$ 4,348,402	$ 4,663,893	$ 315,491
Public Safety	8,362,415	8,825,257	462,842
Public Services	4,802,292	2,969,542	(1,832,750)
Recreation	1,226,189	1,563,110	336,921
Community Development	1,213,177	2,646,277	1,433,100
Interest on Long Term Debt	2,017,494	2,720,659	703,165
Total expenses	21,969,969	23,388,738	1,418,769
Revenues			
Program revenues:			
Charges for services	2,976,652	1,196,806	(1,779,846)
Operating contributions and grants	1,020,066	672,689	(347,377)
Capital Grants	659,798	426,525	(233,273)
Total program revenues	4,656,516	2,296,020	(2,360,496)
General revenues:			
Taxes	14,418,400	17,351,108	2,932,708
Rents and ground leases	10,000	564,910	554,910
Motor Vehicle In Lieu	861,521	1,555,392	693,871
Investment Earnings	122,046	894,548	772,502
Miscellaneous	120,346	315,273	194,927
Transfers	188,677	75,000	(113,677)
Total general revenues	15,720,990	20,756,231	5,035,241
Total revenues	20,377,506	23,052,251	2,674,745
Change in net assets	$(1,592,463)	$ (336,487)	$(1,255,976)

Expenses increased $1,418,769 in fiscal 2005 due to the combined effect of a decreases in expenditures public services (primarily public works projects involving roadways and storm drainage), offset by increases in expenditures for all other governmental activities, primarily redevelopment programs. The

increase to public safety resulted from implementation of additional costs related enhanced retirement benefits for employees (reference Note 12).

Program revenues decreased $2,360,496 due to a decrease in grant funding for both capital projects and program operations. General revenues increased significantly reflecting collection of deferred tax revenues $1,207,389, as well as an increase in current year tax revenues resulting from increased property assessment values.

Table 4 presents the net cost of each of the City's largest programs—general administration; public safety; public services; recreation, community development and interest on long-term debt. Net cost is defined as total program cost less the revenues generated by those specific activities.

Table 4

Governmental Activities

	Net (Expense) Revenue From Services		Net Change
	2004	2005	(Incr)/Decr
General Administration	$ (3,003,907)	$ (4,663,893)	$ (1,659,986)
Public Safety	(7,061,574)	(8,026,317)	(964,743)
Public Services	(3,097,327)	(2,259,137)	838,190
Recreation	(963,027)	(803,134)	159,893
Community Development	(1,170,124)	(2,619,578)	(1,449,454)
Interest on Long Term Debt	(2,017,494)	(2,720,659)	(703,165)
Totals	$ (17,313,453)	$ (21,092,718)	$ (3,779,265)

Business-type Activities

The City's major Enterprise Fund is the Water Pollution Control Fund, which primarily accounts for the collection, treatment and disposal of wastewater generated by city residents and businesses. The focus on business-type funds is a cost of service measurement, including maintenance of capital (depreciation of assets used for the activity), which is reflected in the return on ending net assets reported in Table 5.

Table 5

Business-type Activities at June 30

	2002	2003	2004	2005
Total assets	$ 9,518,802	$ 9,064,798	$ 8,281,358	$ 8,483,386
Net assets	$ 9,113,949	$ 8,873,785	$ 7,889,833	$ 7,901,478
Change in Net Assets	$ 223,208	$ (240,163)	$ (983,952)	$ (539,355)
Return on Ending Total Assets	2.3%	-2.6%	-11.9%	-6.4%
Return on Ending Net Assets	2.4%	-2.7%	-12.5%	-6.8%

D-124

In June 1998, the City Council adopted Resolution Number 3157 that authorized a user service fee billing structure based on the concept of an equivalent residential dwelling unit, which provides for annual increases based on changes in the consumer price index. These user fees are collected by the Contra Costa County Tax Collector in addition to ad valorem tax and voter approved bond assessments. In 2005, charges were enrolled for 5,336 users in the amount of $1,614,201.

A decrease in net assets during 2005, in the amount of $539,355 demonstrates that the current user fees are not sufficient to sustain the operation of this program activity at current expenditure levels, and is inadequate to provide for the replacement of capital assets used in this activity over the long term.

Significant capital improvements (construction of a 4th Digester to accommodate increasing demands for additional treatment capacity combined with replacement of a substantial portion of the existing Force Main [Parker Avenue] used to convey treated effluent to the deep water outfall discharge) need to be built in the immediate future, which will necessitate long-term debt financing (in the form of a Revenue Bond issuance in 2006).

The City's Fund Financial Statements

Table 6 below summarizes activity and balances for Governmental funds:

Table 6

Financial Highlights Governmental Funds at June 30

	2004	2005	Net Change Incr(Decr)
Total assets	$ 52,384,388	$ 66,350,328	$ 13,965,940
Total liabilities	$ 22,137,363	$ 5,382,909	$ (16,754,454)
Total fund balances	$ 30,247,025	$ 60,967,419	$ 30,720,394
Total revenues	$ 21,505,280	$ 27,779,696	$ 6,274,416
Total expenditures	$ 25,910,340	$ 26,796,634	$ 886,294
Total other financing sources (uses)	$ 4,322,700	$ 30,014,280	$ 25,691,580

At June 30, 2005, the City's governmental funds reported combined fund balances of $60,967,419, which is an increase of $30,720,394 compared with last year. Fund Balances for the General, Public Works Capital Projects and Non-major governmental funds decreased in total by $(1,536,465), reflecting the use of reserves and carryover appropriations to complete operating and capital projects during 2005. In contrast the Fund Balance reported for Debt Service, Redevelopment Project and Housing Program funds increased substantially ($32,535,807) resulting from the funding of new tax allocation bonds in September 2004 (as described in Note 10). As of June 30, 2005 a substantial portion of the cash resulting from the bond sale was still available for expenditure on redevelopment projects in future fiscal periods.

Revenues at the fund level increased $6,274,416 this year to a new total of $27,779,696, primarily as a result of repayment of a portion of a redevelopment loan used for construction of the Downtown Partners project in the previous fiscal period. Expenditures increased $886,294 in fiscal 2005 to a total of $26,796,634. General Fund expenditures increased $722,084, Public Works Capital Projects Fund expenditures increased $691,192, and Debt Service Fund expenditures increased by $87,540. These increases were offset by a decrease in Redevelopment Project and Housing Set Aside expenditures of $806,163. Expenditure in non-major governmental funds increased $191,641.

Analysis of Major Governmental Funds

General Fund

General Fund revenues increased $868,203 this fiscal year. Taxes and assessments increased $865,001 and other General Fund revenues increased by $3,202.

There was growth in all sources of tax revenue as compared to the prior year. An authorization for extension (until 2012) of Utility User taxes was granted by voters in November of 2004, and collections for 2005 increased by $43,093. Sales Taxes increased in the amount of $163,002.

Investment earnings decreased substantially due to an overall reduction in General Fund resources of approximately $1,000,000. The City invests its excess cash in the California Local Agency Investment Fund. In fiscal 2005, LAIF's rates have steadily improved with increases in the Federal funds borrowing rate and overall fixed income market.

General Fund expenditures increased $722,084, primarily as the result of an increase in Public Safety expenditures. Public Safety costs increased due to increased cost of funding the safety retirement program enhancement for the 3% @ 55 benefit. Net transfers out of the General Fund decreased in fiscal 2005 due to reduced subsidies to Youth, Senior, Recreation and Cable Television programs.

The final expenditures for the General Fund at year-end were $426,418 less than the final budget. Due to the ongoing fiscal uncertainty in the State budget the departments have been asked to "hold the line" and where possible to reduce spending. The actual expenditures to final budget came in being 3.8% below budget. Actual revenues compared favorably to the final budget, with a 1.3% excess to the revised revenue forecast. Budget amendments and supplemental appropriations were made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures after adoption of the original budget. The significant adjustments for increases in salary and benefits (both health insurance and retirement contribution expenses) per negotiated labor contracts and an increase in equipment for a new data based system in the police department.

At June 30, 2005, the General Fund Balance comprised $3,061,379.

Public Works Capital Projects Fund

This Fund accounts for the acquisition and construction of major capital assets not constructed by the Redevelopment Agency. Fiscal 2005 projects and expenditures included, construction activities (new soccer playing field) at Pinole Valley Park and renovation of Meadow Park (both projects have been completed). Expenditures were $956,697 for fiscal 2005. Net transfers in for 2005 decreased significantly from the prior year which included partial ($395,000) funding of the Meadow Park renovation project from bond proceeds (2003A Issue) received from the Pinole Redevelopment Agency.

Redevelopment Agency Project Fund

The Redevelopment Agency Fund accounts for capital improvement projects and loans to developers in the Agency's project areas.

The Agency made new loans in the amount of $403,443 to local businesses to assist them in rehabilitating their properties and in construction funding. These loans are secured by second deeds of trust on the respective properties and are interest bearing.

Property tax revenues of the Fund were $6,026,573 in fiscal 2005, up $369,070 from fiscal 2004, as assessed valuations rose in fiscal 2005. Investment earnings and rent increased $232,248 (interest earnings on inactive funds increased by $452,026 offset a reduction in ground lease payments of $219,778).

Agency expenditures decreased to $7,096,566 in fiscal 2005, down from $8,865,598 in fiscal 2004, primarily due to less construction activity on Agency projects, as compared to the previous year. We should see an increase in activity for the Agency as projects related to the development of a medical service complex located along Pinole Valley Road and a new light industrial business park (located on San Pablo Avenue) progress.

Housing Set Aside Fund

This Fund accounts for the portion of Redevelopment Agency property tax increment required under California law to be set aside to fund low and moderate-income housing expenditures. The City's residential and 1st time homebuyer loan programs for low and moderate-income residents and similar loans to non-profit corporations developing such housing are accounted for in this Fund (further details on these programs may be found in Note 5). In this Fund, new loans are accounted for as expenditures and repayments on loans are accounted for as revenues.

Principal payments and in many cases interest payments are deferred on these low and moderate income loans until the property is sold or re-financed, and are not considered revenues until they are received. Principal and interest on loans to non-profit developers of such properties typically are at below-market rates and payments are deferred for considerable periods of years to assist these non-profit organizations in their efforts to develop such housing. All these loans are secured by deeds of trust on the underlying property, and if the facilities constructed with these loans are not used for the purposes intended, the loans become due and payable immediately.

Expenditures increased in fiscal 2005 because of construction activities related to the development of the Heritage Park project (a mixed use housing and public facility project). Revenues in fiscal 2005 were $5,850,746, $3,403,120 more than fiscal 2004, reflecting a one-time increase in loan repayments related to refinancing of the Downtown partners Project, and collection of deferred tax increment ($1,207,398). The balance of outstanding loans is recorded as a receivable, with an offsetting credit for that portion of the loans that have subordination provisions resulting in extended deferral of debt payments. At end of fiscal 2005, the outstanding balances of such loans were $27,072,038 (receivables are split between this fund and the project fund), against which a subordination allowance of $24,245,787 was established. This is a significant change (from prior years) in the accounting treatment for these assets.

The Fund's fiscal year end fund balance of $7,637,081 is committed to fund future low and moderate-income housing expenditures.

Debt Service Fund

This Fund accounts for payments of principal and interest on the City's Tax Allocation Bonds. These Bonds were issued by the Redevelopment Agency to finance improvements in blighted areas in the Agency's project areas, and are serviced our of property tax increments received by the Agency. Financial resources are transferred into the Fund from the Agency funds collecting those increments in sufficient amounts to service this debt. The reserves required under the Tax allocation Bond indentures are also accounted for in this Fund.

In fiscal 2005, $1,605,000 in principal and $2,068,572 in interest and fiscal charges were paid out of this Fund to service these Bonds. Transfers of $3,406,222 into the Fund provided the resources for these payments. The Fund ended fiscal 2005 with $6,145,633 in fund balance, $4,994,563 more than fiscal 2004, reflecting additional reserve accounts held by the Agency's trustee, pursuant to the indenture agreements of the 2004 series bonds. Proceeds of the new debt directed in debt service reserve accounts from the 2004 debt issuances were $5,163,615.

Other Governmental Funds

These funds are not presented separately in the Basic Financial statements, but are presented individually as Supplemental Information.

Proprietary Fund

Wastewater Utility

Net assets of the Wastewater Utility Fund decreased $539,355 in the current year to a total of $7,901,478. Operating income for the current year was $3,227,371, as revenues increased $28,370 while expenses decreased $307,446, to a total of $3,693,603. Investment earnings were down $4,896 with transfers out decreasing by $113,677.

The Fund's Net Assets comprised $8,019,324 invested in capital assets and $(117,846) in unrestricted net assets at June 30, 2005. The continued decline in unrestricted net asset value and the fact that this value has become negative indicate that this is an appropriate time to consider an increase in the service charge rates currently imposed by the City.

CAPITAL ASSETS

GASB 34 requires the City to record all its capital assets including infrastructure, which was not recorded prior to implementation of GASB 34. Infrastructure includes roads, bridges, signals and similar assets used by the entire population. GASB 34 also allowed the City four years to finalize all its infrastructure asset values in its financial statements.

In fiscal 2002, the City recorded the cost of those infrastructure assets listed below, and computed the amount of accumulated depreciation for all its capital assets.

At the end of fiscal 2005 the cost of infrastructure and other capital assets recorded on the City's financial statements was as shown in Table 7 below:

Table 7

Capital Assets at Year-end

	2004	2005	Net Change
Governmental Activities			
Land	$ 5,557,090	$ 9,360,429	$ 3,803,339
Buildings & Improvements	11,811,815	22,183,667	10,371,852
Equipment	3,128,209	3,303,448	175,239
Vehicles	1,498,906	1,877,851	378,945
Streets & Roads	45,383,482	46,288,225	904,743
Storm Drains	2,569,287	2,569,287	0
Bridges	3,117,473	3,117,473	0
Parks	2,134,154	2,192,701	58,547
Less accumulated depreciation	(34,943,413)	(38,568,265)	(3,624,852)
Totals	$ 40,257,003	$ 52,324,816	$ 12,067,813

Business-type activities			
Construction in Progress	$ -0-	$ 169,000	$ 169,000
Sewer Lines	5,288,820	5,753,820	465,000
Buildings & Improvements	7,272,665	7,542,274	269,609
Equipment	3,635,650	3,743,361	107,711
Parks	0	86,000	86,000
Less accumulated depreciation	(8,581,262)	(9,275,131)	(693,869)
Totals	$ 7,615,873	$ 8,019,324	$ 403,451

This year City staff again reviewed previous estimates for value for the infrastructure components of the assets related to streets, roadways, storm drains and parks, and has made the final adjustments needed to appropriately reflect replacement values and the economic utility of those assets.

The City depreciates all its capital assets over their estimated useful lives, as required by GASB 34. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on capital assets and depreciable lives may be found in Notes 1 and 7.

DEBT ADMINISTRATION

Each of the City's debt issues is discussed in detail in Note 10 to the financial statements. At June 30, the City's debt comprised six Tax Allocation bond issues with interest rates ranging from 2.0% to 6.75%, all secured by property tax increment revenues. During 2005, an additional $884,898 was drawn on the bank loan on the Pinole Valley shopping center project, and two new tax allocation bond series (2004A and 2004B) were issued, in the combined amount of $29,995,000, primarily for the financing of new redevelopment projects. At fiscal 2005 the City's debt comprised:

Table 8

Outstanding Debt

Governmental Activity Debt:	Balance June 30, 2004	Balance June 30, 2005	Net Change
Tax Allocation bonds	$ 33,835,000	$ 62,225,000	$ 28,390,000
Mortgage payable	1,343,812	1,254,919	(88,893)
Loans payable	2,972,409	3,857,307	884,898
Total Debt	$ 38,151,221	$ 67,337,226	$ 29,186,005

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The economy of the City and its major initiatives for the coming year are discussed in detail in the accompanying Transmittal Letter.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this Report should be directed to the Finance Department, at 2131 Pear Street, Pinole, CA 94564.

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The Statement of Net Assets and the Statement of Activities summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all of the City's transactions are taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the City's governmental activities in a single column, and the financial position of all the City's business-type activities in a single column, these are followed by a total column which presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. The City's Business-Type Activities include all its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's net assets. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities differs considerably from those used in the past. It presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues - that is, revenues which are generated directly by these programs - are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The City's general revenues are then listed in the governmental activities or business-type column, as appropriate, and the change in net assets is computed and reconciled with the Statement of Net Assets.

Both these Statements include the financial activities of the City, the City of Pinole Redevelopment Agency, and the Pinole Joint Powers Financing Authority which are legally separate but are component units of the City because they are controlled by the City, which is financially accountable for their activities.

These financial statements along with the fund financial statements and the footnotes are called Basic Financial Statements; the term General Purpose Financial Statements is no longer used.

CITY OF PINOLE
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments (Note 3)	$ 12,615,652	$ 241,218	$ 12,856,870
Cash and investments with fiscal agents (Note 3)	25,911,440	-	25,911,440
Receivables:			
Accounts	594,449	195,167	789,616
Interest	67,409	1,041	68,450
Notes and loans, net of allowance of $24,245,787 (Note 5)	2,826,251	-	2,826,251
Prepaid expenses	1,331,903	5,595	1,337,498
Internal balances (Note 4)	(21,041)	21,041	-
Land held for redevelopment (Note 6)	22,321,685	-	22,321,685
Capital assets (Note 7)			
Land, improvements and construction in progress	9,360,429	169,000	9,529,429
Other capital assets, net of depreciation	42,964,387	7,850,324	50,814,711
Total capital assets	52,324,816	8,019,324	60,344,140
Total Assets	$ 117,972,564	$ 8,483,386	$ 126,455,950
LIABILITIES			
Accounts payable and accrued liabilities	$ 1,215,271	$ 502,390	$ 1,717,661
Accrued interest	1,196,912	-	1,196,912
Deposits	14,150	-	14,150
Accrued compensated absences (Note 1)	613,101	79,518	692,619
Claims payable (Note 13)	102,563	-	102,563
Mortgage notes on land held for redevelopment (Note 9)			
Due within one year	85,789	-	85,789
Due in more than one year	347,067	-	347,067
Long-term debt (Note 10):			
Due within one year	2,260,240	-	2,260,240
Due in more than one year	65,076,986	-	65,076,986
Total Liabilities	70,912,079	581,908	71,493,987
NET ASSETS			
Invested in capital assets, net of related debt	52,324,816	8,019,324	60,344,140
Restricted for:			
Debt service	4,645,050	-	4,645,050
Housing projects	5,592,685	-	5,592,685
Redevelopment activities	20,220,484	-	20,220,484
Unrestricted	(35,722,550)	(117,846)	(35,840,396)
Total Net Assets	47,060,485	7,901,478	54,961,963
Total Liabilities and Net Assets	$ 117,972,564	$ 8,483,386	$ 126,455,950

See accompanying notes to the basic financial statements

CITY OF PINOLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets – Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets – Primary Government: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
PRIMARY GOVERNMENT							
Governmental activities:							
General government	$ 4,663,893	$ -	$ -	$ -	$ (4,663,893)	$ -	$ (4,663,893)
Public safety	8,825,257	718,947	79,993	-	(8,026,317)	-	(8,026,317)
Public services	2,969,542	117,709	592,696	-	(2,259,137)	-	(2,259,137)
Recreation	1,563,110	333,451	-	426,525	(803,134)	-	(803,134)
Community development	2,646,277	26,699	-	-	(2,619,578)	-	(2,619,578)
Interest and fiscal charges	2,720,659	-	-	-	(2,720,659)	-	(2,720,659)
Total governmental activities	23,388,738	1,196,806	672,689	426,525	(21,092,718)	-	(21,092,718)
Business-type activities:							
Wastewater utility	3,693,603	3,227,371	-	-	-	(466,232)	(466,232)
Total business-type activities	3,693,603	3,227,371	-	-	-	(466,232)	(466,232)
Total primary government	$ 27,082,341	$ 4,424,177	$ 672,689	$ 426,525	$ (21,092,718)	$ (466,232)	$ (21,558,950)
General revenues:							
Taxes					$ 17,351,108	$ -	$ 17,351,108
Motor vehicle in lieu					1,555,392	-	1,555,392
Rents and ground leases					564,910	-	564,910
Investment earnings					894,548	-	894,548
Miscellaneous					370,993	1,877	372,870
Sale of property					(55,720)	-	(55,720)
Transfers (Note 4)					75,000	(75,000)	-
Total general revenues and transfers					20,756,231	(73,123)	20,683,108
Change in net assets					(336,487)	(539,355)	(875,842)
Net assets - beginning					43,394,731	7,889,833	51,284,564
Prior period restatement (Note 15)					4,002,241	551,000	4,553,241
Net assets - beginning, restated					47,396,972	8,440,833	55,837,805
Net assets - ending					$ 47,060,485	$ 7,901,478	$ 54,961,963

See accompanying notes to the basic financial statements.

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D-129

GOVERNMENTAL FUND FINANCIAL STATEMENTS

GASB 34 revised the format of the Fund Financial Statements so that only individual major funds are presented, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between fund types and the practice of combining like funds and presenting their totals in separate columns (Combined Financial Statements) has been discontinued, along with the use of the General Fixed Assets and General Long-term Debt Account Groups.

The funds described below were determined to be major governmental funds by the City for fiscal 2005. Individual non-major funds may be found in the Supplemental Section.

General Fund

The General Fund is used for all the general revenues of the City not specifically levied or collected for other City funds, and the related expenditures. The major revenue sources for this fund are property taxes, sales taxes, utility users tax, franchise fees, business licenses, unrestricted revenues from the State, fines and forfeitures and interest income. Expenditures are made for public safety, recreation, and the other services described above.

Public Works Capital Projects Fund

This fund is used to account for major capital improvement projects under City management.

Redevelopment Agency

This fund is used to account for major capital improvement projects under the management of the City's Redevelopment Agency.

Housing Set-Aside Fund

This special revenue fund receives tax increment funds through Redevelopment activity, representing 20% set-aside for housing activities, funds are expended for approved housing activities.

Debt Service

The Debt Service Fund is used to account for the payment of interest and principal on the general long-term debt of the City and related entities.

CITY OF PINOLE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General Fund	Public Works Capital Projects Fund	Redevelopment Agency Projects Fund	Housing Set-Aside	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and investments	$ 3,238,723	$ 739,110	$ 2,572,306	$ 2,436,334	$ 174,998	$ 3,454,161	$ 12,615,652
Cash and investments with fiscal agents	-	18,821	18,867,922	2,579,647	4,645,050	-	25,911,440
Receivables:							
Accounts	485,892	-	50,000	-	-	58,557	594,449
Interest	21,986	-	16,786	19,341	-	9,296	67,409
Notes and loans	-	-	2,287,593	538,658	-	-	2,826,251
Due from other funds	-	-	-	681,539	-	-	681,539
Prepaid expenses and supplies	5,991	-	-	-	1,325,785	127	1,331,903
Land held for redevelopment	-	-	20,277,289	2,044,396	-	-	22,321,685
Total Assets	$ 3,752,592	$ 757,931	$ 43,871,896	$ 8,299,915	$ 6,145,833	$ 3,522,161	$ 66,350,328
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Accounts payable and accrued liabilities	$ 561,024	$ 7,606	$ 355,741	$ 121,947	$ -	$ 168,953	$ 1,215,271
Accrued interest	-	-	27,315	-	-	-	27,315
Mortgage notes on land held for redevelopment	-	-	432,856	-	-	-	432,856
Deferred revenue	-	-	2,287,593	538,658	-	-	2,826,251
Deposits payable	-	-	3,000	-	-	11,150	14,150
Due to other funds	-	-	681,539	-	-	21,041	702,580
Accrued compensated absences	130,189	-	18,935	2,229	-	13,133	164,486
Total liabilities	691,213	7,606	3,806,979	662,834	-	214,277	5,382,909
FUND BALANCES							
Reserved for:							
Debt service	-	-	-	-	6,145,833	-	6,145,833
Land held for redevelopment net of related mortgages	-	-	19,844,433	2,044,396	-	-	21,888,829
Unreserved: Designated for:							
Capital projects	-	750,325	20,220,484	-	-	-	20,970,809
Unreserved: Undesignated	3,061,379	-	-	5,592,685	-	-	8,654,064
Unreserved: Reported in nonmajor:							
Special revenue funds	-	-	-	-	-	3,307,884	3,307,884
Total fund balances	3,061,379	750,325	40,064,917	7,637,081	6,145,833	3,307,884	60,967,419
Total liabilities and fund balances	$ 3,752,592	$ 757,931	$ 43,871,896	$ 8,299,915	$ 6,145,833	$ 3,522,161	

Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of $38,568,265	52,324,816
Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities	2,826,251
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bonds payable	(52,225,000)
Loans and mortgages payable	(5,112,226)
Accrued interest	(1,169,597)
Compensated absences	(448,615)
Claims payable	(102,583)
Net assets of governmental activities	$ 47,060,485

See accompanying notes to the basic financial statements.

CITY OF PINOLE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	Public Works Capital Projects Fund	Redevelopment Agency Projects Fund	Housing Set-Aside	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES							
Taxes and assessments	$ 7,786,714	$ -	$ 6,026,573	$ 1,506,643	$ -	$ 823,789	$ 16,143,719
Low and moderate housing deferred tax increment	-	-	-	1,207,389	-	-	1,207,389
Intergovernmental	1,600,430	215,402	-	-	-	412,250	2,228,082
Loan repayments	-	-	1,703,626	3,043,098	-	-	4,746,724
Contributions	-	-	387,056	-	-	39,469	426,525
Investment earnings	103,224	-	468,507	93,616	179,086	50,115	894,548
Rents and ground leases	72,188	12,000	434,809	-	-	45,913	564,910
Charges for service	593,205	-	4,436	-	-	599,165	1,196,806
Fines, forfeitures and penalties	115,795	-	-	-	-	131	115,926
Other revenues	94,808	8,000	66,133	-	-	86,126	255,067
Total Revenues	10,366,365	235,402	9,091,139	5,850,746	179,086	2,056,958	27,779,696
EXPENDITURES							
Current operations							
General administration	2,069,236	17,216	4,132,029	747,471	80,788	-	7,046,740
Public safety	7,862,905	-	-	-	-	451,860	8,314,765
Public services	445,919	-	448,732	-	-	797,360	1,692,011
Recreation	18,954	-	309,609	-	-	955,361	1,283,924
Community development	169,772	-	1,290,801	881,479	-	277,035	2,619,087
Debt service:							
Principal	-	-	28,991	-	1,605,000	-	1,633,991
Interest and fiscal charges	-	-	154,471	44,568	2,068,572	-	2,267,611
Capital outlay	151,087	949,481	731,933	-	-	106,004	1,938,505
Total Expenditures	10,717,873	966,697	7,096,566	1,673,518	3,754,360	2,587,620	26,796,634
Excess (deficiency) of revenues over expenditures	(351,508)	(731,295)	1,994,573	4,177,228	(3,575,274)	(530,662)	983,062
OTHER FINANCING SOURCES (USES)							
Proceeds on bond refinancing	-	-	22,499,518	2,331,867	5,163,615	-	29,995,000
Gain on sale of property	-	-	(55,720)	-	-	-	(55,720)
Transfers in	495,000	159,100	436	341,440	3,406,222	299,711	4,701,909
Transfers out	(299,711)	-	(2,517,662)	(1,230,436)	-	(579,100)	(4,626,909)
Total other financing sources (uses)	195,289	159,100	19,926,572	1,442,871	8,569,837	(279,389)	30,014,280
Net change in fund balance	(156,219)	(572,195)	21,921,145	5,620,099	4,994,563	(810,051)	30,997,342
Fund balances, beginning	3,217,598	1,322,520	18,520,095	2,016,982	1,151,270	4,018,559	30,247,024
Prior period adjustment (Note 15)	-	-	(376,323)	-	-	99,376	(276,947)
Fund balances - beginning (restated)	3,217,598	1,322,520	18,143,772	2,016,982	1,151,270	4,117,935	29,970,077
Fund balances - ending	$ 3,061,379	$ 750,325	$ 40,064,917	$ 7,637,081	$ 6,145,833	$ 3,307,884	$ 60,967,419

CITY OF PINOLE
RECONCILIATION OF THE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

Reconciliation of the change in fund balances - total governmental funds to the change in net assets of governmental activities:

Net change in fund balances - total governmental funds	$ 30,997,342
Governmental funds report capital outlays as expenditures while governmental activities report depreciation as expense to allocate those expenditures over the life of the assets:	
Capital asset purchases capitalized	1,938,145
Depreciation expense	(2,440,386)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	
Bond principal payments	1,605,000
Loan and mortgage payments	28,991
Proceeds from debt issues are an other financing source in governmental funds, but an increase in long-term liabilities in the Statement of Net Assets	
Proceeds from bond issuances	(29,995,000)
Receipts of payments and disbursements of funds related to notes and loans receivable are reported as revenues and expenditures, respectively, in governmental funds, but an increase and decrease, respectively, in notes receivable in the Statement of Net Assets	
Loan program receipts	(4,746,724)
Loans made during the year	2,696,423
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Accrued compensated absences	(39,070)
Claims payable	71,840
Accrued interest	(453,048)
Change in net assets of governmental activities	$ (336,487)

PROPRIETARY FUND FINANCIAL STATEMENTS

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges

The concept of major funds established by GASB Statement No. 34 extends to proprietary funds. The City has only one proprietary fund, the Wastewater Utility Fund, which is presented as a major fund and is described below

GASB 34 does not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds

Wastewater Utility Fund

This fund accounts for wastewater utility services provided by the City and it is the City's intent that the cost of providing these services be financed primarily through user charges

CITY OF PINOLE
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

	Business-type Activities Wastewater Utility Enterprise Fund
ASSETS	
Current Assets	
Cash and investments	$ 241,218
Receivables:	
Accounts	195,167
Interest	1,041
Due from other funds (Note 4)	21,041
Prepaids and supplies	5,595
Total Current Assets	464,062
Fixed assets	
Construction in progress	169,000
Sewer lines	5,753,820
Buildings and improvements	7,628,274
Machinery and equipment	3,743,351
Less: Accumulated depreciation	(9,275,121)
Total Fixed Assets	8,019,324
Total Assets	8,483,386
LIABILITIES	
Current liabilities	
Accounts payable	502,390
Accrued compensated absences (Note)	79,518
Total Current Liabilities	581,908
NET ASSETS:	
Invested in capital assets	8,019,324
Unrestricted	(117,846)
Total Net Assets	$ 7,901,478

See accompanying notes to the basic financial statements

D-132

CITY OF PINOLE
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2005

		Business-type Activities Wastewater Utility Enterprise Fund
OPERATING REVENUES		
Charges for services	$	3,223,171
Other		4,200
Total Operating Revenue		3,227,371
OPERATING EXPENSES		
Sewer treatment plant		2,650,356
Sewer maintenance		349,378
Depreciation and amortization		693,869
Total Operating Expenses		3,693,603
Operating Income (Loss)		(466,232)
NON-OPERATING REVENUES		
Investment earnings		1,877
Loss Before Contributions and Transfers		(464,355)
TRANSFERS IN		-
TRANSFERS OUT		(75,000)
Change in net assets		(539,355)
Total Net Assets - Beginning of Year		7,889,833
Prior Period Adjustment		551,000
Total Net Assets - Beginning of Year, Restated		8,440,833
Total Net Assets - End of Year	$	7,901,478

See accompanying notes to the basic financial statements

CITY OF PINOLE
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2005

		Business-type Activities Wastewater Utility Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$	3,276,290
Cash paid to suppliers		(1,949,205)
Cash paid to employees		(862,207)
Net Cash Provided (Used) by Operating Activities		464,878
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers (out)		(75,000)
Net Cash Provided (Used) for Noncapital Financing Activities		(75,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets, net		(546,310)
Net Cash Provided (Used) for Capital and Related Financing Activities		(546,310)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends		2,565
Net Cash Provided (Used) by Investing Activities		2,565
Net Increase (Decrease) in Cash and Cash Equivalents		(153,867)
Cash and Cash Equivalents at Beginning of Year		395,085
Cash and Cash Equivalents at End of Year	$	241,218

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating Income (Loss)	$	(466,232)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation Expense		693,869
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable		48,919
(Increase) Decrease in prepaid expenses		(2,061)
Increase (Decrease) in accounts payable		182,893
Increase (Decrease) in compensated absences		7,490
Net Cash Provided (Used) by Operating Activities	$	464,878

See accompanying notes to the basic financial statements

FIDUCIARY FUND FINANCIAL STATEMENTS

These funds account for assets held by the City as an agent for various community groups and functions. The financial activities of these funds are excluded from the Government-wide Financial Statements, but are presented in the separate Fiduciary Fund financial statements.

CITY OF PINOLE
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

		Agency Funds
ASSETS		
Restricted cash and investments (Note 3)	$	115,068
Accrued interest receivable		352
Total Assets	$	115,420
LIABILITIES		
Accounts payable	$	344
Deposits in trust		115,076
Total Liabilities	$	115,420

See accompanying notes to the basic financial statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Pinole was incorporated June 25, 1903. The City is primarily a residential community located in Contra Costa County, twenty-four miles east of San Francisco on Interstate 80. The City provides the following services: public safety (police and fire), parks, streets and highways, sanitation and health services, culture-recreation, public improvements, planning and zoning, and general administration services. The City's population has remained relatively stable for some years; population at June 30, 2005 was 19,604.

The City operates under the Council-Manager form of government, with five elected Council members served by a full-time City Manager and staff. At June 30, 2005 the City's staff comprised 123 full time and 15 part time employees who were responsible for the following City-provided services.

Public Safety - the City employees 29 sworn and 20 unsworn police personnel to provide round-the-clock police services from a central station, and 20 personnel to provide round-the-clock fire services from a central station.

Sanitation and Health Service - The City maintains a sewage treatment plant with 12 employees, the plant provides wastewater treatment services to the residents of the City of Pinole and the City of Hercules.

Parks, Streets and Highways - The City builds and maintains its streets, curbs, gutters, parks and related public property with a force of 17 employees. Major projects may be contracted out to reduce costs.

Recreation, Public Improvements, Planning, Zoning, Administration - and other services are provided by a total of 40 employees.

A. The Reporting Entity

The accompanying basic financial statements present the financial activity of the City along with the financial activities of its blended component units, which are entities for which the City is financially accountable. Together these entities comprise the primary government for reporting purposes. Although they are separate legal entities, ***blended*** component units are in substance part of the City's operations and are reported as an integral part of the City's financial statements. The City's component units, which are described below, are all blended.

D-134

The Pinole Redevelopment Agency (Agency) is a separate government entity whose purpose is to prepare and implement plans for improvement, rehabilitation, and development of certain areas within the City. The Agency is controlled by the City and has the same governing board as the City, which also performs all accounting and administrative functions for the Agency. The financial activities of the Agency have been included in these financial statements in the Housing Set Aside Special Revenue Fund, Redevelopment Agency Capital Projects Fund and Debt Service Fund.

Audited financial statements for the Agency may be obtained from the City of Pinole, 2131 Pear Street, Pinole CA 94564.

The Pinole Joint Powers Financing Authority (Authority) is a separate government entity whose purpose is to assist with the financing or refinancing of public capital facilities within the City. The Authority has the power to purchase bonds issued by any local agency and may sell such bonds to public or private purchasers. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Authority. The financial activities of the Authority are included in the Redevelopment Capital Projects Fund.

B. Basis of Presentation

The City's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These statements require that the financial statements described below be presented.

Government-wide Financial Statements:

The statement of net assets and statement of activities display information about the reporting government as a whole. They include the activities of the overall City government except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between governmental and business-type activities of the City. The City's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories with each major fund displayed in a separate column. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and

b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

All remaining governmental funds are aggregated and reported as nonmajor funds in a single column, regardless of their fund type.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Fund - Debt Service Funds are used to account for the accumulation of financial resources for the payment of interest and principle on the general long-term debt of the City other than debt service payments made by enterprise funds.

Capital Project Fund - Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities other than those financed by enterprise funds.

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Fiduciary Funds (not included in government-wide statements)

Agency Fund - Agency Funds are clearing type funds for the collection of taxes or deposits held in trust, on behalf of individuals, private organizations and other governments. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Major Funds

The City reported the following major governmental funds in the accompanying financial statements.

General Fund - This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Public Works Capital Projects Fund - This fund is used to account for major capital improvement projects under City Management.

Redevelopment Agency - This fund is used to account for major capital improvement projects under the management of the City's Redevelopment Agency.

Housing Set-Aside Fund - This fund receives tax increment funds through Redevelopment activity, representing 20% set-aside for housing activities; funds are expended for approved housing activities

Debt Service - The Debt Service Fund is used to account for the payment of interest and principal on the governmental long-term debt of the City and related entities.

The City has one enterprise fund, the ***Wastewater Utility Fund,*** which is a major fund. This fund is used to account for the collection of sewer service fees and the related cost of maintenance and repair of the sewer treatment plant.

The City also reports the following fund type.

Fiduciary Funds - These funds account for the assets held by the City as an agent for various community groups and functions. The financial activities of these funds are excluded from the government-wide financial statements, but are presented in the separate fiduciary fund financial statements

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

a. All Governmental Funds are accounted for using a "current financial resources" measurement focus. With this measurement focus, only current assets and current liabilities generally are included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period These funds use fund balance as their measure of available spendable financial resources at the end of the period.

b. All Proprietary Funds utilize an "economic resources" measurement focus The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and all liabilities (whether current or noncurrent) associated with the operation of these funds are reported. Proprietary fund equity is classified as net assets.

c Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities The City defines available to be within 60 days of year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due. Governmental capital asset acquisitions are reported as expenditures in governmental funds. Proceeds for governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

Those revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues Thus, both restricted and unrestricted net assets are available to finance program expenditures The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities

The City follows Statements and Interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, which do not conflict with Government Accounting Standards Board Pronouncements.

Non-exchange transactions, in which the City gives or receives value with out directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Property tax revenue is recognized in the fiscal year for which the tax and assessment is levied. The County of Contra Cost levies, bills and collects property taxes and special assessments for the City, under the County's "Teeter Plan" the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1.

Secured property tax is due in two installments, on November 1 and February 1, becomes a lien on those dates and becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used

D. Cash and Investments

The City maintains a cash and investments pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as cash and investments. Investments held at June 30, 2005 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year end. All investments not required to be stated at fair value are stated at cost or amortized cost

For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments with a maturity of three months or less and pooled cash when purchased to be cash equivalents.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Accounts and Interest Receivable

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Receivables are recorded in the financial statements net of any allowance for doubtful accounts. Any doubtful accounts at June 30, 2005, were not considered material. Major receivable balances for the governmental activities include sales and use taxes, franchise taxes, grants, police fines and other fees. Business-type activities report utilities and interest earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and interest earnings compose the majority of proprietary fund receivables. Any doubtful accounts at June 30, 2005, were not considered material.

F. Prepaid Expenses and Supplies

Supplies are valued at cost. Supplies of the General Fund consist of expendable supplies held for consumption. The cost is recorded as an expenditure in the General Fund at the time individual items are consumed. Reported General Fund prepaid supplies are equally offset by a fund balance reserve which indicates that they do not constitute available spendable resources even through they are a component of net current assets. Enterprise Fund supplies consist primarily of items held for internal use.

Capitalized bond costs related to the 2004 A and B Bond issuances have been recorded as prepaid expenses in the amount of $1,325,785. The balance is amortized using the straight line method over the bond terms which range from 17 to 20 years. Amortization expense for bond costs for the year ended June 30, 2005 was $72,642.

G. Fixed Assets

The accounting treatment over property, plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statement, fixed assets with an historical cost over $1,000 are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets.

With the implementation of GASB Statement 34, the City has recorded all its public domain (infrastructure) capital assets, which include streets, bridges, roads, storm drains, and parks.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	50 years
Equipment	5-10 years
Vehicles	5-10 years
Streets and roads	50 years
Bridges	75 years
Street drainage	100 years
Parks	70 years
Wastewater infrastructure	50 years

D-136

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

H. Accumulated Compensated Absences

Compensated absences comprise unused vacation leave and compensatory time off, which are accrued as earned. No compensation is payable for sick leave. The City's liability for compensated absences is recorded in various governmental funds or proprietary funds as appropriate. The liability for compensated absences is determined annually. the portion expected to be permanently liquidated is recorded in the governmental funds and are recorded as fund liabilities. The long-term portion is recorded in the statement of net assets.

The net changes of the long-term portion of accrued vacation and sick leave liabilities are allocated among departments on the statement of activities as follows:

	June 30, 2004	Additions	Retirements	June 30, 2005	Current Portion	
General administration	$ 29,766	$ 35,180	$ (21,693)	$ 43,253	$ 10,493	A
Public safety	401,799	361,863	(343,624)	420,038	105,957	B
Public services	54,800	57,270	(54,044)	58,026	13,353	B
Recreation	29,937	36,984	(42,262)	24,659	13,133	C
Community development	57,729	72,771	(63,375)	67,125	21,550	
Wastewater utility	72,028	65,157	(57,667)	79,518	19,520	
Total	$ 646,059	$ 629,225	$ (582,665)	$ 692,619	$ 184,006	

The following funds have been used to liquidate compensated absences:

A - General Fund and Redevelopment Agency Capital Projects Fund
B - General Fund
C - Non-Major Funds

I. Interfund Transactions

Following is a description of the four basic types of interfund transactions made during the year and the related accounting policies:

1. Quasi-external charges for current services - transactions for services rendered or facilities provided. These transactions are recorded as revenues in the receiving fund and expenditures in the disbursing fund.

2. Reimbursements (expenditure transfers) - transactions to reimburse a fund for specific expenditures incurred for the benefit of another fund. These transactions are recorded as expenditures in the disbursing fund and a reduction of expenditures in the receiving fund.

3. Residual equity transfers - transactions recording equity contributions and distributions between funds. The receiving fund records such transactions as an addition to fund balance, if it is a Governmental Fund, or a capital contribution, if it is a Proprietary Fund. The disbursing fund records the transfer as a reduction of fund balance, retained earnings, or contributed capital.

4. Operating Transfers - all other interfund transactions which allocate resources from one fund to another fund. These transactions are recorded as operating transfers in and out.

D-137

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Equity Classifications

Government-wide Statements

Net Assets are the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three categories under GASB Statement 34. These categories apply only to Net Assets, which is determined at the Government-wide level, and are described below:

a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

b. Restricted net assets - Consists of net assets with constraints place on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

Reserve for encumbrances represents the portion of fund balance set aside for open purchase orders.

Reserves for supplies, advances, land held for redevelopment, and notes and loans receivable are the portions of fund balances set aside to indicate these items do not represent available, spendable resources even though they are an asset of the Fund.

Reserve for debt service is the portion of fund balance legally restricted for the payment of principal and interest on long-term liabilities.

K. Grant Funding

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. The City's policy is to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

L. Operating Revenues

Operating revenues for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue not related to capital and related financing, noncapital financing or investing activities.

M. Post Employment Health Care Benefits

The City provides health care benefits for 48 retired employees and spouses based on negotiated employee bargaining unit contracts. Substantially all of the City's employees may become eligible for those benefits if they reach the normal retirement age and have a minimum five years of service while working for the City. The cost of retiree health care benefits is recognized as an expenditure as health care premiums are paid. For the year ending June 30, 2005, those costs totaled $298,920.

N. Deferred Compensation

City employees may defer a portion of their compensation under a City sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under these Plans, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency as defined by the Plan.

The laws governing deferred compensation plan assets require plan assets to be held by a trust for the exclusive benefit of plan

participants and their beneficiaries. Since the assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

NOTE 2: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During fiscal 2005, the following funds had excess expenditures over appropriations.

Redevelopment Agency Capital Project Fund	$	22,969
Housing Set-Aside Capital Project Fund	$	29,561
Recreation Special Revenue Fund	$	22,154
Police Special Revenue Fund	$	13,050

The funds have sufficient resources to finance these expenditures.

NOTE 3: CASH AND INVESTMENTS

Categorization of Credit Risk of Securities Instruments

The City and its fiscal agents invest in individual investments and in investment pools during fiscal 2005. Individual investments are generally made by the City's fiscal agents as required under its debt issues. In order to maximize security, the City employs the Trust Department of a bank as the custodian of all City managed investments, regardless of their form.

Cash and investments are carried at fair value and are categorized as follows at June 30, 2005:

California Local Agency Investment Fund (Pooled)	$	8,615,314
Investments held by Fiscal Agent:		
Securities of the U.S. Government or its agencies		25,911,439
Cash in banks		4,155,066
Certificates of deposit		200,000
Petty cash		1,560
Total	$	38,883,379

The City follows the practice of pooling cash and investments of all funds except for restricted funds required to be held by outside fiscal agents.

Interest income from pooled cash and investments is allocated on a quarterly basis based on the month end cash balance in each fund.

Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or Agency agreements.

Cash and investments available for operations	$	12,856,872
Restricted cash and investments, with fiscal agents		25,911,439
Total City cash and investments		38,768,311
Cash and investments in Fiduciary Funds (separate statement)		115,068
Total cash and investments	$	38,883,379

Cash and investments are used in preparing Proprietary Fund statements of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

Cash Deposits

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City's cash on deposit, or first trust deed mortgage notes with a value of 150% of the deposit, as collateral for these deposits. This collateral is held in a separate pool in a separate institution. Under California Law this collateral is held in the City's name and places the City ahead of general creditors of the institution. The City has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

Authorized Investments

The City's investment policy and the California Government Code allow the City to invest in the following:

- Securities of the U.S. Government or its agencies
- Repurchase Agreements, maximum thirty days
- Banker Acceptances
- Commercial Paper
- Medium-term Corporate Notes
- Certificates of Deposit
- Negotiable Certificates of Deposit
- California Local Agency Investment Fund
- Savings Account or Money Market Account
- Mutual Funds

As of June 30, 2005, the City had the following investments in securities of the U.S. Government or its agencies.

Investment	Fair Value	Maturities Less Than 1 Year
Mutual funds invested in U.S. Government securities	$ 1,001,200	$ 1,001,200
U.S. Treasury Bills	5,689,968	5,689,968
U.S. Treasury Notes	14,328,778	14,328,778
U.S. agencies	4,891,494	4,891,494
Total Investments	$ 25,911,440	$ 25,911,440

Because the City's investments are in securities of the U.S. Government or its agencies, the disclosures for interest rate risk, credit risk and foreign currency risk are not applicable.

The City does not enter into reverse repurchase agreements.

The City is voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 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 the that portfolio.) The balances available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

NOTE 4: INTERFUND TRANSACTIONS

Transfers Between Funds

Transfers between funds during the fiscal year ended June 30, 2005 were as follows.

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred	
General Fund	Wastewater Utility Enterprise Fund	$ 75,000	
	Non-Major Funds	420,000	
Public Works Capital Projects Fund	Non-Major Funds	159,100	
Redevelopment Agency Capital Projects Fund	Non-Major Funds	436	
Housing Set-Aside Special Revenue Fund	Redevelopment Agency Capital Projects Fund	341,440	
Debt Service Fund	Redevelopment Agency Capital Projects Fund	2,176,222	A
	Housing Set-Aside Special Revenue Fund	1,230,000	A
Non-Major Funds	General Fund	299,711	B
Total Interfund Transfers		$ 4,701,909	

The reasons for these transfers are as follows.

A - To fund debt service payments.
B - To subsidize operations of Youth, Senior and Recreation programs.

Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year.

In fiscal year 2004, the Wastewater Utility Enterprise Fund advanced $42,082 to the National Pollution Discharge Elimination System Special Revenue Fund for the purchase of a storm drain and sewer-cleaning vehicle. As of June 30, 2005, the amount due to the Wastewater Utility Enterprise Fund is $21,041 and will be paid off in fiscal year 2006.

Long-Term Interfund Advances

From 1986 to 1992, the Agency Capital Projects Fund deferred setting aside 20% of its tax increment revenues in the Housing Set-Aside fund. The Agency Capital Projects Fund was repaying the Housing Set-Aside at a rate of $100,000 per year. In 1992 the Agency Capital Projects Fund began setting aside the full 20% of its property tax increment receipts in the Housing Set-Aside Fund. In December 2004, the amount due to the Housing Set-Aside Fund of $1,207,389 was repaid with proceeds from the 2004 bond issuance (see Note 10 for additional information)

The City loaned to the Agency $2,488,708 in August 2002, at an interest rate of 6%, with principal and accrued interest due in 18 months. The Agency, in turn, loaned Downtown Partners LLC that amount at an interest rate of 7%, with principal and accrued interest due in 18 months. In December 2004, the amount due to the General Fund of $1,200,000 was repaid with proceeds from the 2004 bond issuance (see Note 10 for additional information)

NOTE 5: NOTES AND LOANS RECEIVABLE

The City and Agency engage in programs designed to encourage business enterprises, or construction or improvement in low-to-moderate income housing or other projects. Under these programs, grants or loans are provided under favorable terms to businesses, homeowners or developers who agree to spend these fund in accordance with the City's terms.

The balances of notes and loans receivable has been offset in the fund financial statements by deferred revenue or a reservation of fund balance as they are not expected to be repaid during fiscal year 2005.

NOTE 5: NOTES AND LOANS RECEIVABLE (CONTINUED)

These notes and loans receivable, including interest, comprised the following at June 30, 2005 and are explained in detail below.

Housing Rehabilitation	$	748,827
Commercial Rehabilitation		3,309,449
First Time Home-Buyer		474,600
Mixed-Use		204,520
Peace Officer Loan		18,000
Bridge Housing Loan		1,285,775
Alvarez Court		1,140,657
Eastbluff Apartment Loan		1,387,499
Downtown Partners - General Construction Loan		2,280,171
Pinole Valley Shopping Center		271,253
Occu-ease Optical Products		991,280
Pinole Assisted Living Community		14,960,007
Less: Allowance for Doubtful Notes		(24,245,787)
Total	$	2,826,251

A. Housing Rehabilitation Notes Receivable

The City has provided loans to various homeowners for rehabilitation of property. These loans are secured by second deeds of trust on the property and have a range of interest rates from 2% to 6% with a maximum fifteen-year term The balance of these notes receivable totaled $748,827 at June 30, 2005.

B. Commercial Rehabilitation Notes Receivable

The City has provided loans to various businesses for rehabilitation of property These loans are secured by the deeds of trust on the property and have a range of interest rates from 0% to 2% with a maximum fifteen-year term. The balance of these notes receivable totaled $3,309,449 at June 30, 2005.

C. First Time Home-Buyer Loans Receivable

In 1995, the Agency implemented a first time homebuyer program designed to encourage home ownership among low-income persons by providing down payment assistance Under this program, loans are provided at no interest and are due upon sale or transfer or the property, refinance or payoff of the first mortgage, recordation of a third mortgage or default of the first mortgage. At the time of the loan repayment, the Agency shares in equity appreciation based on the Agency's loan share of the original purchase price. The balance of the notes receivable arising from this program at June 30, 2005 was $474,600, of which $114,600 was borrowed by the City's employees

D. Mixed-Use Notes Receivable

In 1998, the City and Agency implemented a mixed-use property rehabilitation loan program. These loans are secured by the deeds of trust on the property For loans that bear no interest the term of the loan in 10 years For the loans that bear 2% and 6% interest rates, the term in 15 years. As of June 30, 2005, 1 loan was outstanding with a balance of $204,520.

E. Peace Officer Loan

The Agency provides down payment assistance not to exceed the lower of $30,000 or 20% of the purchase price of a home, to a qualified peace officer employed by the community The peace officer must occupy the residence for at least 10 years or must repay a prorated portion of the down payment assistance. As of June 30, 2005, the total outstanding balance was $18,000.

CITY OF PINOLE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 5: NOTES AND LOANS RECEIVABLE (CONTINUED)

F. Bridge Housing Loan

The Agency assisted Bridge Housing Corporation with its acquisition and development of the Pinole Grove Senior Housing Project by providing $900,000 in the form of land and cash in return for a Note bearing simple interest at a rate of 4% per year, secured by a deed of trust on the Project

Principal and interest are due annually, but are payable only from surplus cash flow as defined in the Note. The Project is not expected to generate a surplus cash flow and under the terms of the Note, any unpaid principal and interest remaining at the expiration of the Note in the year 2024 will be forgiven if Bridge Housing maintains the affordability of the project for an additional nineteen years. As of June 30, 2005, the outstanding balance was $1,285,775

G. Alvarez Court

In August 2000, the Agency approved a loan of up to $609,000 to assist the Resources for Community Development with the development of a housing project for persons with disabilities. In August 2002 the Agency amended the loan agreement, increasing the loan amount to $988,000. The term of the loan is 40 years from the date of final closing by Housing and Urban Development, bearing a simple interest at a rate of 4% and is secured by first deed of trust. As of June 30, 2005, the total outstanding balance was $1,140,657.

H. Eastbluff Apartments Loan

In 1996, the Pinole Redevelopment Agency assisted Eastbluff Associates with its development of the Eastbluff Apartments by providing $975,000 in exchanges for a Note. The Note was renegotiated in June 1998 and is secured by a deed of trust. The Note bears an annual compound interest rate of 7.5% for a term of 55 years or until the property is sold Payments are the greater of $63,375 per year or 50% of the surplus cash flow as defined in the terms of the Note. As of June 30, 2005, the outstanding balance was $1,387,499.

I. Downtown Partners

The Agency loaned Downtown Partners, LLC $4,100,000 at an interest rate of 7%, with principal and accrued interest becoming due in 18 months. The overall development for this project included the demolition of existing structures, new three-story and two-story mixed use commercial and multi-family residential building which will contain a total of 24 new rental-housing units, commercial and retail tenants

The Agency loaned Downtown Partners, LLC an additional $300,000 at an interest rate of 0% for an economic development assistance loan through the commercial rehabilitation program. The loan principal shall be due in a balloon payment on or before December 31, 2052 Downtown Partners has two ten-year renewable option terms that may extend the due date

In March 2005, Downtown Partners, LLC paid off $2,400,000 of the above notes and refinanced the remaining balance at 6% interest compounded annually The new Note is due in full by March 31, 2010 As of June 30, 2005, the outstanding balance including accrued interest was $2,280,171.

J. Pinole Valley Shopping Center

The Agency owns the Pinole Valley Shopping Center and its land On June 28, 2001, the Redevelopment Agency signed a ground lease with The Kivel Stadt Group (TKG) Pinole Valley, LLC to operate the Shopping Center. Under the agreement, TKG is authorized to manage and make improvements to the Shopping Center, and to share lease revenue generated from the Shopping Center The lease lasts for 50 years with 2 ten-year options. After 20 years, the Shopping Center may be sold if both the Agency and TKG agree. Ground lease payments (base rent) due to the Redevelopment Agency are determined on the basis of the Redevelopment Agency's investment in acquiring the Shopping Center, but are deferred (without interest penalty) when the center's net cash flows are not sufficient to pay base rent As of June 30, 2005, the Agency's investment in the Shopping Center was $1,800,000, and the amount of deferred rent owed to the City was $271,253 which represents the minimum amount due under the agreement. The City has provided an allowance on 100% of the deferred rent due to uncertainty regarding collectibility.

NOTE 5: NOTES AND LOANS RECEIVABLE (CONTINUED)

K. Occu-ease Optical Products

The Agency loaned Occu-ease Optical Products $991,280 at an interest rate of 4.0%, with interest-only payments for the first 59 months and then a final principal payment on the 60th month. Payments have been deferred until April 1, 2006. This company has conducted business within the City of Pinole for the past 27 years and was required to move to a new location, as a result of the Agency's purchase of their property for construction of a new Youth Center. The Agency provided relocation assistance and a loan to the company to acquire and construct a new facility within the Sunnyview / San Pablo Avenue light industrial business complex. The project was part of an economic plan to facilitate the development of underutilized parcels along the West San Pablo Avenue Corridor to strengthen the city's industrial base.

L. Pinole Assisted Living Community

Pinole Assisted Living Community (PALC) is a tax-exempt non-profit corporation that constructed and operates a 72-unit-assisted-living facility for the elderly known as Pinole Valley Assisted Living. PALC is governed by a five-member Board of Directors; two of these members are City representatives.

The PALC facility is located on land leased from the Redevelopment Agency under the terms of a lease signed in 1999. The cost of the facility was borne by the City out of the proceeds of its 1999 Subordinate Tax Allocation Bonds issue. Under the terms of the PALC lease and related agreements, PALC is to reimburse the City for these costs and to pay for the lease and for emergency services rendered by the City. Unpaid amounts accrue interest at rates set forth in the agreements

The facility was opened in early 2001, but occupancy rates have not reached levels that cover operating costs. As a result, PALC has not made any of the payments required under its lease or other agreements with the City. In the event that PALC cannot make the payments required, ownership of the entire facility passes to the City.

At June 30, 2005, PALC owed the City the following amounts:

Construction cost advances	$ 12,829,560
Advances for operating expenses	1,807,412
Lease payments	267,837
Emergency services	55,198
	$ 14,960,007

PALC is currently settling a lawsuit with the builder to make needed repairs to the building. Once the repairs are completed, it is anticipated that PALC will sell the building and repay the City with the proceeds from the sale. The City has provided a 100% allowance for the balance of the PALC note receivable due to the uncertainty of collectibility.

M. Allowance for Doubtful Notes

The City has several programs under which it extends loans to qualifying individuals or groups for the purpose of improving the City's housing stock and/or its supply of low-and-moderate income housing. Certain of these loans provide for the eventual forgiveness of the loan balance if the borrower complies with all the terms of the loan over its full term. The City has provided a 100% allowance for all notes receivable subject to long-term deferral and/or payment from future refinancing as well as all notes receivable having subordination provisions except for those account that have current payment activity and are not delinquent at June 30, 2005

NOTE 6: LAND HELD FOR REDEVELOPMENT

At June 30, 2005, the Agency held these properties for resale or redevelopment:

a) 811 San Pablo Avenue
b) 1300 and 1400 Pinole Valley Road
c) 2850 Estates Avenue
d) Pinole Vista
e) 910 San Pablo Avenue
f) Pinole Valley Shopping Center
g) 850 San Pablo Avenue
h) Faria Property
i) Henry Parcel
j) Patel Property
k) 870 San Pablo Avenue
l) 2301 San Pablo Avenue
m) 1383 San Pablo Avenue
n) 2425-2433 and 2441 San Pablo Avenue
o) 600 Tennent Avenue

The balance of these properties for resale or redevelopment at June 30, 2005 is $22,321,685

D-141

NOTE 7: CAPITAL ASSETS

	Balance at July 1, 2004	Additions	Retirements	Adjustments	Balance at June 30, 2005
Governmental activities					
Capital assets not being depreciated					
Land	$ 6,449,804	$ 111,286	$ -	$ 2,851,051	$ 8,412,140
Construction-in-progress	107,286	841,003	-	-	948,289
Total capital assets not being depreciated	6,557,090	952,288	-	2,851,051	9,360,429
Capital assets being depreciated					
Buildings and improvements	11,811,815	859,259	-	9,512,593	22,183,667
Equipment	3,128,209	68,941	-	106,298	3,303,448
Vehicles	1,498,906	31,993	-	346,952	1,877,851
Streets and roads	46,383,482	25,664	-	879,079	46,288,225
Storm drains	2,569,287	-	-	-	2,569,287
Bridges	3,117,473	-	-	-	3,117,473
Parks	2,134,154	-	-	58,547	2,192,701
Total assets being depreciated	69,643,326	985,857	-	10,903,469	81,532,652
Less accumulated depreciation					
Buildings and improvements	(3,104,566)	(728,054)	-	(1,156,392)	(4,989,012)
Equipment	(2,089,083)	(360,751)	-	(13,970)	(2,463,804)
Vehicles	(804,199)	(295,124)	-	-	(1,099,323)
Streets and roads	(26,729,640)	(851,551)	-	(9,876)	(26,690,967)
Storm drains	(860,471)	(34,258)	-	-	(894,729)
Bridges	(1,349,013)	(38,407)	-	-	(1,387,420)
Parks	(1,006,541)	(132,241)	-	(4,228)	(1,143,010)
Total accumulated depreciation	(34,943,413)	(2,440,386)	-	(1,184,466)	(38,568,265)
Governmental activities capital assets, net	$ 40,257,003	$ (502,241)	$ -	$ 12,570,054	$ 52,324,816
Business-type activities					
Capital assets not being depreciated					
Construction-in-progress	$ -	$ 169,000	$ -	$ -	$ 169,000
Capital assets being depreciated					
Sewer lines	5,288,820	465,000	-	-	5,753,820
Buildings and improvements	7,272,665	269,609	-	-	7,542,274
Equipment	3,636,650	107,711	-	-	3,743,361
Parks	-	86,000	-	-	86,000
Total assets being depreciated	16,197,135	928,320	-	-	17,125,455
Less accumulated depreciation					
Sewer lines	(2,685,248)	(114,494)	-	-	(2,799,742)
Buildings and improvements	(4,486,240)	(209,791)	-	-	(4,696,031)
Equipment	(1,410,774)	(369,584)	-	-	(1,780,358)
Total accumulated depreciation	(8,581,262)	(693,869)	-	-	(9,276,131)
Business-type capital assets, net	$ 7,615,873	$ 403,451	$ -	$ -	$ 8,019,324

Depreciation was charged to functions based on their usage of the related assets as follows

Governmental Activities:	
General administration	$ 371,929
Public safety	492,253
Public services	1,274,307
Recreation	284,103
Community development	17,794
Total governmental activities depreciation expense	$ 2,440,386
Business-type Activities	
Wastewater Utility	$ 693,869
Total business-type activities depreciation expense	$ 693,869

NOTE 8: LINE OF CREDIT

The City had a line of credit with a bank with a credit limit of $5,000,000 and an interest rate of 5%, secured by the City's assets. As of June 30, 2005 and June 30, 2004 the balance outstanding on the line of credit was $0 and $4,295,263, respectively

NOTE 9: MORTGAGE NOTES ON LAND HELD FOR REDEVELOPMENT

The long-term mortgage notes associated with land purchased for redevelopment are reported on the fund financial statements as they are related to the non-operating assets also reported on the fund financial statements. These mortgages are explained in detail below.

The Agency executed a promissory note for $430,000 in connection with the purchase of land at 1300 Pinole Valley Road in September 2002. This property is the site of the Gateway Plaza (Gateway West) project. Semi-annual payments of $50,481 including interest computed at the rate of 7% are due in September and March of each year. The final payment is scheduled for September 2007.

The Agency executed a promissory note for $195,235 in connection with the purchase of land at 870 San Pablo Avenue in March 2004. This property is the site of the Pinole Shores Business Park. The Agency is required to make interest only payments for ninety-six (96) months. Interest is computed at the rate of 5% with a final balloon payment of the principal due in April 2012.

Debt service requirements are shown below for the above mortgages on land held for redevelopment:

For the Year Ending June 30	Principal	Interest
2006	$ 85,789	$ 24,934
2007	91,899	18,824
2008	59,933	11,887
2009	-	9,762
2010	-	9,762
2011 - 2015	195,235	17,084
Total	$ 432,856	$ 92,253

NOTE 10: LONG-TERM DEBT

Governmental Activities

The following is a summary of long-term debt transactions related to governmental activities of the City for the year ended June 30, 2005.

	Balance at July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Tax Allocation Bonds:					
2004 Series A Subordinate Bonds	$ -	$ 21,600,000	$ -	$ 21,600,000	$ -
2004 Series B Subordinate Bonds	-	8,395,000	-	8,395,000	-
2003 Series A Subordinate Bonds	8,830,000	-	(260,000)	8,570,000	545,000
1999 Subordinate Bonds	9,605,000	-	(575,000)	9,030,000	660,000
1998 Series A Bonds	9,225,000	-	(485,000)	8,740,000	510,000
1998 Series B Bonds	6,175,000	-	(285,000)	5,890,000	305,000
Total Bonds Payable	33,835,000	29,995,000	(1,605,000)	62,225,000	2,020,000
Loan Payable	2,972,409	1,000,000	(115,102)	3,857,307	-
Mortgages:					
613-635 Tennent Avenue	606,312	-	(28,992)	577,320	30,906
2100 San Pablo Avenue	177,500	-	-	177,500	177,500
2810 Pinole Valley Road	560,000	-	(59,901)	500,099	31,834
Total Mortgages	1,343,812	-	(88,893)	1,254,919	240,240
Governmental activities long-term liabilities	$ 38,151,221	$ 30,995,000	$ (1,808,995)	$ 67,337,226	$ 2,260,240

A description of the long-term liabilities related to governmental activities at June 30, 2005 follows:

A. 2004 Series A and B Tax Allocation Bonds

In September 2005 the City authorized the issuance of the $21,600,000 of 2004A and $8,395,000 of 2004B Subordinate Tax Allocation Bonds. The 2004A bonds were issued for the following purposes.

1) $3,215,000 of Taxable Subordinate Housing Set Aside Tax Allocation Bonds to provide for financing of certain capital improvements within the Agency's Pinole Vista Redevelopment Project Area. The Bonds will be repaid from Housing Set-Aside revenue. Principal payments are due semiannually in February and August until 2019. The interest rate on the Bonds range from 5.40% to 5.60% annually. Interest is due annually on February 1 through 2019.

2) $7,195,000 of Tax-Exempt Second-Subordinate Tax Allocation Bonds to finance and refinance certain public capital improvements within the Agency's Pinole Vista Redevelopment Project Area. The Bonds will be repaid from tax increment revenues allocated to the Agency from the Project Area. Principal payments are due semiannually in February and August until 2022. The interest rate on the Bonds range from 4.25% to 4.50% annually. Interest is due annually on February 1 through 2022.

3) $11,190,000 of Third-Subordinate Tax Allocation Bonds to finance public capital improvements within the Pinole Vista Redevelopment Project Area. The Bonds will be repaid from tax increment revenues allocated to the Agency from the Project Area. Principal payments are due semiannually in February and August until 2023. The interest rate on the Bonds range from 3.75% to 4.50% annually. Interest is due annually on February 1 through 2023.

The 2004B Taxable Second-Subordinate Tax Allocation Bonds in the aggregate principal of $8,395,000 were issued to finance and refinance certain public capital improvements within the Agency's Pinole Vista Redevelopment Project Area. Repayment on the Bonds will be from tax increment revenues allocated to the Agency from the Project Area. Principal payments are due semiannually in February and August until 2020. The interest rate on the Bonds range from 4.54% to 5.60% annually. Interest is due annually on February 1 through 2020.

NOTE 10: LONG-TERM DEBT (CONTINUED)

B. 2003 Series A Tax Allocation Bonds

In 2003 the Agency issued $8,830,000 of Subordinate Tax Allocation Bonds for the purpose of financing and refinancing public capital improvements within the Pinole Vista Redevelopment Project Area as well as the refunding of the outstanding principal amount of the Series 1993A Bonds. The 2003A Bonds will be repaid from tax increment revenues allocated to the Agency from the Project Area. Principal payments are due annually on August 1 until 2018. The Bonds bear interest at 2.0% and 4.5% annually. Interest is due semi-annually on February 1 and August 1 through 2018.

C. 1999 Subordinate Tax Allocation Bonds

In 1999, the Agency issued $10,800,000 of Subordinate Tax Allocation Bonds, Series 1999 for the purpose of making a loan to Pinole Assisted Living Community to aid in the construction of an assisted living facility, known as Pinole Valley Assisted Living located in the City. The 1999 Bonds will be repaid from the subordinated pledged tax revenues defined in the bond indenture. Commencing on August 1, 2002, principal payments are due annually on August 1 until 2016. The Bonds bear interest between 4.0% and 5.25% annually. Interest is due semi-annually on August 1 and February 1 through 2016.

D. 1998 Series A and Series B Tax Allocation Bonds

In 1998, the Agency issued $11,920,000 of Tax Allocation Refunding Bonds, Series 1998A and $7,725,000 of Tax Allocation Refunding Bonds, Series 1998B for the purpose of refunding the Series 1992A and Series 1992B Tax Allocation Bonds, issued in 1992 to fund certain capital improvements. The 1998 Bonds will be repaid from pledged tax revenues. Principal payments are due annually on August 1 until 2017. The Bonds bear interest between 4.0% and 6.75% annually. Interest is due semi-annually on August 1 and February 1 through 2017.

E. Loan Payable

On May 6, 2002, The Kivel Stadt Group (TKG), ground lessor of the Pinole Valley Shopping Center, signed a $5 million construction loan agreement with Mechanics Bank, using the Pinole Valley Shopping Center as collateral. TKG is responsible for making all loan repayments out of the operating income generated by the shopping center. However, since Agency-owned property is used as collateral, the loan is recorded as the City's debt. In fiscal year 2005, the outstanding principal balance on the construction loan increased by $1,000,000 to a total of $3,857,307. Principal is due in one payment on August 1, 2006. The loan bears variable simple interest, which was 7.0% at June 30, 2005.

F. Mortgages

In September 2002, the Agency acquired the property adjacent to Memorial Hall at Tennent Avenue for $650,000 to construct a community center in Old Town Pinole with indoor access to the Memorial Hall. The entire purchase price was carried back by the sellers in a note. Principal and interest on the note at 6.5% are due semi-annually for fifteen years in March and September.

The Agency purchased a property at 2100 San Pablo Avenue for $355,000 in March 2003. The lot is one of the last parcels of undeveloped land in the Old Town area and is to be retained for public purposes. Fifty percent of the purchase was paid in cash. The City obtained a mortgage for the remaining balance. The mortgage carries a 7% simple interest rate payable semi-annually, with a $117,500 balloon principal payment due in March 2006.

The Agency signed a promissory note for $560,000 in connection with the purchase of land at 2810 Pinole Valley Road in March 2004. Payments are $4,500 - $5,500 per month including interest at 4.5% - 5.5%. Final balloon principal payment of $129,909 is due March 2014.

NOTE 10: LONG-TERM DEBT (CONTINUED)

G. Debt Service Requirements

Debt service requirements are shown below for all long-term debt:

For the Year Ending June 30	Principal	Interest
2006	$ 2,200,240	$ 3,051,556
2007	6,062,647	2,931,546
2008	2,315,246	2,814,732
2009	2,442,696	2,710,779
2010	2,746,601	2,601,422
2011 - 2015	15,301,613	10,904,019
2016 - 2018	21,038,183	6,525,908
2019 - 2024	15,170,000	1,680,815
Total	$ 67,337,226	$ 33,220,777

NOTE 11: DEBT WITHOUT CITY COMMITMENT

In 1998, the Pinole Redevelopment Agency assisted the Eastbluff Apartments in the issuance of $4,959,000 of Multi-family Housing Revenue Bonds to rehabilitate the 144 unit Eastbluff Apartments. The City and Agency have no direct or contingent liability or moral obligation for the payment of this debt, which is payable only out of the Eastbluff Apartments rental revenues. Therefore, this debt is not included in long-term debt of the City or Agency.

NOTE 12: PENSION PLAN

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service, one year of credited service is equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The Plans' provisions and benefits in effect for the year ended June 30, 2005, are summarized as follows:

	Safety	Miscellaneous
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50	50
Monthly benefits, as a % of annual salary	2.400% - 3.000%	1.426% - 2.418%
Required employee contribution rates	9%	7%
Required employer contribution rates	22.540%	8.201%
Actuarially required contributions	$694,901	$321,232

The City's labor contracts require it to pay employee contributions as well as its own.

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost of for each employee from date of hire to date of retirement is expressed as a level percentage of the total related total payroll cost. Normal benefit cost under this method is the level amount the City must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities.

The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. The City does not have a net pension obligation since it pays these actuarially required contributions monthly.

D-143

NOTE 12: PENSION PLAN (CONTINUED)

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 8.25% is assumed, including inflation at 3.5%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and ten percent of the net balance is amortized annually.

The Plans' actuarial value (which differs from market value) and funding progress over the past three years, as reported by PERS in their most recent actuarial evaluation are set forth below at their most recent actuarial valuation date of June 30, 2003:

Safety Plan:

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL As a % of Payroll
June 30, 2001	$ 16,515,191	$ 18,612,130	$ (2,096,939)	112.7 %	$ 2,479,501	(135.7)%
June 30, 2002	19,298,534	17,482,835	1,815,699	90.6 %	2,760,594	65.8 %
June 30, 2003	21,215,455	17,785,488	3,429,967	83.8 %	2,941,139	116.6 %

Miscellaneous Plan:

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL As a % of Payroll
June 30, 2001	$ 11,026,658	$ 13,114,527	$ (2,087,869)	118.9 %	$ 3,200,031	(65.2)%
June 30, 2002	12,217,123	12,498,437	(281,314)	102.3 %	3,507,478	(8.0)%
June 30, 2003	14,741,553	12,827,840	1,913,713	87.0 %	3,942,047	48.5 %

Audited annual financial statements and ten-year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

The market value of the net assets in the Plans held for pension benefits changed as follows during the year ended June 30, 2002, the most recent available.

	Safety	Miscellaneous
Beginning balance, July 1, 2004	$ 15,893,486	$ 11,362,215
Contributions received	319,359	270,959
Benefits and refunds paid	(621,464)	(392,680)
Transfers and miscellaneous adjustments paid	1,080	25,499
Expected investment earnings credited	1,430,163	1,027,231
Expected actuarial value of assets as of June 30, 2005	$ 17,022,624	$ 12,293,224
Market value of assets as of June 30, 2005	$ 16,168,625	$ 11,661,673
Actuarial value of assets as of June 30, 2005	$ 17,785,488	$ 12,827,840

Actuarially required contributions for fiscal years 2005, 2004, and 2003 were, $1,016,133, $623,802, and $0, respectively. The City made these contributions as required, together with certain immaterial amounts required as the result of the payment of overtime and other additional employee compensation.

NOTE 13: RISK MANAGEMENT

The City manages risk of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees; and natural disasters by participating in the public entity risk pools described below and by retaining certain risks.

Public entity risk pools are formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California which exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each risk pool is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective risk pool, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on that board. Obligations and liabilities of these risk pools are not the member's responsibility.

Risk Coverage

The City is a member of the Contra Costa County Municipal Risk Management Insurance Authority (CCCMRMIA). CCCMRMIA provides coverage against the following types of loss risks under terms of joint-powers agreement with the City and several other cities and governmental agencies as follows:

Type of Coverage (Deductible)		Coverage Limits
Liability ($25,000) including errors and omissions for Public Officials	$	15,000,000
All Risk Fire and Property ($5,000)	$	1,000,000,000
Workers' Compensation (no deductible)	$	50,000,000
Vehicle Physical Damage ($3,000 for police, $2,000 all others)	$	250,000

The CCCMRMIA is governed by a Board consisting of representatives from member municipalities. The Board controls the operations of the CCCMRMIA, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

The City's deposits with the CCCMRMIA are in accordance with formulas established by the CCCMRMIA. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

During the fiscal year ended June 30, 2005, the City contributed $583,247 for coverage during the current year and received a refund of $45,659 of prior year excess contributions.

Financial statements may be obtained from CCCMRMIA, 1911 San Miguel Drive, Suite 200, Walnut Creek, CA 94596.

Claims Liability

The City's retained risk liability for uninsured claims is limited to general liability claims, as discussed above, and was estimated by management based on prior years claims experience as follows at June 30:

	2005	2004
Claims liability, beginning of the year	$ 174,403	$ 192,520
Provision for current year claims	22,805	76,397
Change in prior year claims estimates	123,740	(52,658)
Claims paid	(218,385)	(41,856)
Claims liability, end of year	$ 102,563	$ 174,403

NOTE 14: CONTINGENT LIABILITIES AND COMMITMENTS

Contingent Liabilities

The City has received federal and state grants for specific purposes that are subject to review and audit by the federal and state government. Although such audits could result in expenditure disallowances under grant terms, any required reimbursements are not expected to be material.

NOTE 15: PRIOR PERIOD ADJUSTMENTS

The following funds had prior period adjustments as follows:

Fund	Description	Amount
Government Wide	Adjustment from Governmental Funds	$ (276,947)
	Correction to allowance for notes and loans receivable	(8,486,541)
	Correction to capital assets	12,570,054
	Correction to claims payable	195,675
		$ 4,002,241
Redevelopment Agency Project Fund	Prior year accrued interest on note receivable	$ (276,947)
	State Controller audit adjustment for Gas Tax review of Street Project	(99,376)
		$ (376,323)
Other Governmental Funds	State Controller audit adjustment for Gas Tax review of Street Project	$ 99,376
Wastewater Utility Proprietary Fund	Capitalization of prior year fixed assets	$ 551,000

APPENDIX E

DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF TRUST AGREEMENT AND LOCAL AGENCY TRUST AGREEMENTS

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APPENDIX E

DEFINITION OF CERTAIN TERMS AND SUMMARY OF TRUST AGREEMENT AND LOCAL AGENCY TRUST AGREEMENTS

The following summary discussion of selected features of the Trust Agreement and the Local Agency Trust Agreements are made subject to all of the provisions of such documents and to the discussion of such documents contained elsewhere in this Official Statement. This summary discussion does not purport to be a complete statement of said provisions and prospective purchasers of the Bonds are referred to the complete text of the Trust Agreement and the Local Agency Trust Agreement, copies of which are available upon request from Wells Fargo Bank, National Association, Corporate Trust Services, 707 Wilshire Blvd., 17th Floor, Los Angeles, CA 90017.

TRUST AGREEMENT DEFINITIONS

"Accreted Value" means, with respect to any Capital Appreciation Bond, an amount equal to the principal amount of such Bond, plus interest accrued thereon from its date compounded on each Interest Payment Date (through and including the Maturity Date of such Bond) at the "original issue yield" for such Bond; provided, that the Accreted Value on any date other than an Interest Payment Date shall be calculated by straight line interpolation of the Accreted Values as of the immediately preceding and succeeding Interest Payment Date. The term "original issue yield" means, with respect to any particular Bond, the yield to maturity of such Bond from the initial date of delivery thereof calculated on the basis of semiannual compounding on each Interest Payment Date.

"Act" means the Joint Exercise of Powers Act (being Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California, as amended) and all laws amendatory thereto or supplemental thereto.

"Aggregate Principal Amount" means, as of any date of calculation, the principal amount or Accreted Value, respectively, of the Bonds referred to.

"Authority" means the California Statewide Communities Development Authority, or its successors and assigns.

"Authorized Authority Representative" means any member of the Commission of the Authority.

"Authorized Denominations" means (a) as to Bonds issued as Current Interest Bonds, \$5,000 principal amount or any integral multiple thereof; and (b) as to Capital Appreciation Bonds, \$5,000 Maturity Amount or any integral multiple thereof.

"Bond Fund" means the Bond Fund established pursuant to the Trust Agreement.

"Bond Insurer" means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company, or any successor thereto as assignee thereof.

"Bond Insurance Policy" means the financial guaranty insurance policy issued by the Bond Insurer insuring the payment when due of the principal of and interest on the Bonds as provided therein.

"Bonds" means the 2006 Series A-1 Bonds and 2006 Series A-2 Bonds issued pursuant to the Trust Agreement.

"Business Day" means any day other than a Saturday or Sunday or day upon which the Trustee is authorized by law to remain closed.

"Capital Appreciation Bonds" means Bonds the interest on which is payable at maturity and compounded on each Interest Payment Date through and including the Maturity Dates thereof as specified in the Accreted Value Table for such Bonds attached as an exhibit to the Trust Agreement.

"Certificate of the Authority" means an instrument in writing signed by an Authorized Authority Representative or such officer's designee, or by any other officer of the Authority duly authorized by the Commission of the Authority in writing to the Trustee for that purpose. If and to the extent required by the provisions of the Trust Agreement, each Certificate of the Authority shall include the statements provided for therein.

"Closing Date" means the date on which the Bonds are delivered to the Original Purchaser of the Bonds.

"Corporate Trust Office" means such corporate trust office of the Trustee as may be designated from time to time by written notice from the Trustee to the Authority, initially being Los Angeles, California. The Trustee may designate in writing to the Authority and the Holder such other office or agency from time to time for purposes of registration, transfer, exchange, payment or redemption of Bonds.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the Authority and related to the Bonds or Obligations, including, but not limited to, costs of preparation and reproduction of documents, costs of rating agencies and costs to provide information required by rating agencies, filing and recording fees, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, fees and expenses of the underwriter, fees and charges for preparation, execution and safekeeping of the Bonds or Obligations, premiums for bond insurance, if any, and any other cost, charge or fee in connection with the original execution and delivery of the Bonds or Obligations.

"Costs of Issuance Fund" means the Costs of Issuance Fund established in the Trust Agreement.

"Current Interest Bonds" means those Bonds issued in Authorized Denominations of $5,000 and any integral multiple thereof, the interest on which is payable on each Interest Payment Date.

"Defeasance Securities" means:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation); and

(2) Obligations of or obligations guaranteed as to principal and interest by, the United States or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States, including (without limitation):

- U.S. Treasury obligations
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration

- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA)
- State and Local Government Series

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

"Holder" means any person who shall be the registered owner of any Outstanding Bond.

"Independent Certified Public Accountant" means any certified public accountant or firm of such accountants duly licensed and entitled to practice and practicing as such under the laws of the State or a comparable successor, appointed and paid by the Authority, and who, or each of whom --

(a) is in fact independent according to the Statement of Auditing Standards No. 1 and not under the domination of the Authority;

(b) does not have a substantial financial interest, direct or indirect, in the operations of the Authority; and

(c) is not connected with the Authority as a member, officer or employee of the Authority, but who may be regularly retained to audit the accounting records of and make reports thereon to the Authority.

"Interest Account" means the account by that name established in the Trust Agreement.

"Interest Payment Date" means each June 1 and December 1, commencing December 1, 2006, which are the dates upon which interest is due on the Bonds (or, with respect to Capital Appreciation Bonds, compounded), as set forth in the Trust Agreement.

"Local Agencies" means the California local agencies listed in the Trust Agreement and their successors and assigns.

"Local Agency Obligations" or "Obligations" means the taxable pension obligation bonds issued by the Local Agencies in the respective aggregate principal amounts described in the Trust Agreement.

"Local Agency Trust Agreements" means the respective trust agreements, dated as of June 1, 2006, by and between each Local Agency and Wells Fargo Bank, National Association, as trustee, pursuant to which the Obligations are issued, as such may be supplemented or amended from time to time.

"Local Agency Trustee" means the trustee under each of the Local Agency Trust Agreements.

"Maturity Amount" means the Accreted Value of any Capital Appreciation Bond on its Maturity Date.

"Maturity Date" means the maturity date of the Bonds.

"Original Purchaser of the Bonds" means the original purchaser of the Bonds designated in the Trust Agreement.

"Opinion of Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Authority.

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of the Trust Agreement) all Bonds except:

- Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

- Bonds paid or deemed to have been paid within the meaning of provided for in the Trust Agreement; and

- Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the Authority pursuant to the Trust Agreement.

"Permitted Investments" means any of the following as approved by the Bond Insurer:

(1) Defeasance Securities;

(2) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Rural Economic Community Development Administration
- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration
- Federal Financing Bank;

(3) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC)

- Obligations of the Resolution Funding Corporation (REFCORP)

- Senior debt obligations of the Federal Home Loan Bank System

- Senior debt obligations of other Government Sponsored Agencies approved by the Bond Insurer;

(4) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks (including the Trustee and its affiliates) which have a rating on their short-term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and which mature not more than three hundred sixty (360) calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(5) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than two hundred seventy (270) calendar days after the date of purchase;

(6) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including funds for which the Trustee or its affiliates provide investment advisory or other management services;

(7) Pre-refunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's and S&P or any successors thereto; or

(B) (i) which are fully secured as to interest and principal and redemption premiums, if any, by an escrow consisting only of cash or obligations described in paragraph (2) of the definition of Defeasance Securities, which escrow may be applied only to the payment of such interest and principal and redemption premiums, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premiums, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(8) Municipal obligations rated "Aaa/AAA" or general obligations of States with a rating of "A2/A" or higher by both Moody's and S&P;

(9) Investment agreements approved in writing by the Bond Insurer (supported by appropriate opinions of counsel);

(10) The Local Agency Investment Fund (as that term is defined in Section 16429.1 of the Government Code of the State, as such Section may be amended or recodified from time to time);

(11) Investment Trust of California, doing business as CalTRUST; and

(12) Other forms of investments (including repurchase agreements) approved in writing by the Bond Insurer.

The value of the above investments shall be determined as follows:

(a) For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Citigroup Global Markets Inc., Bear Stearns, or Lehman Brothers;

(b) As to certificates of deposit and bankers' acceptances, the face amount thereof, plus accrued interest thereon; and

(c) As to any investment not specified above, the value thereof established by prior agreement among the Authority, the Trustee and the Bond Insurer.

"Principal Account" means the account by that name established in the Trust Agreement.

"Principal Amount" means (a) as to any Current Interest Bond, the principal amount thereof, or (b) as to any Capital Appreciation Bond, the Maturity Amount thereof.

"Principal Payment Date" means a date on which principal is due on the Bonds as set forth in the Trust Agreement.

"Proceeds Fund" means the fund by that name established pursuant to the Trust Agreement.

"Rating Agencies" means Moody's Investors Service, Inc. and Standard & Poor's Rating Services, a division of McGraw Hill Companies, Inc., or, in the event that Moody's Investors Service, Inc. or Standard & Poor's Rating Services no longer maintains a rating on the Bonds, any other nationally recognized bond rating agency then maintaining a rating on the Bonds, but, in each instance, only so long as Moody's Investors Service, Inc., Standard & Poor's Rating Services or other nationally recognized rating agency then maintains a rating on the Bonds.

"Record Date" means the fifteenth day of the month preceding each Interest Payment Date.

"State" means the State of California.

"Supplemental Trust Agreement" means any trust agreement then in full force and effect which has been duly executed and delivered by the Authority and the Trustee amendatory of the Trust Agreement or supplemental thereto; but only if and to the extent that such Supplemental Trust Agreement is specifically authorized thereunder.

"System" means the California Public Employees' Retirement System.

"Term Bonds" means Bonds which are payable on or before their specified Maturity Dates from sinking fund payments established for that purpose and calculated to retire such Bonds on or before their specified Maturity Dates.

"Trust Agreement" means the Trust Agreement, dated as of June 1, 2006, between the Authority and the Trustee, as originally executed and as it may from time to time be amended or supplemented by all Supplemental Trust Agreements executed pursuant to the provisions of the Trust Agreement.

"Trustee" means Wells Fargo Bank, National Association, or its successors or assigns or any other association or corporation which may at any time be substituted in its place as provided in the Trust Agreement.

"2006 Series A Bonds" means all Bonds of that designation of the Authority authorized by and at any time Outstanding pursuant to the Trust Agreement and executed, issued and delivered in accordance thereto.

"Written Request of the Authority" means an instrument in writing signed by an Authorized Authority Representative or such officer's designee, or by any other officer of the Authority duly authorized by the Commission of the Authority in writing to the Trustee for that purpose.

SUMMARY OF THE TRUST AGREEMENT

Establishment of Funds and Deposit of Proceeds of Bonds

The Trustee shall establish and maintain under the Trust Agreement, in trust, the Costs of Issuance Fund, the Proceeds Fund, the Bond Fund, the Interest Account and the Principal Account. The proceeds received from the sale of the Bonds are to be deposited in the Costs of Issuance Fund and the Proceeds Fund.

Use of Money in the Costs of Issuance Fund and the Proceeds Fund

(a) The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee, to pay the Costs of Issuance of Obligations upon receipt of (i) a Request of an Authorized Authority Representative, which Request shall be sequentially numbered, stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund and (ii) an original invoice or invoices or evidence of the Local Agency's, Authority's or Original Purchaser's payment of an invoice when such requisition is in reimbursement thereof. On December 1, 2006, or on such earlier date upon Request of an Authorized Authority Representative, amounts, if any, remaining in the Costs of Issuance Fund (and not required to pay identified Costs of Issuance) shall be transferred as directed by the Authority.

(b) Moneys in the Proceeds Fund shall be disbursed on the Closing Date for the 2006 Series A Bonds to the Pension System and in the amounts set forth in the Trust Agreement relating to such Local Agency, pursuant to a Request of an Authorized Authority Representative.

Use of Money in the Bond Fund

The Trustee shall deposit the money contained in the Bond Fund at the following respective times in the following respective accounts (each of which is established pursuant to the Trust Agreement) in the manner and priority thereinafter provided, and the money in each of such funds shall be disbursed only for the purposes and uses thereinafter authorized:

(a) Interest Account. The Trustee shall deposit, on each Interest Payment Date in the Interest Account, that amount of money representing the interest due and payable on the Bonds on such date; and such money shall be used by the Trustee solely for the purpose of paying interest on the Bonds on such date.

(b) Principal Account. The Trustee, on the Principal Payment Date, shall deposit in the Principal Account that amount of money representing the principal becoming due and payable on the Bonds on such Principal Payment Date. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal or Accreted Value of the Bonds on the Principal Payment Date.

The Trustee shall establish and maintain within the Principal Account a separate subaccount for the Term Bonds of each series and maturity, designated as the "_____ Sinking Account" (the "Sinking Account"), inserting therein the series and maturity (if more than one such account is established for such series) designation of such Bonds. With respect to each Sinking Account, on each mandatory sinking account payment date established for such Sinking Account, the Trustee shall apply the mandatory sinking account payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of the series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Trust Agreement; provided that, at any time prior to giving such notice of such redemption, the Trustee may upon the Written Request of the Authority, apply moneys in such Sinking Account to the purchase for cancellation of Term Bonds of such series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account), as may be directed by the Authority, except that the purchase price (excluding accrued interest) shall not exceed the redemption price that would be payable for such Bonds upon redemption by application of such Mandatory Sinking Account Payment. If, during the twelve-month period immediately preceding said mandatory sinking account payment date, the Trustee has purchased Term Bonds of such series and maturity with moneys in such Sinking Account, such Bonds so purchased shall be applied, to the extent of the full principal amount or Accreted Value thereof, as applicable, to reduce said mandatory sinking account payment.

Moneys held in the Bond Fund, the Principal Account or the Interest Account on each Interest Payment Date after the payment by the Trustee of all of the principal of and interest on the Bonds shall be (i) returned by the Trustee to each Local Agency (other than a Local Agency which is in default in the payment of the principal of and interest on its Obligation) in an amount equal to the proportion of the amount initially received from each Local Agency and deposited in the Bond Fund over all amounts received from all Local Agencies and deposited in the Bond Fund multiplied by the remaining balance in the Bond Fund, or (ii) applied by the Trustee as otherwise directed by the Authority.

Investments

Any money held by the Trustee at any time in any Fund created under the Trust Agreement shall, to the fullest extent practicable, be invested as directed in writing by an Authorized Authority Representative in Permitted Investments which will, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed for disbursement under the Trust Agreement. In the absence of any written direction from the Authority, the Trustee shall invest any money held in any Fund created under the Trust Agreement in Permitted Investments identified in clause (6) of the definition thereof which will, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed for disbursement thereunder. The amounts held in the Proceeds Fund will be accounted for separately for the respective Local Agencies. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may at its sole discretion, for the purpose of any such investment, commingle any of the money held by it under the Trust Agreement. The Trustee shall not be liable or responsible for any loss suffered in connection with any such deposit or investment made by it under the terms of and in accordance with this section. The Trustee may present for redemption or sell any such deposit or investment whenever it shall be necessary in order to provide money to meet any payment of the money so deposited or invested, and the Trustee shall not be liable or responsible for any losses resulting from any such deposit or investment presented for redemption or sold. Any interest or profits on such deposits and investments received by the Trustee shall be credited to the fund, account or subaccount from which such investment was made.

Punctual Payment and Performance

The Authority will punctually pay the interest on and the principal of and redemption premiums, if any, to become due on every Bond issued under the Trust Agreement in strict conformity with the terms thereof and of the Bonds, and will faithfully observe and perform all the agreements and covenants to be observed or performed by the Authority contained therein and in the Bonds.

Additional Debt

The Authority expressly reserves the right to enter into one or more other agreements or indentures for any of its purposes, and reserves the right to issue other obligations for such purposes.

The Trustee

Wells Fargo Bank, National Association shall serve as the Trustee for the Bonds for the purpose of receiving all money which the Authority is required to deposit with the Trustee under the Trust Agreement and for the purpose of allocating, applying and using such money as provided therein and for the purpose of paying the interest on and principal of and redemption premiums, if any, on the Bonds presented for payment at the Corporate Trust Office of the Trustee with the rights and obligations provided therein. The Authority agrees that it will at all times maintain a Trustee having a corporate trust office in Los Angeles or San Francisco, California.

The Authority may at any time, unless there exists any Event of Default as defined in the Trust Agreement, remove the Trustee initially appointed and any successor thereto and may appoint a successor or successors thereto by an instrument in writing; provided that any such successor shall be a bank or trust company doing business and having a corporate trust office in Los Angeles or San Francisco, California, having a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars ($50,000,000) and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Trustee may at any time resign by giving written notice of such resignation to the Authority and by mailing to the Holders notice of such resignation. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing. Any removal or resignation of a Trustee and appointment of a successor Trustee shall become effective only upon the acceptance of appointment by the successor Trustee. If, within thirty (30) days after notice of the removal or resignation of the Trustee no successor Trustee shall have been appointed and shall have accepted such appointment, the removed or resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee, which court may thereupon, after such notice, if any, as it may deem proper and prescribe and as may be required by law, appoint a successor Trustee having the qualifications required by the Trust Agreement.

The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default that may have occurred, perform such duties and only such duties as are specifically set forth in the Trust Agreement and no implied duties or obligations shall be read into the Trust Agreement. The Trustee shall, during the existence of any Event of Default (that has not been cured), exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

Amendment of the Trust Agreement

The Trust Agreement and the rights and obligations of the Authority and of the Holders may be amended at any time by a Supplemental Trust Agreement which shall become binding when the written consents of the Holders of a majority in Aggregate Principal Amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Trust Agreement, are filed with the Trustee. No such amendment shall (1) extend the maturity of or reduce the interest rate on or amount of interest on or principal of or redemption premium, if any, or extend the time of payment on any Bond without the express written consent of the Holder of such Bond, or (2) reduce the percentage of Bonds required for the written consent to any such amendment.

The Trust Agreement and the rights and obligations of the Authority and of the Holders may also be amended at any time by a Supplemental Trust Agreement which shall become binding upon adoption without the consent of any Holders, but only to the extent permitted by law and after receipt of an approving Opinion of Counsel, for any purpose that will not materially adversely affect the interests of the Holders, including (without limitation) for any one or more of the following purposes:

(a) to add to the agreements and covenants required in the Trust Agreement to be performed by the Authority other agreements and covenants thereafter to be performed by the Authority, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved therein to or conferred therein on the Authority;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Agreement and in any Supplemental Trust Agreement or in regard to questions arising thereunder which the Authority may deem desirable or necessary and not inconsistent therewith;

(c) to modify, amend or add to the provisions therein or in any Supplemental Trust Agreement to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statutes thereafter in effect, and to add such other terms, conditions and provisions as may be permitted by such statute or similar statute; or

(d) to modify, amend or supplement the Trust Agreement and any Supplemental Trust Agreement in any manner that does not materially adversely affect the interest of Holders of Bonds.

The Trustee shall not be required to enter into or consent to any Supplemental trust agreement which, in the sole judgment of the Trustee, may adversely affect the rights, obligations, powers, privileges, indemnities and immunities provided the Trustee therein.

Amendment by Mutual Consent

The provisions of the Trust Agreement shall not prevent any Holder from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

Action on Default

If any default in the payment of principal of or interest on an Obligation or any other "Event of Default" defined in a Local Agency Trust Agreement shall occur and be continuing, then such default shall constitute an "Event of Default" under the Trust Agreement, and in each and every such case during the continuance of such Event of Default the Trustee or the Owners of not less than a majority in aggregate principal amount of Bonds at the time Outstanding shall, upon notice in writing to such Local Agency, exercise the remedies provided to the owner of the Obligation then in default or under the Local Agency Trust Agreement pursuant to which it was issued which are necessary or desirable to collect the principal of the Obligation and the interest thereon to maturity.

Non-Waiver

A waiver by the Trustee of any default under the Trust Agreement or breach of any obligation thereunder shall not affect any subsequent default thereunder or any subsequent breach of an obligation thereunder or impair any rights or remedies on any such subsequent default thereunder or on any such subsequent breach of an obligation thereunder. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default thereunder shall impair any such right or remedy or shall be construed to be a waiver of any such default thereunder or an acquiescence therein, and every right or remedy conferred upon the Trustee by applicable law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee, the Authority or the Local Agencies, the Authority, the Trustee and the Local Agencies shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Notwithstanding anything to the contrary, no waiver by the Trustee of any default under the Trust Agreement or breach of any obligation thereunder with respect to any Local Agency shall be effective without the prior written consent of the Bond Insurer.

Remedies Not Exclusive

No remedy conferred in the Trust Agreement upon or reserved therein to the Trustee is intended to be exclusive and all remedies shall be cumulative and each remedy shall be in addition to every other remedy given thereunder or now or thereafter existing under applicable law or equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any other applicable law.

Discharge of Bonds

(a) If the Authority shall pay or cause to be paid or there shall otherwise be paid to the Holders of all Outstanding Bonds the interest thereon and the principal thereof and the redemption premiums, if any, thereon at the times and in the manner stipulated therein and therein, and shall pay or provide for the payment of all fees and expenses of the Trustee, then all agreements, covenants and other obligations of the Authority to the Holders of such Bonds thereunder shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, the Trustee shall pay over or deliver to the Authority all money or securities held by it pursuant thereto which are not required for the payment of the interest on and principal of and redemption premiums, if any, on such Bonds.

(b) Any Outstanding Bonds shall prior to the Maturity Date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if (1) in case any of such Bonds are to be redeemed on any date prior to their Maturity Date, the Authority shall have given to the Trustee in form satisfactory to it irrevocable instructions to provide notice in accordance with the Trust Agreement, (2) there shall have been deposited with the Trustee either (A) money in an amount which shall be sufficient or (B) Defeasance Securities which are not subject to redemption prior to maturity (including any such Defeasance Securities issued or held in book-entry form on the books of the Authority or the Treasury of the United States of America), the interest on and principal of which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient, in the opinion of an Independent Certified Public Accountant, to pay when due the interest to become due on such Bonds on and prior to the Maturity Date or redemption date thereof, as the case may be, and the principal of and redemption premiums, if any, on such Bonds, and (3) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Holders of such Bonds that the deposit required by clause (2) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with this section and stating the Maturity Date or redemption date upon which money is to be available for the payment of the principal of and redemption premiums, if any, on such Bonds.

Consents and Rights of Bond Insurer

While the Bond Insurance Policy is in effect, the Authority and the Trustee agree to comply with the following provisions:

(a) Any provision of the Trust Agreement expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer under the Trust Agreement without the prior written consent of the Bond Insurer.

(b) Unless otherwise provided in this section, the Bond Insurer's consent shall be required in addition to the consent of the Holders of the Bonds, when required, for the following purposes: (i) the removal of the Trustee and selection and appointment of any successor Trustee; and (ii) the initiation or approval of any action not described in (i) above that requires the consent of the Holders of the Bonds.

(c) Anything contained in the Trust Agreement to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default thereunder, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Bonds or the Trustee for the benefit of the Holders of the Bonds thereunder, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default.

LOCAL AGENCY TRUST AGREEMENTS
DEFINITIONS

"Accreted Value" means, with respect to any Capital Appreciation Bond, an amount equal to the principal amount of such Local Agency Bond, plus interest accrued thereon from its date compounded on each Interest Payment Date (through and including the maturity date of such Bond) at the "original issue yield" for such Local Agency Bond; provided, that the Accreted Value on any date other than an Interest Payment Date shall be calculated by straight line interpolation of the Accreted Values as of the immediately preceding and succeeding Interest Payment Date. The term "original issue yield" means, with respect to any particular Local Agency Bond, the yield to maturity of such Local Agency

Bond from the initial date of delivery thereof calculated on the basis of semiannual compounding on each Interest Payment Date.

"Act" means Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Division 2 of Title 5 of the Government Code of the State of California.

"Additional Local Agency Bonds" means all Bonds of the Local Agency authorized by and at any time Outstanding pursuant to the Local Agency Trust Agreement and executed, issued and delivered in accordance therewith.

"Aggregate Principal Amount" means, as of any date of calculation, the principal amount or Accreted Value of the Local Agency Bonds referred to.

"Auction Rate Securities" means all Local Agency Bonds issued in such mode prior to their fixed rate conversion date, if any.

"Authorized Representatives" means the authorized representatives of the Local Agency pursuant to the Local Agency Trust Agreement.

"Business Day" means any day other than a Saturday or Sunday or day upon which the Trustee is authorized by law to remain closed.

"Capital Appreciation Local Agency Bonds" means Local Agency Bonds the interest on which is payable at maturity and compounded on each Interest Payment Date through and including the maturity dates thereof as specified in the Accreted Value Table for such Local Agency Bonds attached to the Local Agency Trust Agreement as or in a similar exhibit to a Supplemental Local Agency Trust Agreement.

"Certificate of the Local Agency" means an instrument in writing signed by any one of the Authorized Representatives of the Local Agency or such officer's designee, or by any other officer of the Local Agency duly authorized by the legislative branch of the Local Agency in writing to the Trustee for that purpose. If and to the extent required by the provisions of the Local Agency Trust Agreement each Certificate of the Local Agency shall include the statements provided for in the Local Agency Trust Agreement.

"Closing Date" means the date on which the Local Agency Bonds are delivered to the Authority.

"Corporate Trust Office" means such corporate trust office of the Local Agency Trustee as may be designated from time to time by written notice from the Trustee to the Local Agency, initially being Los Angeles, California. The Local Agency Trustee may designate in writing to the Local Agency and the Holder such other office or agency from time to time for purposes of registration, transfer, exchange, payment or redemption of Local Agency Bonds.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the Local Agency and related to the Local Agency Bonds, including, but not limited to, costs of preparation and reproduction of documents, costs of rating agencies and costs to provide information required by rating agencies, filing and recording fees, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, fees and expenses of the underwriter or placement agent, fees and charges for preparation, execution and safekeeping of the Local

Agency Bonds, premiums for bond insurance, if any, and any other cost, charge or fee in connection with the original execution and delivery of the Local Agency Bonds.

"Costs of Issuance Fund" means the Costs of Issuance Fund established in Local Agency Trust Agreement.

"Defeasance Securities" means:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation); and

(2) Obligations of or obligations guaranteed as to principal and interest by, the United States or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States, including:

- U.S. Treasury obligations
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA)
- State and Local Government Series

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

"Fiscal Year" means the twelve-month period terminating on June 30 of each year, or any other annual accounting period thereafter selected and designated by the Local Agency as its Fiscal Year in accordance with applicable law.

"Fixed Rate" means a rate of interest that does not change during a specific term, without adjustment, resetting or variation due to the effects of marketing, remarketing or indices.

"Holder" means any person who shall be the registered owner of any Outstanding Local Agency Bond.

"Index Local Agency Bonds" means those Local Agency Bonds which bear interest at an Index Rate.

"Index Rate" means the interest rate on Index Bonds established according to LIBOR, as provided in the Local Agency Trust Agreement.

"Independent Certified Public Accountant" means any certified public accountant or firm of such accountants duly licensed and entitled to practice and practicing as such under the laws of the State or a comparable successor, appointed and paid by the Local Agency, and who, or each of whom:

(a) is in fact independent according to the Statement of Auditing Standards No. 1 and not under the domination of the Local Agency;

(b) does not have a substantial financial interest, direct or indirect, in the operations of the Local Agency; and

(c) is not connected with the Local Agency as a member, officer or employee of the Local Agency, but who may be regularly retained to audit the accounting records of and make reports thereon to the Local Agency.

"Interest Account" means the account by that name established in the Local Agency Trust Agreement.

"Interest Payment Date" means each June 1, and December 1, commencing December 1, 2006, which are the dates upon which interest is due on the Local Agency Bonds (or, with respect to Capital Appreciation Local Agency Bonds, compounded), or such other date designated in a Supplemental Local Agency Trust Agreement.

"LIBOR" on any date of determination for any Auction Rate Period, means:

(i) subject to clause (ii) below, (A) for any Standard Auction Rate Period or any Special Auction Rate period of fewer than 49 days, the offered rate for deposits in U.S. dollars for a one-month period which appears on Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a London Business Day, then on the next preceding London Business day (the "calculation date") and (b) for any Special Auction Rate period of (i) 49 or more but fewer than 70 days, such rates for deposits in U.S. dollars for a two-month period; (ii) 70 or more but fewer than 85 days, the arithmetic average of such rates for deposits in U.S. dollars for two-and three-month periods; (iii) 85 or more but fewer than 120 days, such rate for deposits in U.S. dollars for a three-month period; (iv) 120 or more but fewer than 148 days, the arithmetic average of such rates for deposits in U.S. dollars for three- and six-month periods; (v) 148 or more but fewer than 180 days, such rate for deposits in U.S. dollars for a six-month period; (vi) 180 or more but fewer than 225 days, the arithmetic average of such rates for deposits in U.S. dollars for six- and nine-month periods; (vii) 225 or more but fewer than 290 days, such rate for deposits in U.S. dollars for a nine-month period; (viii) 290 or more but fewer than 325 days, the arithmetic average of such rates for deposits in U.S. dollars for nine-month and one-year periods; and (ix) 325 days or more, such rate for deposits in U.S. dollars for a one-year period; or

(ii) if, on any calculation date, no rate appears on Telerate Page 3750 as specified in clause (i) above, the arithmetic average of the offered quotations of four major banks in the London interbank market, selected by the Market Agent for deposits in U.S. dollars for the respective periods specified in clause (i) above to prime banks in the London interbank market at approximately 11:00 a.m., London time, on such calculation date and in a principal amount of not less than $1,000,000 that is representative of a single transaction in such market at such time, unless fewer than two such quotations are provided, in which case, the arithmetic average of the rates quoted at approximately 11:00 a.m., New York time, on the date next preceding such calculation date by three major banks in the City of New York, selected by the Market Agent, for loans in U.S. dollars to leading European banks in a principal amount of not less than $1,000,000 that is representative of a single transaction in such market at such time.

"Local Agency" means the Local Agency participating in the issuance of the Local Agency Bonds.

"Local Agency Act" means Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Division 2 of Title 5 of the Government Code of the State of California.

"Local Agency Bonds" means the 2006 Series A Local Agency Bonds and all Additional Local Agency Bonds.

"Local Agency Bond Fund" means the Local Agency Bond Fund established pursuant to the Local Agency Trust Agreement.

"Local Agency Trust Agreement" means the Trust Agreement, dated as of June 1, 2006, between the Local Agency and the Trustee, as originally executed and as it may from time to time be amended or supplemented by all Supplemental Local Agency Trust Agreements executed pursuant to the provisions of the Local Agency Trust Agreement.

"Local Agency Trustee" means Wells Fargo Bank, National Association, or any other association or corporation which may at any time be substituted in its place as provided in the Local Agency Trust Agreement.

"Maturity Amount" means the Accreted Value of any Capital Appreciation Bond on its maturity date.

"Opinion of Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Local Agency.

"Original Purchaser of the Local Agency Bonds" means the original purchaser of the Local Agency Bonds designated in the Local Agency Trust Agreement.

"Outstanding," when used as of any particular time with reference to Local Agency Bonds, means (subject to the provisions of the Local Agency Trust Agreement) all Local Agency Bonds except:

(a) Local Agency Bonds theretofore cancelled by the Local Agency Trustee or surrendered to the Local Agency Trustee for cancellation;

(b) Local Agency Bonds paid or deemed to have been paid within the meaning of the Local Agency Trust Agreement; and

(c) Local Agency Bonds in lieu of or in substitution for which other Local Agency Bonds shall have been executed, issued and delivered by the Local Agency pursuant to the Local Agency Trust Agreement.

"Permitted Investments" means any of the following as approved by the Bond Insurer:

(1) Defeasance Securities;

(2) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Rural Economic Community Development Administration
- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHA's)

- Federal Housing Administration
- Federal Financing Bank;

(3) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC)

- Obligations of the Resolution Funding Corporation (REFCORP)

- Senior debt obligations of the Federal Home Loan Bank System

- Senior debt obligations of other Government Sponsored Agencies approved by the Bond Insurer;

(4) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks (including the Trustee and its affiliates) which have a rating on their short-term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and which mature not more than three hundred sixty (360) calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank):

(5) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than two hundred seventy (270) calendar days after the date of purchase;

(6) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including funds for which the Trustee or its affiliates provide investment advisory or other management services;

(7) Pre-refunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's and S&P or any successors thereto; or

(B) (i) which are fully secured as to interest and principal and redemption premiums, if any, by an escrow consisting only of cash or obligations described in paragraph (2) of the definition of Defeasance Securities, which escrow may be applied only to the payment of such interest and principal and redemption premiums, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premiums, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(8) Municipal obligations rated "Aaa/AAA" or general obligations of States with a rating of "A2/A" or higher by both Moody's and S&P;

(9) Investment agreements approved in writing by the Bond Insurer (supported by appropriate opinions of counsel);

(10) The Local Agency Investment Fund (as that term is defined in Section 16429.1 of the Government Code of the State, as such Section may be amended or recodified from time to time);

(11) Investment Trust of California, doing business as CalTRUST; and

(12) Other forms of investments (including repurchase agreements) approved in writing by the Bond Insurer.

The value of the above investments shall be determined as follows:

(a) For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Citigroup Global Markets Inc., Bear Stearns, or Lehman Brothers;

(b) As to certificates of deposit and bankers' acceptances, the face amount thereof, plus accrued interest thereon; and

(c) As to any investment not specified above, the value thereof established by prior agreement among the Authority, the Trustee and the Bond Insurer.

"Principal Account" means the account by that name established in the Local Agency Trust Agreement.

"Principal Payment Date" means a date on which principal is due on the Local Agency Bonds as set forth in the Local Agency Trust Agreement.

"Qualified Swap Agreement" or "Swap Agreement" means (i) any ISDA Master Swap Agreement, by and between the Local Agency and a Qualified Swap Provider, which includes Schedule A thereto and the applicable Commitment, (a) that is entered into by the Local Agency with an entity that is a Qualified Swap Provider at the time the arrangement is entered into; (b) which provides that the Local Agency shall pay to such entity an amount based on the interest accruing at a Fixed Rate on an amount equal to the principal amount of Outstanding Local Agency Bonds covered by such Swap Agreement, if any, and that such entity shall pay to the Local Agency an amount based on the interest accruing on a principal amount equal to the then-Outstanding principal amount of the affected Local Agency Bonds, at a variable rate of interest computed according to a formula set forth in the Swap Agreement (which need not be the same formula by which the Auction Rate, if applicable, is calculated) or that one shall pay to the other any net amount due under such arrangement; and (c) which has been designated in writing to the Local Agency Trustee in a Certificate of the Local Agency as a Qualified Swap Agreement with respect to the affected Local Agency Bonds.

"Qualified Swap Provider" means with respect to the counterparty under any other Swap Agreement meeting the requirements of the definition thereof, a financial institution approved by the Local Agency, and (A) the long-term, unsecured and unsubordinated obligations of which are rated at the time of execution of the related Qualified Swap Agreement by at least one Rating Agency as described in clause (i) below and by at least one other Rating Agency as described in clause (ii) below: (i) at least "Aa3" by Moody's or "AA-" by S&P or Fitch and (ii) not lower than "A2" by Moody's or "A" by S&P or Fitch"; or (B) the obligations of which under the particular Qualified Swap Agreement and any Swap Policy related thereto are unconditionally guaranteed by a bank or non-bank financial institution, the long-term, unsecured and unsubordinated obligations of which are rated at the time of execution of the Qualified Swap Agreement by at least one Rating Agency as described in clause (i) above and by at least one other rating agency as described in clause (ii) above.

"Rating Agencies" means Moody's Investors Service, Inc. and Standard & Poor's Corporation, or, in the event that Moody's Investors Service, Inc. or Standard & Poor's Corporation no longer maintains a rating on the Local Agency Bonds, any other nationally recognized bond rating agency then maintaining a rating on the Local Agency Bonds, but, in each instance, only so long as Moody's Investors Service, Inc., Standard & Poor's Corporation or other nationally recognized rating agency then maintains a rating on the Local Agency Bonds.

"Record Date" means the fifteenth day of the month preceding each Interest Payment Date, or such other date designated in a Supplemental Local Agency Trust Agreement.

"Retirement Law" means the Public Employees' Retirement Law commencing with Section 20000 of the Government Code of the State of California, as amended.

"Serial Local Agency Bonds" means Local Agency Bonds for which no sinking fund payments are provided.

"State" means the State of California.

"Surplus Account" means the account by that name established in the Local Agency Trust Agreement.

"Supplemental Local Agency Trust Agreement" means any trust agreement then in full force and effect which has been duly executed and delivered by the Local Agency and the Local Agency Trustee amendatory thereof or supplemental to the Local Agency Trust Agreement; but only if and to the extent that such Supplemental Local Agency Trust Agreement is specifically authorized under the Local Agency Trust Agreement.

"Swap Payments" means any of the periodic payments due from the Local Agency pursuant to the terms of a Qualified Swap Agreement.

"System" means the California Public Employees' Retirement System.

"Term Local Agency Bonds" means Local Agency Bonds which are payable on or before their specified maturity dates from sinking fund payments established for that purpose and calculated to retire such Local Agency Bonds on or before their specified maturity dates.

"Written Request of the Local Agency" means an instrument in writing signed by any one of the Authorized Representatives of the Local Agency or such officer's designee, or by any other officer of the Local Agency duly authorized by the legislative branch of the Local Agency in writing to the Local Agency Trustee for that purpose.

SUMMARY OF THE LOCAL AGENCY TRUST AGREEMENTS

Local Agency Bond Fund; Deposits to Local Agency Bond Fund

(a) In order to meet the Local Agency's obligations under the Retirement Law, the Local Agency shall deposit or cause to be deposited with the Local Agency Trustee on or before August 1 of each Fiscal Year (or such other date as provided in a Supplemental Trust Agreement) the amount which, together with moneys transferred pursuant to the Local Agency Trust Agreement, is sufficient to pay the Local Agency's debt service obligations on the Local Agency Bonds payable during such Fiscal Year. In addition, in the event debt service is payable on the Bonds in July of any year, the deposit made pursuant to this section shall also include an amount equal to debt service on the Bonds payable in July of the next succeeding Fiscal Year.

In establishing the amounts of the Local Agency's obligations on the Local Agency Bonds to be prepaid in each Fiscal Year, (i) (A) the debt service for Auction Rate Securities not subject to a Qualified Swap Agreement with an Auction Rate Period of less than 360 Rate Period Days shall be prepaid at the actual average interest rate for the immediately preceding Fiscal Year plus 200 basis points (2.00%), and if such information is not available for the full immediately preceding Fiscal Year, then the debt service for such Auction Rate Securities shall be prepaid at the average one-month LIBOR plus 200 basis points (2.00%) for the immediately preceding Fiscal Year; the debt service for Index Local Agency Bonds not subject to a Qualified Swap Agreement shall be prepaid at the average one-month LIBOR in effect during the immediately preceding Fiscal Year, plus 200 basis points (2.00%); or (B) the debt service for Auction Rate Securities not subject to a Qualified Swap Agreement with an Auction Rate Period of 360 Rate Period Days or longer shall be prepaid at the actual interest rate in effect for such Auction Rate Securities; and (ii) the debt service for all other Local Agency Bonds then Outstanding shall be prepaid at (A) the rate prescribed under the applicable Qualified Swap Agreement, if any, for Auction Rate Securities and Index Local Agency Bonds subject to a Qualified Swap Agreement, and (B) the actual interest rate in effect for Fixed Rate Local Agency Bonds.

(b) All amounts payable by the Local Agency under the Local Agency Trust Agreement shall be promptly deposited by the Local Agency Trustee upon receipt thereof in a special fund designated as the "Local Agency Bond Fund" which fund is created and shall be held in trust by the Local Agency Trustee.

Allocation of Moneys in Local Agency Bond Fund

On or before each Interest Payment Date or date fixed for redemption of Local Agency Bonds, the Local Agency Trustee shall transfer from the Local Agency Bond Fund, in immediately available funds, for deposit into the following respective accounts (each of which is created and which the Local Agency Trustee shall maintain in trust separate and distinct from the other funds and accounts established under the Local Agency Trust Agreement), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of funds sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any account subsequent in priority:

(a) Interest Account,

(b) Principal Account, and

(c) Surplus Account.

All money in each of such accounts shall be held in trust by the Local Agency Trustee and shall be applied, used and withdrawn only for the purposes authorized in this section.

(a) Interest Account. On or before each Interest Payment Date, the Local Agency Trustee shall set aside from the Local Agency Bond Fund and deposit in the Interest Account that amount of money which is equal to the amount of interest becoming due and payable on all Outstanding Local Agency Bonds on such Interest Payment Date.

No deposit need be made in the Interest Account if the amount contained therein is at least equal to the aggregate amount of interest becoming due and payable on all Outstanding Local Agency Bonds on such Interest Payment Date.

All money in the Interest Account shall be used and withdrawn by the Local Agency Trustee solely for the purpose of paying the interest on the Local Agency Bonds as it shall become due and payable (including accrued interest on any Local Agency Bonds purchased or redeemed prior to maturity).

(b) Principal Account. On or before each Principal Payment Date, the Local Agency Trustee shall set aside from the Local Agency Bond Fund and deposit in the Principal Account an amount of money equal to the amount of all sinking fund payments required to be made on such Principal Payment Date into the respective sinking fund accounts for all Outstanding Term Local Agency Bonds and the principal amount or Accreted Value of all Outstanding Serial Local Agency Bonds maturing on such Principal Payment Date.

No deposit need be made in the Principal Account if the amount contained therein is at least equal to the aggregate amount of the principal or Accreted Value of all Outstanding Serial Local Agency Bonds maturing by their terms on such Principal Payment Date plus the aggregate amount of all sinking fund payments required to be made on such Principal Payment Date for all Outstanding Term Local Agency Bonds.

The Local Agency Trustee shall establish and maintain within the Principal Account a separate subaccount for the Term Local Agency Bonds of each series and maturity, designated as the "____ Sinking Account" (the "Sinking Account"), inserting therein the series and maturity (if more than one such account is established for such series) designation of such Local Agency Bonds. With respect to each Sinking Account, on each mandatory sinking account payment date established for such Sinking Account, the Local Agency Trustee shall apply the mandatory sinking account payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Local Agency Bonds of the series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Local Agency Trust Agreement; provided that, at any time prior to giving such notice of such redemption, the Local Agency Trustee may upon the Written Request of the Local Agency, apply moneys in such Sinking Account to the purchase for cancellation of Term Local Agency Bonds of such series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account), as may be directed by the Local Agency, except that the purchase price (excluding accrued interest) shall not exceed the redemption price that would be payable for such Local Agency Bonds upon redemption by application of such Mandatory Sinking Account Payment. If, during the twelve-month period immediately preceding said mandatory sinking account payment date, the Local Agency Trustee has purchased Term Local Agency Bonds of such series and maturity with moneys in such Sinking Account, such Local Agency Bonds so purchased shall be applied, to the extent of the full principal amount or Accreted Value thereof, as applicable, to reduce said mandatory sinking account payment.

All money in the Principal Account shall be used and withdrawn by the Local Agency Trustee solely for the purpose of paying the principal or Accreted Value of the Local Agency Bonds, as applicable, as they shall become due and payable, whether at maturity or redemption, except that any money in any sinking fund account shall be used and withdrawn by the Local Agency Trustee only to purchase or to redeem or to pay Term Local Agency Bonds for which such Sinking Account was created.

(c) Surplus Account. On the Business Day following the last Interest Payment Date of each Fiscal Year, or on such other date as provided in a Supplemental Trust Agreement, any moneys remaining in the Local Agency Bond Fund shall be deposited by the Local Agency Trustee in the Surplus Account. So long as no Event of Default has occurred and is continuing, moneys deposited in the Surplus Account shall be transferred by the Local Agency Trustee to or upon the order of the Local Agency, as specified in a Written Request of the Local Agency.

Deposit and Investments of Money in Accounts and Funds

All money held by the Local Agency Trustee in any of the accounts or funds established pursuant to the Local Agency Trust Agreement shall be invested in Permitted Investments at the Written Request of the Local Agency. If no Written Request of the Local Agency is received, the Local Agency Trustee shall invest funds held by it in Permitted Investments described in clause 6 of the definition thereof. Such investments shall, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed for disbursement under the Local Agency Trust Agreement. All interest, profits and other income received from any money so invested shall be deposited in the Local Agency Bond Fund. The Local Agency Trustee shall have no liability or responsibility for any loss resulting from any investment made or sold in accordance with the provisions of the Local Agency Trust Agreement, except for any loss due to the negligence or willful misconduct of the Local Agency Trustee. The Local Agency Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charge therefor.

Additional Local Agency Bonds

The Local Agency may at any time issue Additional Local Agency Bonds on a parity with the Local Agency Bonds, but only subject to the following specific conditions, which are made conditions precedent to the issuance of any such Additional Local Agency Bonds:

(a) The Local Agency shall be in compliance with all agreements and covenants contained in the Local Agency Trust Agreement.

(b) The issuance of such Additional Local Agency Bonds shall have been authorized pursuant to the Act and shall have been provided for by a Supplemental Local Agency Trust Agreement which shall specify the following:

(1) The purpose for which such Additional Local Agency Bonds are to be issued; provided that such Additional Local Agency Bonds shall be applied solely for (i) the purpose of satisfying any obligation of the Local Agency to make payments to the System pursuant to the Retirement Law relating to pension benefits accruing to the System's members, and/or for payment of all costs incidental to or connected with the issuance of Additional Bonds for such purpose, and/or (ii) the purpose of refunding any Local Agency Bonds then Outstanding, including payment of all costs incidental to or connected with such refunding;

(2) Whether such Local Agency Bonds are current interest fixed rate bonds, listed securities, index bonds, auction rate securities, variable rate bonds, tender option bonds,

capital appreciation bonds or bonds bearing interest at such other interest rate modes as may be set forth in a Supplemental Local Agency Trust Agreement;

(3) The authorized principal amount and designation of such Additional Local Agency Bonds;

(4) The date and the maturity dates of and the sinking fund payment dates, if any, for such Additional Local Agency Bonds;

(5) The interest payment dates for such Additional Local Agency Bonds;

(6) The denomination or denominations of and method of numbering such Additional Local Agency Bonds;

(7) The redemption premiums, if any, and the redemption terms, if any, for such Additional Local Agency Bonds;

(8) The amount, if any, to be deposited from the proceeds of sale of such Additional Local Agency Bonds in the Interest Account hereinafter referred to; and

(9) Such other provisions (including the requirements of a book-entry Bond registration system, if any) as are necessary or appropriate and not inconsistent with the Local Agency Trust Agreement.

Procedure for the Issuance of Additional Local Agency Bonds

At any time after the sale of any Additional Local Agency Bonds in accordance with the Act, the Local Agency shall execute such Additional Local Agency Bonds for issuance under the Local Agency Trust Agreement and shall deliver them to the Trustee, and thereupon such Additional Local Agency Bonds shall be delivered by the Trustee to the purchaser thereof upon the Written Request of the Local Agency, but only upon receipt by the Local Agency Trustee of the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Additional Local Agency Bonds by the Local Agency Trustee:

(a) An executed copy of the Supplemental Trust Agreement authorizing the issuance of such Additional Local Agency Bonds;

(b) A Written Request of the Local Agency as to the delivery of such Additional Local Agency Bonds;

(c) An Opinion of Counsel to the effect that (1) the Local Agency has executed and delivered the Supplemental Local Agency Trust Agreement, and the Supplemental Local Agency Trust Agreement is valid and binding upon the Local Agency and (2) such Additional Local Agency Bonds are valid and binding obligations of the Local Agency;

(d) A Certificate of the Local Agency stating that all requirements of the Local Agency Trust Agreement have been complied with and containing any other such statements as may be reasonably necessary to show compliance with the conditions for the issuance of such Additional Local Agency Bonds contained in the Local Agency Trust Agreement;

(e) Such further documents, money or securities as are required by the provisions of the Supplemental Local Agency Trust Agreement providing for the issuance of such Additional Local Agency Bonds.

Additional Debt

The Local Agency expressly reserves the right to enter into one or more other agreements or indentures for any of its purposes, and reserves the right to issue other obligations for such purposes.

The Local Agency Trustee

Wells Fargo Bank, National Association shall serve as the Local Agency Trustee for the Local Agency Bonds for the purpose of receiving all money which the Local Agency is required to deposit with the Local Agency Trustee under the Local Agency Trust Agreement and for the purpose of allocating, applying and using such money as provided therein and for the purpose of paying the interest on and principal of and redemption premiums, if any, on the Local Agency Bonds presented for payment at the Corporate Trust Office of the Local Agency Trustee with the rights and obligations provided in the Local Agency Trust Agreement. The Local Agency agrees that it will at all times maintain a Local Agency Trustee having a corporate trust office in Los Angeles or San Francisco, California.

The Local Agency may at any time, unless there exists any event of default as defined in the Local Agency Trust Agreement, remove the Local Agency Trustee initially appointed and any successor thereto and may appoint a successor or successors thereto by an instrument in writing; provided that any such successor shall be a bank or trust company doing business and having a corporate trust office in Los Angeles or San Francisco, California, having a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars ($50,000,000) and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Local Agency Trustee may at any time resign by giving written notice of such resignation to the Local Agency and by mailing to the Holders notice of such resignation. Upon receiving such notice of resignation, the Local Agency shall promptly appoint a successor Local Agency Trustee by an instrument in writing. Any removal or resignation of a Local Agency Trustee and appointment of a successor Local Agency Trustee shall become effective only upon the acceptance of appointment by the successor Local Agency Trustee. If, within thirty (30) days after notice of the removal or resignation of the Local Agency Trustee no successor Local Agency Trustee shall have been appointed and shall have accepted such appointment, the removed or resigning Local Agency Trustee may petition any court of competent jurisdiction for the appointment of a successor Local Agency Trustee, which court may thereupon, after such notice, if any, as it may deem proper and prescribe and as may be required by law, appoint a successor Local Agency Trustee having the qualifications required by the Local Agency Trust Agreement.

The Local Agency Trustee shall, prior to an event of default, and after the curing of all events of default that may have occurred, perform such duties and only such duties as are specifically set forth in the Local Agency Trust Agreement and no implied duties or obligations shall be read into the Local Agency Trust Agreement. The Local Agency Trustee shall, during the existence of any event of default (that has not been cured), exercise such of the rights and powers vested in it by the Local Agency Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

Compensation and Indemnification of Local Agency Trustee

The Local Agency covenants to pay to the Local Agency Trustee from time to time, and the Local Agency Trustee shall be entitled to, reasonable compensation for all services rendered by it in the exercise and performance of any of the powers and duties under the Local Agency Trust Agreement of the Local Agency Trustee, and the Local Agency will pay or reimburse the Local Agency Trustee upon its request for all expenses, disbursements and advances incurred or made by the Local Agency Trustee in accordance with any of the provisions of the Local Agency Trust Agreement (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence, default or willful misconduct, including the negligence or willful misconduct of any of its officers, directors, agents or employees.

Amendment of the Local Agency Trust Agreement

The Local Agency Trust Agreement and the rights and obligations of the Local Agency and of the Holders may be amended at any time by a Supplemental Trust Agreement which shall become binding when the written consents of the Holders of a majority in Aggregate Principal Amount of the Local Agency Bonds then Outstanding, exclusive of Local Agency Bonds disqualified as provided in the Local Agency Trust Agreement, are filed with the Local Agency Trustee. No such amendment shall (1) extend the maturity of or reduce the interest rate on or amount of interest on or principal of or redemption premium, if any, or extend the time of payment on any Bond without the express written consent of the Holder of such Bond, or (2) reduce the percentage of Local Agency Bonds required for the written consent to any such amendment.

The Local Agency Trust Agreement and the rights and obligations of the Local Agency and of the Holders may also be amended at any time by a Supplemental Trust Agreement which shall become binding upon adoption without the consent of any Holders, but only to the extent permitted by law and after receipt of an approving Opinion of Counsel, for any purpose that will not materially adversely affect the interests of the Holders, including (without limitation) for any one or more of the following purposes

(a) to add to the agreements and covenants required in the Local Agency Trust Agreement to be performed by the Local Agency other agreements and covenants thereafter to be performed by the Local Agency, to pledge or assign additional security for the Local Agency Bonds (or any portion thereof), or to surrender any right or power reserved in the Local Agency Trust Agreement to or conferred therein on the Local Agency;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Local Agency Trust Agreement and in any Supplemental Local Agency Trust Agreement or in regard to questions arising thereunder which the Local Agency may deem desirable or necessary and not inconsistent therewith;

(c) to provide for the issuance of any Additional Local Agency Bonds and to provide the terms of such Additional Local Agency Bonds, subject to the conditions and upon compliance with the procedure set forth in the Local Agency Trust Agreement (which shall be deemed not to adversely affect Holders);

(d) to modify, amend or add to the provisions in the Local Agency Trust Agreement or in any Supplemental Local Agency Trust Agreement to permit the qualification thereof under the Trust

Indenture Act of 1939, as amended, or any similar federal statutes thereafter in effect, and to add such other terms, conditions and provisions as may be permitted by such statute or similar statute;

(e) to modify, amend or add to the provisions in the Local Agency Trust Agreement or in any Supplemental Local Agency Trust Agreement pertaining to the terms or operations of interest on the Local Agency Bonds at a variable rate, as the Local Agency may deem necessary or desirable in order to conform to common market practices for such bonds; or

(f) to modify, amend or supplement the Local Agency Trust Agreement and any Supplemental Local Agency Trust Agreement in any manner that does not materially adversely affect the interest of Holders of Local Agency Bonds.

The Local Agency Trustee shall not be required to enter into or consent to any supplemental trust agreement which, in the sole judgment of the Local Agency Trustee, may adversely affect the rights, obligations, powers, privileges, indemnities and immunities provided the Local Agency Trustee in the Local Agency Trust Agreement.

Amendment by Mutual Consent

The provisions of this article shall not prevent any Holder from accepting any amendment as to the particular Local Agency Bonds held by him, provided that due notation thereof is made on such Local Agency Bonds.

Events of Default

If one or more of the following events (called "events of default" in the Local Agency Trust Agreement) shall happen, that is to say:

(a) if default shall be made by the Local Agency in the due and punctual payment of the interest on any Local Agency Bond when and as the same shall become due and payable;

(b) if default shall be made by the Local Agency in the due and punctual payment of the principal of or redemption premium, if any, on any Local Agency Bond when and as the same shall become due and payable, whether at maturity as therein expressed or by proceedings for redemption;

(c) if default shall be made by the Local Agency in the performance of any of the agreements or covenants required in the Local Agency Trust Agreement to be performed by the Local Agency, and such default shall have continued for a period of sixty (60) days after the Local Agency shall have been given notice in writing of such default by the Local Agency Trustee or the Owners of not less than twenty-five (25%) in Aggregate Principal Amount of the Local Agency Bonds at the time Outstanding, specifying such default and requiring the same to be remedied, provided, however, if the default stated in the notice can be corrected, but not within the applicable period, the Local Agency Trustee and such Owners shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the Local Agency within the applicable period and diligently pursued until the default is corrected; or

(d) if the Local Agency shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Local Agency seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Local Agency or of the whole or any substantial part of its property;

Institution of Legal Proceedings by Local Agency Trustee

If one or more of the events of default shall happen and be continuing, the Local Agency Trustee may, and upon the written request of the Holders of not less than fifty-one percent (51%) in Aggregate Principal Amount of the Local Agency Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Holders of Local Agency Bonds under this Local Agency Trust Agreement by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained therein, or in aid of the execution of any power granted in the Local Agency Trust Agreement, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Local Agency Trustee shall deem most effectual in support of any of its rights and duties under the Local Agency Trust Agreement.

Non-Waiver

Nothing in the Local Agency Trust Agreement or in the Local Agency Bonds shall affect or impair the obligation of the Local Agency, which is absolute and unconditional, to pay the interest on and principal of and redemption premiums, if any, on the Local Agency Bonds to the respective Holders of the Local Agency Bonds at the respective dates of maturity or upon prior redemption as provided in Local Agency Trust Agreement, or shall affect or impair the right of such Holders, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Local Agency Trust Agreement and in the Local Agency Bonds.

A waiver of any default or breach of duty or contract by the Local Agency Trustee or any Holder shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Local Agency Trustee or any Holder to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Holders by the Act or by this Article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Local Agency Trustee or the Holders.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned, the Local Agency, the Trustee and any Holder shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive

No remedy in the Local Agency Trust Agreement conferred upon or reserved to the Holders is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Local Agency Trust Agreement or now or thereafter existing at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

Discharge of Local Agency Bonds

(a) If the Local Agency shall pay or cause to be paid or there shall otherwise be paid to the Holders of all Outstanding Local Agency Bonds the interest thereon and the principal thereof and the redemption premiums, if any, thereon at the times and in the manner stipulated in the Local Agency Trust Agreement and therein, and shall pay or provide for the payment of all fees and expenses of the Local Agency Trustee, then all agreements, covenants and other obligations of the Local Agency to the Holders of such Local Agency Bonds thereunder shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Local Agency Trustee shall execute and deliver to the Local Agency all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, the Local Agency Trustee shall pay over or deliver to the Local Agency all money or securities held by it pursuant to the Local Agency Trust Agreement which are not required for the payment of the interest on and principal of and redemption premiums, if any, on such Local Agency Bonds.

(b) Any Outstanding Local Agency Bonds shall prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if (1) in case any of such Local Agency Bonds are to be redeemed on any date prior to their maturity date, the Local Agency shall have given to the Local Agency Trustee in form satisfactory to it irrevocable instructions to provide notice in accordance with the Local Agency Trust Agreement, (2) there shall have been deposited with the Local Agency Trustee either (A) money in an amount which shall be sufficient or (B) Defeasance Securities which are not subject to redemption prior to maturity (including any such Defeasance Securities issued or held in book-entry form on the books of the Local Agency or the Treasury of the United States of America), the interest on and principal of which when paid will provide money which, together with the money, if any, deposited with the Local Agency Trustee at the same time, shall be sufficient, in the opinion of an Independent Certified Public Accountant, to pay when due the interest to become due on such Local Agency Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and redemption premiums, if any, on such Local Agency Bonds, and (3) in the event such Local Agency Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Local Agency shall have given the Local Agency Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Holders of such Local Agency Bonds that the deposit required by clause (2) above has been made with the Local Agency Trustee and that such Local Agency Bonds are deemed to have been paid in accordance with this section and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and redemption premiums, if any, on such Local Agency Bonds.

APPENDIX F

PROPOSED FORM OF BOND COUNSEL OPINION

[Closing Date]

California Statewide Communities
Development Authority
Sacramento, California

California Statewide Communities Development Authority
Taxable Pension Obligation Bonds, 2006 Series A
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the California Statewide Communities Development Authority (the "Issuer") in connection with the issuance of $62,813,647.20 aggregate principal amount of California Statewide Communities Development Authority Taxable Pension Obligation Bonds, 2006 Series A (the "Bonds"), issued pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code and the Trust Agreement, dated as of June 1, 2006 (the "Trust Agreement") between the Issuer and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Trust Agreement provides that the Bonds are issued for the purpose of purchasing bonds (the "Local Agency Obligations") issued on the date hereof by California cities (the "Local Agencies") identified in Schedule II to the Trust Agreement. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In such connection, we have reviewed the Trust Agreement, opinions of counsel to the Trustee and others, certificates of the Issuer, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Trust Agreement and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions, including but not limited to the default judgments rendered pursuant to California Code of Civil Procedure Sections 860 et. seq. concerning validity of the Local Agency Obligations, and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement. We call attention to the fact that the rights and obligations under the Bonds and the Trust Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against joint powers authorities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Trust Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Issuer.

2. The Trust Agreement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer. The Trust Agreement creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Local Agency Obligations and payments with respect thereto, subject to the provisions of the Trust Agreement permitting the application thereof for or to the purposes and on the conditions and terms set forth in the Trust Agreement.

3. The Bonds are not a lien or charge upon the funds or property of the Issuer except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.

4. Interest on the Bonds is exempt from State of California personal income taxes. We express no opinion regarding federal income tax or other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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APPENDIX G

BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES

THE INFORMATION IN THIS APPENDIX G CONCERNING THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK AND ITS BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE AUTHORITY BELIEVES TO BE RELIABLE, BUT THE AUTHORITY TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered security certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, "NSCC," "FICC," and "EMCC," also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org; nothing contained in such websites is incorporated into this Official Statement.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption or of any other action premised on such notice. Redemption of portions of the Bonds by the Authority will reduce the outstanding principal amount of Bonds held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the Bonds for the Beneficial Owners.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

NONE OF THE AUTHORITY, THE LOCAL AGENCIES NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR REDEMPTION.

None of the Authority, the Local Agencies nor the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal, premium, if any, and interest on the Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered.

GLOBAL CLEARANCE PROCEDURES

The information that follows is based solely on information provided by the Euroclear Operator. No representation is made as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Clearstream, Luxembourg and Euroclear. The Bonds sold in offshore transactions will be initially issued to investors through the book-entry facilities of DTC, or Clearstream, Luxembourg and Euroclear in Europe if the investors are participants in those systems, or indirectly through organizations that are participants in the systems. For any of such Bonds, the record holder will be DTC's nominee. Clearstream, Luxembourg and Euroclear will hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream, Luxembourg's and Euroclear's names on the books of their respective depositories. The depositories, in turn, will hold positions in customers' securities accounts in the depositories' names on the books of DTC.

Because of time zone differences, the securities account of a Clearstream, Luxembourg or Euroclear participant as a result of a transaction with a participant, other than a depository holding on behalf of Clearstream, Luxembourg or Euroclear, will be credited during the securities settlement processing day, which must be a business day for Clearstream, Luxembourg or Euroclear, as the case may be, immediately following the DTC settlement date. These credits or any transactions in the securities settled during the processing will be reported to the relevant Euroclear participant or Clearstream, Luxembourg participant on that business day. Cash received in Clearstream, Luxemborg or Euroclear as a result of sales of securities by or through a Clearstream participant or Euroclear participant to a DTC Participant, other than the depository for Clearstream, Luxembourg or Euroclear, will be received with value on the DTC settlement date, but will be available in the relevant Clearstream, Luxembourg or Euroclear cash account only as of the business day following settlement in DTC.

Transfers between participants will occur in accordance with DTC rules. Transfers between Clearstream, Luxembourg participants or Euroclear participants will occur in accordance with their respective rules and operating procedures.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg participants or Euroclear participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by the relevant depositories; however, cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in the system in accordance with its rules and procedures and within its established deadlines in European time. The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its depository to take action to effect final settlement on its behalf by delivering or receving securities in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Clearstream, Luxembourg participants or Euroclear participants may not deliver instructions directly to the depositories.

Clearstream, Luxembourg is incorporated under the laws of Luxembourg as a professional depository. Clearstream, Luxembourg holds securities for its participating organizations ("**Clearstream, Luxembourg Participants**") and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg Participants through electronic book-entry changes in accounts of Clearstream, Luxembourg Participants, thereby eliminating the need for physical movement of certificates. Clearstream, Luxembourg provides to its Clearstream, Luxembourg Participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg interfaces with domestic markets in several countries. As a professional depository, Clearstream, Luxembourg is subject to regulation by the Luxembourg Monetary Institute. Clearstream, Luxembourg Participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream, Luxembourg Participant, either directly or indirectly.

Euroclear was created to hold securities for participants of the Euroclear system ("**Euroclear Participants**") and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. The Euroclear system includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries generally similar to the arrangements for cross-market transfers with DTC described above. Euroclear is operated by Euroclear Bank S.A./N.V. (the "**Euroclear Operator**"), under contract with Euroclear Clearance System, S.C., a Belgian cooperative corporation (the "**Cooperative**"). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. The Cooperative establishes policy for the Euroclear system on behalf of Euroclear Participants. Euroclear Participants include banks (including central banks, securities brokers and dealers and other professional financial intermediaries). Indirect access to the Euroclear system is also available to other firms that clear through or maintain a custodial relationship with a Euroclear Participant, either directly or indirectly.

The Euroclear Operator is the Belgian branch of a New York banking corporation which is a member bank of the Federal Reserve System. As such, it is regulated and examined by the Board of Governors of the Federal Reserve System and the New York State Banking Department, as well as the Belgian Banking Commission. Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear Systems and applicable Belgian law (collectively, the "**Terms and Conditions**"). The Terms and Conditions govern transfers of securities and cash within the Euroclear system, withdrawal of securities and cash from the Euroclear system, and receipts of payments with respect to securities in the Euroclear system. All securities in the Euroclear system are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants and has no record of or relationship with persons holding through Euroclear Participants.

THE AUTHORITY AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR

EUROCLEAR PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (I) PAYMENTS OF PRINCIPAL OF OR INTEREST ON THE BONDS (II) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE BONDS OR (III) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR, EUROCLEAR PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST ON BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE TRUST AGREEMENT; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE BONDS.

APPENDIX H

FORM OF INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Robert J. Genader
President

AMBAC ASSURANCE CORPORATION
CORPORATE
SEAL
WISCONSIN

Anne G. Gill
Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Noraida Lauro
Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

Ambac

Ambac Assurance Corporation
One State Street Plaza,
New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

Robert J. Genader

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

Anne G. Gill

President

Secretary

Authorized Representative

APPENDIX I

ACCRETED VALUE TABLE

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APPENDIX I
ACCRETED VALUE TABLES

Year of Maturity:	2008	2009	2010	2011	2012	2013
Initial Denominational Amount:	$4,490.50	$4,241.45	$4,013.85	$3,786.15	$3,578.20	$3,370.30
Compounding Rate:	5.67%	5.71%	5.68%	5.73%	5.73%	5.78%
Compounding Date						
12/1/2006	$4,597.75	$4,343.50	$4,109.90	$3,877.55	$3,664.55	$3,452.35
6/1/2007	4,728.10	4,467.50	4,226.65	3,988.65	3,769.55	3,552.15
12/1/2007	4,862.15	4,595.05	4,346.65	4,102.95	3,877.55	3,654.80
6/1/2008	5,000.00	4,726.25	4,470.10	4,220.50	3,988.65	3,760.40
12/1/2008	-	4,861.20	4,597.05	4,341.40	4,102.95	3,869.10
6/1/2009	-	5,000.00	4,727.65	4,465.80	4,220.50	3,980.90
12/1/2009	-	-	4,861.90	4,593.70	4,341.40	4,095.95
6/1/2010	-	-	5,000.00	4,725.35	4,465.80	4,214.35
12/1/2010	-	-	-	4,860.70	4,593.70	4,336.10
6/1/2011	-	-	-	5,000.00	4,725.35	4,461.45
12/1/2011	-	-	-	-	4,860.70	4,590.35
6/1/2012	-	-	-	-	5,000.00	4,723.05
12/1/2012	-	-	-	-	-	4,859.55
6/1/2013	-	-	-	-	-	5,000.00
12/1/2013	-	-	-	-	-	-
6/1/2014	-	-	-	-	-	-
12/1/2014	-	-	-	-	-	-
6/1/2015	-	-	-	-	-	-
12/1/2015	-	-	-	-	-	-
6/1/2016	-	-	-	-	-	-
12/1/2016	-	-	-	-	-	-
6/1/2017	-	-	-	-	-	-
12/1/2017	-	-	-	-	-	-
6/1/2018	-	-	-	-	-	-
12/1/2018	-	-	-	-	-	-
6/1/2019	-	-	-	-	-	-
12/1/2019	-	-	-	-	-	-
6/1/2020	-	-	-	-	-	-
12/1/2020	-	-	-	-	-	-
6/1/2021	-	-	-	-	-	-
12/1/2021	-	-	-	-	-	-
6/1/2022	-	-	-	-	-	-
12/1/2022	-	-	-	-	-	-
6/1/2023	-	-	-	-	-	-
12/1/2023	-	-	-	-	-	-
6/1/2024	-	-	-	-	-	-
12/1/2024	-	-	-	-	-	-
6/1/2025	-	-	-	-	-	-
12/1/2025	-	-	-	-	-	-
6/1/2026	-	-	-	-	-	-
12/1/2026	-	-	-	-	-	-
6/1/2027	-	-	-	-	-	-
12/1/2027	-	-	-	-	-	-
6/1/2028	-	-	-	-	-	-
12/1/2028	-	-	-	-	-	-
6/1/2029	-	-	-	-	-	-
12/1/2029	-	-	-	-	-	-
6/1/2030	-	-	-	-	-	-
12/1/2030	-	-	-	-	-	-
6/1/2031	-	-	-	-	-	-
12/1/2031	-	-	-	-	-	-
6/1/2032	-	-	-	-	-	-
12/1/2032	-	-	-	-	-	-
6/1/2033	-	-	-	-	-	-
12/1/2033	-	-	-	-	-	-
6/1/2034	-	-	-	-	-	-
12/1/2034	-	-	-	-	-	-
6/1/2035	-	-	-	-	-	-
12/1/2035	-	-	-	-	-	-
6/1/2036	-	-	-	-	-	-

Year of Maturity:	2014	2015	2016	2017	2018	2019	2020
Initial Denominational Amount:	$3,168.95	$2,986.50	$2,816.15	$2,632.60	$2,479.60	$2,320.40	$2,177.70
Compounding Rate:	5.84%	5.86%	5.87%	5.96%	5.97%	6.03%	6.06%
Compounding Date							
12/1/2006	$3,246.90	$3,060.20	$2,885.80	$2,698.70	$2,541.95	$2,379.35	$2,233.30
6/1/2007	3,341.70	3,149.90	2,970.50	2,779.15	2,617.80	2,451.05	2,300.95
12/1/2007	3,439.30	3,242.20	3,057.70	2,861.95	2,695.95	2,524.95	2,370.70
6/1/2008	3,539.75	3,337.20	3,147.45	2,947.25	2,776.45	2,601.10	2,442.50
12/1/2008	3,643.10	3,434.95	3,239.80	3,035.05	2,859.30	2,679.50	2,516.50
6/1/2009	3,749.45	3,535.60	3,334.90	3,125.50	2,944.65	2,760.30	2,592.75
12/1/2009	3,858.95	3,639.20	3,432.80	3,218.65	3,032.55	2,843.55	2,671.35
6/1/2010	3,971.65	3,745.80	3,533.55	3,314.55	3,123.10	2,929.25	2,752.30
12/1/2010	4,087.60	3,855.60	3,637.25	3,413.35	3,216.30	3,017.60	2,835.65
6/1/2011	4,206.95	3,968.55	3,744.00	3,515.05	3,312.30	3,108.55	2,921.60
12/1/2011	4,329.80	4,084.85	3,853.90	3,619.80	3,411.20	3,202.30	3,010.10
6/1/2012	4,456.25	4,204.50	3,967.00	3,727.70	3,513.00	3,298.85	3,101.35
12/1/2012	4,586.35	4,327.70	4,083.45	3,838.75	3,617.85	3,398.30	3,195.30
6/1/2013	4,720.30	4,454.50	4,203.30	3,953.15	3,725.85	3,500.75	3,292.10
12/1/2013	4,858.10	4,585.05	4,326.65	4,070.95	3,837.10	3,606.30	3,391.85
6/1/2014	5,000.00	4,719.35	4,453.65	4,192.30	3,951.60	3,715.05	3,494.65
12/1/2014	-	4,857.65	4,584.35	4,317.20	4,069.60	3,827.05	3,600.55
6/1/2015	-	5,000.00	4,718.90	4,445.85	4,191.05	3,942.45	3,709.65
12/1/2015	-	-	4,857.40	4,578.35	4,316.15	4,061.30	3,822.05
6/1/2016	-	-	5,000.00	4,714.80	4,445.00	4,183.75	3,937.85
12/1/2016	-	-	-	4,855.30	4,577.70	4,309.90	4,057.15
6/1/2017	-	-	-	5,000.00	4,714.35	4,439.80	4,180.10
12/1/2017	-	-	-	-	4,855.05	4,573.70	4,306.75
6/1/2018	-	-	-	-	5,000.00	4,711.60	4,437.25
12/1/2018	-	-	-	-	-	4,853.65	4,571.70
6/1/2019	-	-	-	-	-	5,000.00	4,710.20
12/1/2019	-	-	-	-	-	-	4,852.95
6/1/2020	-	-	-	-	-	-	5,000.00
12/1/2020	-	-	-	-	-	-	-
6/1/2021	-	-	-	-	-	-	-
12/1/2021	-	-	-	-	-	-	-
6/1/2022	-	-	-	-	-	-	-
12/1/2022	-	-	-	-	-	-	-
6/1/2023	-	-	-	-	-	-	-
12/1/2023	-	-	-	-	-	-	-
6/1/2024	-	-	-	-	-	-	-
12/1/2024	-	-	-	-	-	-	-
6/1/2025	-	-	-	-	-	-	-
12/1/2025	-	-	-	-	-	-	-
6/1/2026	-	-	-	-	-	-	-
12/1/2026	-	-	-	-	-	-	-
6/1/2027	-	-	-	-	-	-	-
12/1/2027	-	-	-	-	-	-	-
6/1/2028	-	-	-	-	-	-	-
12/1/2028	-	-	-	-	-	-	-
6/1/2029	-	-	-	-	-	-	-
12/1/2029	-	-	-	-	-	-	-
6/1/2030	-	-	-	-	-	-	-
12/1/2030	-	-	-	-	-	-	-
6/1/2031	-	-	-	-	-	-	-
12/1/2031	-	-	-	-	-	-	-
6/1/2032	-	-	-	-	-	-	-
12/1/2032	-	-	-	-	-	-	-
6/1/2033	-	-	-	-	-	-	-
12/1/2033	-	-	-	-	-	-	-
6/1/2034	-	-	-	-	-	-	-
12/1/2034	-	-	-	-	-	-	-
6/1/2035	-	-	-	-	-	-	-
12/1/2035	-	-	-	-	-	-	-
6/1/2036	-	-	-	-	-	-	-

Year of Maturity:	2021	2022	2023	2024	2025	2026	2027	2028
Initial Denominational Amount:	$2,048.55	$1,926.65	$1,811.65	$1,703.20	$1,600.95	$1,504.50	$1,416.50	$1,333.60
Compounding Rate:	6.07%	6.08%	6.09%	6.10%	6.11%	6.12%	6.12%	6.12%
Compounding Date								
12/1/2006	$2,100.90	$1,976.00	$1,858.15	$1,746.95	$1,642.15	$1,543.30	$1,453.00	$1,368.00
6/1/2007	2,164.65	2,036.05	1,914.70	1,800.25	1,692.30	1,590.50	1,497.45	1,409.85
12/1/2007	2,230.35	2,097.95	1,973.00	1,855.15	1,744.00	1,639.20	1,543.30	1,453.00
6/1/2008	2,298.05	2,161.75	2,033.10	1,911.75	1,797.30	1,689.35	1,590.50	1,497.45
12/1/2008	2,367.80	2,227.45	2,095.00	1,970.05	1,852.20	1,741.05	1,639.20	1,543.30
6/1/2009	2,439.65	2,295.15	2,158.80	2,030.15	1,908.75	1,794.30	1,689.35	1,590.50
12/1/2009	2,513.70	2,364.95	2,224.55	2,092.05	1,967.10	1,849.20	1,741.05	1,639.20
6/1/2010	2,590.00	2,436.85	2,292.25	2,155.85	2,027.20	1,905.80	1,794.30	1,689.35
12/1/2010	2,668.60	2,510.90	2,362.05	2,221.60	2,089.10	1,964.15	1,849.20	1,741.05
6/1/2011	2,749.60	2,587.25	2,434.00	2,289.40	2,152.95	2,024.25	1,905.80	1,794.30
12/1/2011	2,833.05	2,665.90	2,508.10	2,359.20	2,218.70	2,086.20	1,964.15	1,849.20
6/1/2012	2,919.05	2,746.95	2,584.50	2,431.15	2,286.50	2,150.00	2,024.25	1,905.80
12/1/2012	3,007.65	2,830.45	2,663.20	2,505.30	2,356.35	2,215.80	2,086.20	1,964.15
6/1/2013	3,098.90	2,916.50	2,744.25	2,581.70	2,428.35	2,283.60	2,150.00	2,024.25
12/1/2013	3,192.95	3,005.15	2,827.85	2,660.45	2,502.50	2,353.50	2,215.80	2,086.20
6/1/2014	3,289.90	3,096.50	2,913.95	2,741.60	2,578.95	2,425.50	2,283.60	2,150.00
12/1/2014	3,389.75	3,190.65	3,002.70	2,825.25	2,657.75	2,499.75	2,353.50	2,215.80
6/1/2015	3,492.60	3,287.65	3,094.10	2,911.40	2,738.95	2,576.20	2,425.50	2,283.60
12/1/2015	3,598.60	3,387.60	3,188.35	3,000.20	2,822.65	2,655.05	2,499.75	2,353.50
6/1/2016	3,707.85	3,490.55	3,285.40	3,091.70	2,908.85	2,736.30	2,576.20	2,425.50
12/1/2016	3,820.35	3,596.70	3,385.45	3,186.00	2,997.75	2,820.05	2,655.05	2,499.75
6/1/2017	3,936.30	3,706.05	3,488.55	3,283.20	3,089.30	2,906.30	2,736.30	2,576.20
12/1/2017	4,055.80	3,818.70	3,594.75	3,383.30	3,183.70	2,995.25	2,820.05	2,655.05
6/1/2018	4,178.85	3,934.80	3,704.25	3,486.50	3,280.95	3,086.90	2,906.30	2,736.30
12/1/2018	4,305.70	4,054.40	3,817.00	3,592.85	3,381.20	3,181.35	2,995.25	2,820.05
6/1/2019	4,436.40	4,177.65	3,933.25	3,702.45	3,484.50	3,278.70	3,086.90	2,906.30
12/1/2019	4,571.00	4,304.65	4,053.00	3,815.35	3,590.95	3,379.05	3,181.35	2,995.25
6/1/2020	4,709.75	4,435.50	4,176.45	3,931.75	3,700.65	3,482.45	3,278.70	3,086.90
12/1/2020	4,852.70	4,570.35	4,303.60	4,051.65	3,813.70	3,589.00	3,379.05	3,181.35
6/1/2021	5,000.00	4,709.30	4,434.65	4,175.20	3,930.20	3,698.85	3,482.45	3,278.70
12/1/2021	-	4,852.45	4,569.70	4,302.55	4,050.25	3,812.05	3,589.00	3,379.05
6/1/2022	-	5,000.00	4,708.85	4,433.80	4,174.00	3,928.70	3,698.85	3,482.45
12/1/2022	-	-	4,852.20	4,569.05	4,301.50	4,048.90	3,812.05	3,589.00
6/1/2023	-	-	5,000.00	4,708.40	4,432.95	4,172.80	3,928.70	3,698.85
12/1/2023	-	-	-	4,852.00	4,568.35	4,300.50	4,048.90	3,812.05
6/1/2024	-	-	-	5,000.00	4,707.95	4,432.05	4,172.80	3,928.70
12/1/2024	-	-	-	-	4,851.75	4,567.70	4,300.50	4,048.90
6/1/2025	-	-	-	-	5,000.00	4,707.45	4,432.05	4,172.80
12/1/2025	-	-	-	-	-	4,851.50	4,567.70	4,300.50
6/1/2026	-	-	-	-	-	5,000.00	4,707.45	4,432.05
12/1/2026	-	-	-	-	-	-	4,851.50	4,567.70
6/1/2027	-	-	-	-	-	-	5,000.00	4,707.45
12/1/2027	-	-	-	-	-	-	-	4,851.50
6/1/2028	-	-	-	-	-	-	-	5,000.00
12/1/2028	-	-	-	-	-	-	-	-
6/1/2029	-	-	-	-	-	-	-	-
12/1/2029	-	-	-	-	-	-	-	-
6/1/2030	-	-	-	-	-	-	-	-
12/1/2030	-	-	-	-	-	-	-	-
6/1/2031	-	-	-	-	-	-	-	-
12/1/2031	-	-	-	-	-	-	-	-
6/1/2032	-	-	-	-	-	-	-	-
12/1/2032	-	-	-	-	-	-	-	-
6/1/2033	-	-	-	-	-	-	-	-
12/1/2033	-	-	-	-	-	-	-	-
6/1/2034	-	-	-	-	-	-	-	-
12/1/2034	-	-	-	-	-	-	-	-
6/1/2035	-	-	-	-	-	-	-	-
12/1/2035	-	-	-	-	-	-	-	-
6/1/2036	-	-	-	-	-	-	-	-

Year of Maturity:	2029	2030	2031	2032	2033	2034	2035	2036
Initial Denominational Amount:	$1,255.60	$1,182.15	$1,113.00	$1,047.85	$986.55	$928.85	$874.50	$823.35
Compounding Rate:	6.12%	6.12%	6.12%	6.12%	6.12%	6.12%	6.12%	6.12%
Compounding Date								
12/1/2006	$1,287.95	$1,212.60	$1,141.70	$1,074.90	$1,012.00	$ 952.80	$ 897.05	$ 844.60
6/1/2007	1,327.40	1,249.75	1,176.60	1,107.80	1,042.95	981.95	924.50	870.40
12/1/2007	1,368.00	1,287.95	1,212.60	1,141.70	1,074.90	1,012.00	952.80	897.05
6/1/2008	1,409.85	1,327.40	1,249.75	1,176.60	1,107.80	1,042.95	981.95	924.50
12/1/2008	1,453.00	1,368.00	1,287.95	1,212.60	1,141.70	1,074.90	1,012.00	952.80
6/1/2009	1,497.45	1,409.85	1,327.40	1,249.75	1,176.60	1,107.80	1,042.95	981.95
12/1/2009	1,543.30	1,453.00	1,368.00	1,287.95	1,212.60	1,141.70	1,074.90	1,012.00
6/1/2010	1,590.50	1,497.45	1,409.85	1,327.40	1,249.75	1,176.60	1,107.80	1,042.95
12/1/2010	1,639.20	1,543.30	1,453.00	1,368.00	1,287.95	1,212.60	1,141.70	1,074.90
6/1/2011	1,689.35	1,590.50	1,497.45	1,409.85	1,327.40	1,249.75	1,176.60	1,107.80
12/1/2011	1,741.05	1,639.20	1,543.30	1,453.00	1,368.00	1,287.95	1,212.60	1,141.70
6/1/2012	1,794.30	1,689.35	1,590.50	1,497.45	1,409.85	1,327.40	1,249.75	1,176.60
12/1/2012	1,849.20	1,741.05	1,639.20	1,543.30	1,453.00	1,368.00	1,287.95	1,212.60
6/1/2013	1,905.80	1,794.30	1,689.35	1,590.50	1,497.45	1,409.85	1,327.40	1,249.75
12/1/2013	1,964.15	1,849.20	1,741.05	1,639.20	1,543.30	1,453.00	1,368.00	1,287.95
6/1/2014	2,024.25	1,905.80	1,794.30	1,689.35	1,590.50	1,497.45	1,409.85	1,327.40
12/1/2014	2,086.20	1,964.15	1,849.20	1,741.05	1,639.20	1,543.30	1,453.00	1,368.00
6/1/2015	2,150.00	2,024.25	1,905.80	1,794.30	1,689.35	1,590.50	1,497.45	1,409.85
12/1/2015	2,215.80	2,086.20	1,964.15	1,849.20	1,741.05	1,639.20	1,543.30	1,453.00
6/1/2016	2,283.60	2,150.00	2,024.25	1,905.80	1,794.30	1,689.35	1,590.50	1,497.45
12/1/2016	2,353.50	2,215.80	2,086.20	1,964.15	1,849.20	1,741.05	1,639.20	1,543.30
6/1/2017	2,425.50	2,283.60	2,150.00	2,024.25	1,905.80	1,794.30	1,689.35	1,590.50
12/1/2017	2,499.75	2,353.50	2,215.80	2,086.20	1,964.15	1,849.20	1,741.05	1,639.20
6/1/2018	2,576.20	2,425.50	2,283.60	2,150.00	2,024.25	1,905.80	1,794.30	1,689.35
12/1/2018	2,655.05	2,499.75	2,353.50	2,215.80	2,086.20	1,964.15	1,849.20	1,741.05
6/1/2019	2,736.30	2,576.20	2,425.50	2,283.60	2,150.00	2,024.25	1,905.80	1,794.30
12/1/2019	2,820.05	2,655.05	2,499.75	2,353.50	2,215.80	2,086.20	1,964.15	1,849.20
6/1/2020	2,906.30	2,736.30	2,576.20	2,425.50	2,283.60	2,150.00	2,024.25	1,905.80
12/1/2020	2,995.25	2,820.05	2,655.05	2,499.75	2,353.50	2,215.80	2,086.20	1,964.15
6/1/2021	3,086.90	2,906.30	2,736.30	2,576.20	2,425.50	2,283.60	2,150.00	2,024.25
12/1/2021	3,181.35	2,995.25	2,820.05	2,655.05	2,499.75	2,353.50	2,215.80	2,086.20
6/1/2022	3,278.70	3,086.90	2,906.30	2,736.30	2,576.20	2,425.50	2,283.60	2,150.00
12/1/2022	3,379.05	3,181.35	2,995.25	2,820.05	2,655.05	2,499.75	2,353.50	2,215.80
6/1/2023	3,482.45	3,278.70	3,086.90	2,906.30	2,736.30	2,576.20	2,425.50	2,283.60
12/1/2023	3,589.00	3,379.05	3,181.35	2,995.25	2,820.05	2,655.05	2,499.75	2,353.50
6/1/2024	3,698.85	3,482.45	3,278.70	3,086.90	2,906.30	2,736.30	2,576.20	2,425.50
12/1/2024	3,812.05	3,589.00	3,379.05	3,181.35	2,995.25	2,820.05	2,655.05	2,499.75
6/1/2025	3,928.70	3,698.85	3,482.45	3,278.70	3,086.90	2,906.30	2,736.30	2,576.20
12/1/2025	4,048.90	3,812.05	3,589.00	3,379.05	3,181.35	2,995.25	2,820.05	2,655.05
6/1/2026	4,172.80	3,928.70	3,698.85	3,482.45	3,278.70	3,086.90	2,906.30	2,736.30
12/1/2026	4,300.50	4,048.90	3,812.05	3,589.00	3,379.05	3,181.35	2,995.25	2,820.05
6/1/2027	4,432.05	4,172.80	3,928.70	3,698.85	3,482.45	3,278.70	3,086.90	2,906.30
12/1/2027	4,567.70	4,300.50	4,048.90	3,812.05	3,589.00	3,379.05	3,181.35	2,995.25
6/1/2028	4,707.45	4,432.05	4,172.80	3,928.70	3,698.85	3,482.45	3,278.70	3,086.90
12/1/2028	4,851.50	4,567.70	4,300.50	4,048.90	3,812.05	3,589.00	3,379.05	3,181.35
6/1/2029	5,000.00	4,707.45	4,432.05	4,172.80	3,928.70	3,698.85	3,482.45	3,278.70
12/1/2029	-	4,851.50	4,567.70	4,300.50	4,048.90	3,812.05	3,589.00	3,379.05
6/1/2030	-	5,000.00	4,707.45	4,432.05	4,172.80	3,928.70	3,698.85	3,482.45
12/1/2030	-	-	4,851.50	4,567.70	4,300.50	4,048.90	3,812.05	3,589.00
6/1/2031	-	-	5,000.00	4,707.45	4,432.05	4,172.80	3,928.70	3,698.85
12/1/2031	-	-	-	4,851.50	4,567.70	4,300.50	4,048.90	3,812.05
6/1/2032	-	-	-	5,000.00	4,707.45	4,432.05	4,172.80	3,928.70
12/1/2032	-	-	-	-	4,851.50	4,567.70	4,300.50	4,048.90
6/1/2033	-	-	-	-	5,000.00	4,707.45	4,432.05	4,172.80
12/1/2033	-	-	-	-	-	4,851.50	4,567.70	4,300.50
6/1/2034	-	-	-	-	-	5,000.00	4,707.45	4,432.05
12/1/2034	-	-	-	-	-	-	4,851.50	4,567.70
6/1/2035	-	-	-	-	-	-	5,000.00	4,707.45
12/1/2035	-	-	-	-	-	-	-	4,851.50
6/1/2036	-	-	-	-	-	-	-	5,000.00

APPENDIX J

FORMS OF CONTINUING DISCLOSURE CERTIFICATES

FORM OF LOCAL AGENCY CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the ______________ (the "Local Agency"), dated June 1, 2006 in connection with the issuance of $62,813,647.20 California Statewide Communities Development Authority (the "Authority") Taxable Pension Obligation Bonds, 2006 Series A-1 and 2006 Series A-2 (the "Bonds"). The Bonds are being issued pursuant to the Trust Agreement, dated as of June 1, 2006, (including any supplements thereto, the "Trust Agreement"), by and between the California Statewide Communities Development Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"). Each Local Agency (as defined under the Trust Agreement) has entered into a Purchase Agreement, dated as of June 1, 2006 (the "Purchase Agreement") with the Authority. Pursuant to each Purchase Agreement, the Authority will purchase bonds issued by the respective Local Agency (the "Obligations"), which the Authority will use to secure the Bonds in part. The Local Agency covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Local Agency for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Local Agency pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean Wells Fargo Bank, National Association, or any successor Dissemination Agent designated in writing by the Local Agency and which has filed with the Local Agency a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission (the "SEC") are listed in the SEC website at http://www.sec.gov/info/municipal/nrmsir.htm.

"Official Statement" shall mean the Official Statement relating to the Bonds, dated June 15, 2006.

"Participating Underwriter" shall mean the original purchaser of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The Local Agency shall, or shall cause the Dissemination Agent to, not later than 210 days after the end of the Local Agency's fiscal year (presently such fiscal year ends June 30), commencing with the report for the fiscal year ending June 30, 2006, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided* that the audited financial statements of the Local Agency may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Local Agency's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to said date, the Local Agency shall provide the Annual Report to the Dissemination Agent (if other than the Local Agency). If the Local Agency is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Local Agency shall send a notice to each Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the Name and address of each National Repository and the State Repository, if any; and

(ii) (if the Dissemination Agent is other than the Local Agency), file a report with the Local Agency certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Local Agency's Annual Report shall contain or include by reference the audited financial statements of the Local Agency for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Local Agency's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

Any or all of the items listed in this section may be included by specific reference to other documents, including official statements of debt issues of the Local Agency or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Local Agency shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Local Agency shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Obligations or its obligations in relation to the Bonds, if material:

1. principal and interest payment delinquencies; and

2. non-payment related defaults.

(b) Whenever the Local Agency obtains knowledge of the occurrence of a Listed Event, the Local Agency shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Local Agency determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Local Agency shall promptly file a notice of such occurrence with the Repositories.

SECTION 6. Termination of Reporting Obligation. The Local Agency's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Obligations. If such termination occurs prior to the final maturity of the Bonds, the Local Agency shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The Local Agency hereby appoints Wells Fargo Bank, National Association to serve as the Dissemination Agent hereunder. The Local Agency may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Local Agency pursuant to this Disclosure Certificate.

SECTION 8. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Local Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Local Agency chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Local Agency shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

The Local Agency acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Local Agency, and that under some circumstances compliance with this Disclosure Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the Local Agency under such laws.

SECTION 9. Default. In the event of a failure of the Local Agency to comply with any provision of this Disclosure Certificate, the sole legal remedy of any Holder or Beneficial Owner of the Bonds or the Participating Underwriter shall be an action to compel performance. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement.

No Bondholder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Local Agency satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Local Agency shall have refused to comply therewith within a reasonable time.

SECTION 10. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Local Agency agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Local Agency under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 11. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Local Agency may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived with the consent of the Authority, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule. In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Local Agency shall describe such amendment in the same manner as for a Listed Event under Section 5(c).

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Local Agency, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

[LOCAL AGENCY]

By ____
Authorized Officer

Acknowledged as to Duties as Dissemination Agent:

WELLS FARGO BANK, NATIONAL ASSOCIATION

By ____________________________________
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: **[Local Agency]**

Name of Bond Issue: California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2006A

Date of Issuance: June 29, 2006

NOTICE IS HEREBY GIVEN that an Annual Report with respect to the above-named Bonds was not released by the Local Agency by the date required in the Continuing Disclosure Certificate. [The Local Agency anticipates that the Annual Report will be filed by ______________.]

Dated:_______________

[Local Agency]

By __[form only; no signature required]______

FORM OF AUTHORITY CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the California Statewide Communities Development Authority (the "Authority"), dated June 1, 2006, in connection with the issuance of $62,813,647.20 California Statewide Communities Development Authority Taxable Pension Obligation Bonds, Series 2006A (the "Bonds"). The Bonds are being issued pursuant to the Trust Agreement, dated as of June 1, 2006, (including any supplements thereto, the "Trust Agreement"), by and between the California Statewide Communities Development Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"). Each Local Agency (as defined under the Trust Agreement) has entered into a Purchase Agreement, dated as of June 1, 2006 (the "Purchase Agreement") with the Authority. Pursuant to each Purchase Agreement, the Authority will purchase bonds issued by the respective Local Agency (the "Obligations"), which the Authority will use to secure the Bonds in part. The Authority covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Authority for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean Wells Fargo Bank, National Association, or any successor Dissemination Agent designated in writing by the Authority and which has filed with the Authority a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission (the "SEC") are listed in the SEC website at http://www.sec.gov/info/municipal/nrmsir.htm.

"Official Statement" shall mean the Official Statement relating to the Bonds, dated June 15, 2006.

"Participating Underwriter" shall mean the original purchaser of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no State Repository.

SECTION 3. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 3, the Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;

2. non-payment related defaults;

3. modifications to rights of Bondholders;

4. optional, contingent or unscheduled bond calls;

5. defeasances;

6. rating changes;

7. adverse tax opinions or events affecting the tax-exempt status of the Bonds (the Bonds are being issued as taxable obligations under the Code);

8. unscheduled draws on the debt service reserves reflecting financial difficulties;

9. unscheduled draws on the credit enhancements reflecting financial difficulties;

10. substitution of the credit or liquidity providers or their failure to perform; and

11. release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the Authority obtains knowledge of the occurrence of a Listed Event, the Authority shall promptly file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Trust Agreement.

SECTION 4. <u>Termination of Reporting Obligation</u>. The Authority's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Obligations. If such termination occurs prior to the final maturity of the Bonds, the

Authority shall give notice of such termination in the same manner as for a Listed Event under Section 3(c).

SECTION 5. Dissemination Agent. The Authority hereby appoints Wells Fargo Bank, National Association to serve as the Dissemination Agent hereunder. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Authority pursuant to this Disclosure Certificate.

SECTION 6. Default. In the event of a failure of the Authority to comply with any provision of this Disclosure Certificate, the sole legal remedy of any Holder or Beneficial Owner of the Bonds or the Participating Underwriter shall be an action to compel performance. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement.

No Bondholder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Authority satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Authority shall have refused to comply therewith within a reasonable time.

SECTION 7. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Authority agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Authority under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Authority may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived with the consent of the Authority, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule. In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Authority shall describe such amendment in the same manner as for a Listed Event under Section 3(c).

SECTION 9. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Authority, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

CALIFORNIA STATEWIDE COMMUNITIES
DEVELOPMENT AUTHORITY

By ______________________________
Member of the Commission

Acknowledged as to Duties as Dissemination Agent:

WELLS FARGO BANK, NATIONAL
ASSOCIATION

By ____________________________
Authorized Officer

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California Statewide Communities Development Authority • Taxable Pension Obligation Bonds
2006 Series A-1 Bonds (Current Interest Bonds) and 2006 Series A-2 Bonds (Capital Appreciation Bonds)