NEW ISSUE - FULL BOOK-ENTRY

INSURED RATINGS: S&P: AAA
UNDERLYING RATINGS: S&P: A
(See "RATINGS" herein)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

$14,550,000
Lincoln Public Financing Authority
Lease Revenue Bonds
(City Hall Project),
Series 2006

Dated: Date of Delivery **Due: August 1, as shown on the inside cover**

The Lincoln Public Financing Authority Lease Revenue Bonds (City Hall Project), Series 2006 (the "Bonds") are being issued by the Lincoln Public Financing Authority (the "Authority") to provide funds to (i) acquire, construct and improve new City administrative headquarters described herein (the "Project"), (ii) capitalize interest on the Bonds through August 1, 2008, (iii) establish a reserve fund for the Bonds and (iv) pay costs of issuance incurred in connection with the issuance, sale and delivery of the Bonds.

Interest on the Bonds will be payable on February 1 and August 1 of each year, commencing February 1, 2007. The Bonds will be issued as fully-registered bonds without coupons and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry form through DTC participants and no physical delivery of the Bonds will be made to purchasers, except as otherwise described herein. Payment of principal, premium, if any, and interest will be made by U.S. Bank National Association, as trustee (the "Trustee"), to DTC which is obligated to remit such payments to its participants for subsequent disbursement to the Beneficial Owners of the Bonds. See "THE BONDS – Book-Entry System" herein. The Bonds will be issuable in denominations of $5,000 or any integral multiple thereof.

The Bonds are being issued pursuant to a Trust Agreement, dated as of July 1, 2006 (the "Trust Agreement"), between the Authority and the Trustee. Prior to the completion of the Project, the Bonds are payable solely from capitalized interest. Thereafter, the Bonds are limited obligations of the Authority, payable solely from and secured by a pledge of Revenues and certain other moneys pledged therefor in the Trust Agreement. Revenues consist primarily of Base Rental Payments to be received by the Authority from the City of Lincoln (the "City") pursuant to a Facility Lease, dated as of July 1, 2006, between the Authority, as lessor, and the City, as lessee. Such Base Rental Payments are calculated to be sufficient to pay the principal of and interest on the Bonds when due. Base Rental Payments are payable from any source of legally available funds in each year the City has use and possession of the Leased Property. The City currently intends to pay Base Rental Payments from certain amounts in the Public Facility Element Special Revenue Fund of the City, which consists of certain development impact fees collected in connection with new development. See "THE CITY – Development Impact Fee Revenues."

The Bonds are subject to optional redemption, mandatory sinking account redemption and extraordinary redemption prior to maturity as more fully described herein.

Payment of principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation (the "Series 2006 Bond Insurer") simultaneously with the delivery of the Bonds. See "BOND INSURANCE" herein.

Prior to the completion of the Project, the Bonds are payable solely from capitalized interest. Thereafter, the Bonds are limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the Revenues. Neither the full faith and credit of the Authority, the City nor any member of the Authority is pledged for the payment of the principal of or interest on the Bonds or for the payment of Base Rental Payments. Neither the payment of the principal of or interest on the Bonds nor the obligation to make Base Rental Payments constitutes a debt, liability or obligation of the Authority, the City or any member of the Authority for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation. The Authority has no taxing power.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision on the Bonds.

The Bonds are offered when, as and if issued, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, and subject to certain other conditions. Orrick, Herrington & Sutcliffe LLP has also served as Disclosure Counsel. Certain legal matters will be passed upon for the Authority and for the City by the City Attorney. It is expected that the Bonds will be available for delivery through the DTC book-entry system in New York, New York on or about July 18, 2006.

Dated: June 28, 2006.

$14,550,000
Lincoln Public Financing Authority
Lease Revenue Bonds
(City Hall Project),
Series 2006

MATURITY SCHEDULE

$3,660,000 Serial Bonds

Maturity Date (August 1)	Principal	Coupon	Yield
2009	$125,000	5.000%	3.800%
2009	140,000	3.750	3.800
2010	75,000	4.000	3.900
2010	205,000	3.750	3.900
2011	290,000	4.000	3.950
2012	300,000	5.000	4.000
2013	315,000	5.000	4.050
2014	125,000	5.000	4.130
2014	205,000	4.000	4.130
2015	80,000	5.000	4.180
2015	265,000	4.000	4.180
2016	100,000	5.000	4.280
2016	260,000	4.250	4.280
2017	375,000	4.250	4.420
2018	390,000	4.375	4.550
2019	410,000	4.500	4.600

$870,000 4.500% Term Bonds due August 1, 2021, Yield 4.690%
$2,580,000 5.125% Term Bonds due August 1, 2026, Yield 4.690%*
$7,440,000 4.750% Term Bonds due August 1, 2036, Yield 4.930%

* Priced to par call on August 1, 2016.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." 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 involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The City does not 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, change.

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.

No dealer, broker, salesperson or other person has been authorized by the Authority, the City or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. 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 by a person in any jurisdiction in which such an offer, solicitation or sale would be unlawful.

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 matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The information and expressions of opinions herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof. This Official Statement, including any supplement or amendment thereto, is intended to be deposited with one or more nationally recognized municipal securities information repositories.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER 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.

The Underwriter has advised that securities products and services are offered through Piper Jaffray & Co., member SIPC and NYSE, Inc.

NOT FDIC INSURED **NO BANK GUARANTEE** **MAY LOSE VALUE**

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CITY OF LINCOLN, CALIFORNIA

City Council

and

Lincoln Public Financing Authority Governing Board

Ray Sprague
Mayor

Kent Nakata
Mayor Pro Tem

Tom Cosgrove
Councilmember

Primo Santini
Councilmember

Spencer Short
Councilmember

City and Authority Staff

Gerald F. Johnson
City Manager

Rodney E. Campbell
Director of Community Development

Steven Ambrose
Director of Finance & Administrative Services

Tim Hayes
City Attorney

John Pedri
City Engineer and Director of Public Works

Trustee

U.S. Bank National Association
San Francisco, California

Financial Advisor

Public Financial Management, Inc.
San Francisco, California

Bond Counsel

Orrick, Herrington & Sutcliffe LLP

Disclosure Counsel

Orrick, Herrington & Sutcliffe LLP

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OFFICIAL STATEMENT

$14,550,000
Lincoln Public Financing Authority
Lease Revenue Bonds
(City Hall Project),
Series 2006

INTRODUCTION

This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used in this Introduction and not otherwise defined herein shall have the respective meanings assigned to them elsewhere in this Official Statement.

Purpose

The purpose of this Official Statement, including the appendices hereto, is to furnish information regarding the issuance and sale by the Lincoln Public Financing Authority (the "Authority") of $14,550,000 aggregate principal amount of its Lease Revenue Bonds (City Hall Project), Series 2006 (the "Bonds"). The Bonds are being issued pursuant to the provisions of a resolution of the Authority adopted on June 13, 2006 (the "Resolution") and a Trust Agreement (the "Trust Agreement"), dated as of July 1, 2006, between the Authority and U.S. Bank National Association, as trustee thereunder (the "Trustee"). The Bonds will be issued in full conformity with the Constitution and laws of the State of California (the "State"), including the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 (commencing with Section 6584) of Chapter 5, Division 7, Title 1 of the California Government Code, as amended from time to time (the "Bond Law").

The primary purpose of issuing the Bonds is to provide funds for the acquisition, construction and improvement of new City administrative headquarters described herein (the "Project") by the City of Lincoln, California (the "City"). See "THE PROJECT AND THE LEASED PROPERTY" herein. Proceeds of the Bonds will also be used to capitalize interest on the Bonds through August 1, 2008, establish a reserve fund for the Bonds and pay costs of issuance incurred in connection with the issuance, sale and delivery of the Bonds.

Pursuant to a Site Lease, dated as of July 1, 2006 (the "Site Lease"), between the City, as lessor and the Authority, as lessee, the City will lease to the Authority the real property and the improvements thereon (the "Leased Property"). Concurrently, the Authority will lease the Leased Property to the City pursuant to a Facility Lease (the "Lease"), dated as of July 1, 2006, between the Authority, as lessor and the City, as lessee. The City, as agent of the Authority, will construct the improvements on the Leased Property.

Sources of Payment for the Bonds

Prior to the completion of the Project, the Bonds are payable solely from capitalized interest. Thereafter, the Bonds are limited obligations of the Authority payable solely from and secured solely by the Revenues (as hereinafter defined) and certain other amounts pledged therefor in the Trust Agreement.

"Revenues" consist primarily of the Base Rental Payments (the "Base Rental Payments") payable by the City pursuant to the Lease for the use and occupancy of the Leased Property. Under the Trust Agreement, the Authority will assign to the Trustee all of the Revenues and all of the rights of the Authority in the Lease (except for the right to receive any Additional Payments to the extent payable to the Authority and certain rights to indemnification set forth therein).

The Base Rental Payments are designed to be sufficient in both time and amount to pay, when due, the principal of and interest on the Bonds. The City has covenanted in the Lease to take such action as may be necessary to include the Base Rental Payments in its annual budget and has further covenanted to make the necessary annual appropriations for all such Base Rental Payments. However, the amount of Base Rental Payments which the City is obligated to pay under the Lease will be adjusted or abated during any period in which, by reason of damage, destruction or eminent domain there is substantial interference with the City's use and occupancy of the Leased Property. Such adjustment or abatement will end with the substantial completion of the work of repair or reconstruction of the Leased Property. See "RISK FACTORS - Abatement." While the City is required under the Lease to make Base Rental Payments from any source of legally available funds in each year the City has use and occupancy of the Leased Property, the City currently intends to pay Base Rental Payments from certain amounts in the Public Facility Element Special Revenue Fund of the City, which consists of certain development impact fees collected in connection with new development. See "RISK FACTORS – Dependence on Development Impact Fee Revenues" and "THE CITY – Development Impact Fee Revenues." The obligation of the City to pay the Base Rental Payments does not constitute an obligation for which the City is obligated to pledge any form of taxation or for which the City has pledged any form of taxation. The obligation of the City to pay the Base Rental Payments does not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

The City has assumed responsibility under the Lease for the operation, maintenance and repair of the Leased Property, and is required to maintain or cause to be maintained insurance on the Leased Property, including title insurance, fire and extended coverage, comprehensive public liability and property damage insurance, and rental income interruption insurance with respect to property damage risks in an amount sufficient to pay the maximum annual Base Rental Payments for any two year period. See "SOURCES OF PAYMENT FOR THE BONDS" herein.

Payment of principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation (the "Series 2006 Bond Insurer") simultaneously with the delivery of the Bonds. See "BOND INSURANCE" herein.

The City

For certain information concerning the City, including the City's current financial situation, see "THE CITY – Financial Position of the City," and Appendix A – "AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005."

Summaries Not Definitive; Definitions

Brief descriptions of the Bonds, the Authority, the City, the Project and the Leased Property are included in this Official Statement, together with summaries of the Trust Agreement and the Lease. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Bonds, the Trust Agreement, the Lease and the Site Lease are qualified in their entirety by reference to the actual documents or with respect to the Bonds, the form of which is included in the Trust Agreement. Copies of all such documents are available for inspection at the corporate trust office of the Trustee in San Francisco, California.

Definitions of certain capitalized terms used in this Official Statement and not otherwise defined herein or in Appendix C hereto shall have the meanings set forth in the Trust Agreement and the Lease. The summaries of and references contained herein to the Trust Agreement, the Bonds, the Lease, statutes and other documents do not purport to be comprehensive or definitive and are qualified by reference to each such document, instrument or statute.

Continuing Disclosure

The City has covenanted for the benefit of owners of the Bonds to provide certain financial information and operating data and to provide notices of the occurrence of certain enumerated events, if deemed by the City to be material, in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5). See "CONTINUING DISCLOSURE."

Other General Fund Obligations

The City has other obligations payable from its general fund and may enter into additional obligations payable from its general fund in the future. For additional detail, see Note 4 ("Long-Term Debt") in Appendix A – "AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2005."

THE PROJECT AND THE LEASED PROPERTY

The Project

The Project consists of the acquisition, construction and improvement of new City administrative headquarters. The Project will be an approximately 60,000 square foot, four-story building located in the City's downtown area and will house the City Council chambers, the City Manager's office, the Economic Development Department, the Finance Department, the Community Development Department, the Public Works Department and all other City administrative offices except the police and fire departments. Design and engineering for the Project have been substantially completed. Bids for the construction of the Project were opened on May 16, 2006, and the apparent low, responsible bidder was Allen L. Bender. The contract price is within the City's budgeted cost estimates for the Project and the construction contract was awarded on June 13, 2006. Construction is projected to be completed in February 2008.

The total cost of the Project is estimated to be approximately $21 million, which is expected to be financed with approximately $11.6 million from the proceeds of the Bonds with the remainder of the cost being funded by the City from other sources available to it.

The City and the Western Placer Unified School District (the "District") have entered into a Joint Use Agreement (the "Agreement") through which the District will occupy the fourth floor of the Project in exchange for the contribution of one-fourth of the cost of the Project. It is anticipated that the District's contribution will be paid, in part, through the contribution of District-owned land on which a portion of the Project will be located. Following the completion of the Project, the City will notify the District of the total costs of the Project, including the amount of credit the District received pursuant to the Agreement, and the amount, if any, owed by the District. In any event, the District will not be entitled to a refund if the amount credited under the Agreement exceeds its one-fourth share of the costs of the Project. Pursuant to the Agreement, the District has agreed that all of its rights granted under the Agreement to use and/or occupy the Project are subject to the rights and remedies of the owners of the Bonds, the 2006 Bond Insurer and the Trustee. The District has no liability, obligation or responsibility for payment of the Bonds.

The Leased Property

The Project will be the Leased Property under the Lease. No other property of the City or the Authority will initially be subject to the Lease. Under the Lease and the Trust Agreement, the City may change, or substitute other capital facilities for, the Project as the Leased Property. See Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS – Facility Lease – Substitution."

ESTIMATED SOURCES AND USES OF PROCEEDS

The proceeds of the sale of the Bonds are estimated to be applied as shown below:

<u>Sources of Funds</u>:	
Principal Amount of Bonds	\$14,550,000.00
Net Original Issue Discount	(103,456.95)
Total Sources	\$14,446,543.05
<u>Uses of Funds</u>:	
Deposit to Project Fund	\$11,660,000.00
Deposit to Capitalized Interest Fund[1]	1,396,492.26
Deposit to Reserve Fund	954,362.50
Deposit to Costs of Issuance Fund[2]	435,688.29
Total Uses	\$14,446,543.05

(1) Represents capitalized interest through August 1, 2008. See "SOURCES OF PAYMENT FOR THE BONDS- Capitalized Interest Fund" and "RISK FACTORS- Completion of the Project".

(2) Costs of Issuance includes Underwriter's discount, legal fees, advisory fees, bond insurance premium, printing costs and other miscellaneous expenses.

THE BONDS

The Bonds will be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof, so long as no Bond shall have more than one maturity date. The Bonds will be dated the date of delivery and will mature on August 1 in each of the years and in the amounts, and will bear interest (calculated on the basis of a 360-day year of twelve 30-day months) at the per annum rates, set forth on the inside cover page hereof.

The Bonds will be delivered in fully registered form only and, when issued, will be authenticated and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which has been appointed as securities depository for the Bonds, and registered ownership may not be transferred thereafter except as provided in the Trust Agreement. DTC will act as Securities Depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only, in the denominations of \$5,000 principal amount or any integral multiple thereof. Purchasers will not receive certificates representing their interests in the Bonds. Principal of and interest on the Bonds will be paid by the Trustee to DTC, which in turn is obligated to remit such principal and interest to its Participants for subsequent disbursement to indirect participants and beneficial owners of the Bonds as described herein. See "THE BONDS -Book-Entry System" below.

Interest on the Bonds will be payable semiannually on each February 1 and August 1, commencing February 1, 2007 (each, an "Interest Payment Date"). The Bonds shall bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless such date of authentication is an Interest Payment Date or during the period from the sixteenth day of the month preceding an Interest Payment Date to such Interest Payment Date, in which event they shall bear interest from such Interest Payment Date, or unless such date of authentication is on or before the fifteenth day of the month immediately preceding the first Interest Payment Date (a "Record Date"), in which event they shall bear interest from the date of delivery; provided, however, that if at the time of authentication of any Bond interest is then in default on the Outstanding Bonds, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the Outstanding Bonds.

Payment of interest on the Bonds due on or before the maturity or prior redemption thereof shall be made on the Interest Payment Date to the person whose name appears in the Bonds registration books kept by the Trustee as the registered owner thereof as of the close of business on the Record Date for an Interest Payment Date, whether or not such day is a Business Day, such interest to be paid by check mailed by first-class mail to such registered owner at the address as it appears in such books; provided that upon the written request of a Holder of $1,000,000 or more in aggregate principal amount of Bonds received by the Trustee prior to the applicable Record Date, interest shall be paid by wire transfer in immediately available funds. So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the owners of the Bonds shall mean Cede & Co., and shall not mean the ultimate purchasers of the Bonds and so long as DTC or Cede & Co., as nominee of DTC, is the registered owner of the Bonds, disbursement of payments of principal and interest on the Bonds to DTC's participants is the responsibility of DTC, and disbursements of such payments to the beneficial owners is the responsibility of DTC's participants and indirect participants, as more fully described herein. See "THE BONDS - Book-Entry System."

Redemption

The Bonds are subject to extraordinary redemption, mandatory sinking account redemption and optional redemption as described below.

Extraordinary Redemption

The Bonds are subject to redemption by the Authority on any date prior to their respective stated maturities, upon notice as hereinafter provided, as a whole, or in part by lot within each stated maturity in integral multiples of five thousand dollars ($5,000) principal amount from prepayments made by the City pursuant to the Lease from certain insurance and eminent domain proceeds, at a prepayment price equal to the sum of the principal amount thereof, without premium, plus accrued interest thereon to the redemption date. See "SOURCES OF PAYMENT FOR THE BONDS – Insurance Proceeds" and "- Eminent Domain Proceeds." See also Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS – Facility Lease – Prepayment." Whenever less than all of the outstanding Bonds are to be redeemed on any one date, the Trustee shall select the Bonds to be redeemed in part from the outstanding Bonds so that the aggregate annual Debt Service on Bonds which shall be payable after such redemption date shall be as nearly proportional as practicable to the aggregate annual Debt Service on Bonds Outstanding prior to such redemption date.

Mandatory Sinking Account Redemption

The Bonds maturing on August 1, 2021 are subject to mandatory sinking account redemption prior to maturity, in part on August 1 of each year, on and after August 1, 2020, by lot, from and in the amount of the Mandatory Sinking Account Payments at a redemption price equal to the sum of the principal amount thereof plus accrued interest thereon to the redemption date, without premium, as follows:

Term Bonds of August 1, 2021

Date (August 1)	Mandatory Sinking Account Payment
2020	$425,000
2021*	445,000

* Maturity Date.

The Bonds maturing on August 1, 2026 are subject to mandatory sinking account redemption prior to maturity, in part on August 1 of each year, on and after August 1, 2022, by lot, from and in the amount of the Mandatory Sinking Account Payments at a redemption price equal to the sum of the principal amount thereof plus accrued interest thereon to the redemption date, without premium, as follows:

Term Bonds of August 1, 2026

Date (August 1)	Mandatory Sinking Account Payment
2022	$465,000
2023	490,000
2024	515,000
2025	540,000
2026*	570,000

* Maturity Date.

The Bonds maturing on August 1, 2036 are subject to mandatory sinking account redemption prior to maturity, in part on August 1 of each year, on and after August 1, 2027, by lot, from and in the amount of the Mandatory Sinking Account Payments at a redemption price equal to the sum of the principal amount thereof plus accrued interest thereon to the redemption date, without premium, as follows:

Term Bonds of August 1, 2036

Date (August 1)	Mandatory Sinking Account Payment
2027	$600,000
2028	625,000
2029	655,000
2030	690,000
2031	720,000
2032	755,000
2033	790,000
2034	830,000
2035	865,000
2036*	910,000

* Maturity Date.

Optional Redemption

The Bonds maturing on or after August 1, 2017 are subject to redemption prior to their respective stated maturities at the written direction of the Authority, from moneys deposited by the Authority or the City from optional prepayments made by the City pursuant to the Lease, as a whole or in part on any date on or after August 1, 2016 (in such maturities as are designated in writing by the Authority to the Trustee), at a redemption price equal to the principal amount thereof, without premium, plus interest accrued to the date fixed for redemption.

Selection of Bonds

If less than all Outstanding Bonds maturing by their terms on any one date are to be redeemed at any one time, the Trustee shall select the Bonds of such maturity date to be redeemed in any manner that it deems appropriate and fair and shall promptly notify the Authority in writing of the numbers of the Bonds so selected for redemption. For purposes of such selection, the Bonds shall be deemed to be composed of $5,000 multiples of principal or any such multiple may be separately redeemed. If a term Bond is to be partially redeemed, the unpaid Mandatory Sinking Account Payments relating thereto shall be reduced on a pro rata basis as nearly as practicable given the minimum denomination provisions of the Trust Agreement.

Notice of Redemption

Notice of redemption shall be mailed by first-class mail by the Trustee, not less than 30 nor more than 60 days prior to the redemption date to (i) the respective Holders of the Bonds designated for redemption at their addresses appearing on the registration books of the Trustee, (ii) the Municipal Securities Rulemaking Board, (iii) the Securities Depositories and (iv) one or more Information Services. Notice of redemption to the Securities Depositories and the Information Services shall be given by registered mail, electronic 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 Bonds of such maturity, to be redeemed and, in the case of the Bonds to be redeemed in part only, the respective portions of the principal amount to be redeemed. Each such notice shall also state that, unless the redemption is cancelled, on said date there will become due and payable on each of said Bonds the redemption price, if any, thereof and in the case of a Bond to be redeemed in part only, the specified portion of the principal amount 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 Bonds be then surrendered at the address of the Trustee specified in the redemption notice. Failure to receive such notice shall not invalidate any of the proceedings taken in connection with such redemption. Any redemption may be cancelled if the notice of same has not been mailed to the registered Holders or if such notice expressly conditions the redemption upon the occurrence of one or more events. Any such cancellation shall be given by notice in the same manner as the notice of redemption at least three business days prior to the date scheduled for redemption.

Effect of Redemption

If notice of redemption has been given, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, the Bonds (or portions thereof) so called for redemption are being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption will become due and payable and from and after the date so designated, interest on the Bonds so called for redemption will cease to accrue and the Owners of said Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof. All Bonds redeemed pursuant to the provisions of the Trust Agreement will be canceled by the Trustee upon surrender thereof and destroyed.

Transfer and Exchange of Bonds

So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, transfers of interests in the Bonds must be made under the DTC system by or through Direct Participants, as described below under the caption "Book Entry System."

Book-Entry System

Unless a successor securities depository is designated pursuant to the Trust Agreement, or the use of a book-entry system for the Bonds is discontinued, 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 Bond 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, the world's largest depository, 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, corporate and municipal debt issues, and money market instrument 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 (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 these 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 Bonds with DTC and their registration in the name of Cede & Co. or such other 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.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such 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 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).

Redemption proceeds, distributions, and dividend payments 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 redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or 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.

THE TRUSTEE, THE CITY AND THE AUTHORITY SHALL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, ANY BENEFICIAL OWNER OR ANY OTHER PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE BONDS UNDER OR THROUGH DTC OR ANY DTC PARTICIPANT, OR ANY OTHER PERSON WHICH IS NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING AN OWNER OF BONDS, WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OF, AND PREMIUM, IF ANY, OR INTEREST WITH RESPECT TO THE BONDS; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO OWNER OF THE BONDS UNDER THE TRUST AGREEMENT; THE SELECTION BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; ANY CONSENT OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE BONDS; OR ANY OTHER PROCEDURES OR OBLIGATIONS OF DTC UNDER THE BOOK-ENTRY SYSTEM.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS (EXCEPT FOR THE MATTERS UNDER THE CAPTION "TAX MATTERS" HEREIN).

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal and interest with respect to the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in such Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owner is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters, and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Discontinuance of Book-Entry System

DTC may discontinue providing its services as securities 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 securities depository is not obtained, Bonds are required to be printed and delivered as described in the Trust Agreement.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered as described in the Trust Agreement and payment of interest to each Owner who owns of record $1,000,000 or more in aggregate principal amount of Bonds may be made to such Owner by wire transfer to such wire address within the United States that such Owner may request in writing for all Interest Payment Dates following the 15th day after the Trustee's receipt of such request.

SOURCES OF PAYMENT FOR THE BONDS

General

Prior to the completion of the Project, the Bonds are payable solely from capitalized interest. Thereafter, the Bonds are limited obligations of the Authority payable solely from and secured solely by the Revenues pledged under the Trust Agreement, together with amounts on deposit from time to time in the funds and accounts held by the Trustee, including proceeds of the sale of the Bonds. "Revenues" means (i) all Base Rental Payments and other payments paid by the City and received by the Authority pursuant to the Lease (but not Additional Payments), and (ii) all interest or other income from any investment of any money in any fund or account established pursuant to the Trust Agreement or the Lease (other than the Rebate Fund).

Under the Trust Agreement, the Authority irrevocably pledges to the Trustee for payment of the interest and premium, if any, on and principal of the Bonds all Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established under the Trust Agreement (other than amounts on deposit in the Rebate Fund), and agrees with the Trustee that the Revenues are not to be used for any other purpose while any of the Bonds remain Outstanding; provided, however, that out of the Revenues and other moneys there may be applied such sums for such purposes as are permitted under the Trust Agreement: provided further that the Bonds shall be payable solely from amounts on deposit in the Capitalized Interest Fund until delivery of the Project. The pledge under the Trust Agreement constitutes a pledge of and charge and lien upon the Revenues and all other moneys on deposit in the funds and accounts established under the Trust Agreement (excluding other amounts on deposit in the Rebate Fund) for the payment of the interest on and principal of the Bonds in accordance with the terms under the Trust Agreement. The Authority also assigns to the Trustee all of the Authority's rights and remedies under the Lease.

PRIOR TO THE COMPLETION OF THE PROJECT, THE BONDS ARE PAYABLE SOLELY FROM CAPITALIZED INTEREST. THEREAFTER, THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED SOLELY BY THE REVENUES AND OTHER MONEYS PLEDGED THERETO IN THE TRUST AGREEMENT. THE BONDS ARE NOT A DEBT OF THE AUTHORITY, THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS AND NEITHER THE AUTHORITY, THE CITY, THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS, EXCEPT THE AUTHORITY TO THE EXTENT DESCRIBED HEREIN, IS LIABLE THEREON. IN NO EVENT SHALL THE BONDS OR ANY INTEREST OR REDEMPTION PREMIUM THEREON BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN THOSE OF THE AUTHORITY AS SET FORTH IN THE TRUST AGREEMENT. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NEITHER THE MEMBERS OF THE AUTHORITY NOR ANY PERSONS EXECUTING THE BONDS ARE LIABLE PERSONALLY ON THE BONDS BY REASON OF THEIR ISSUANCE.

Base Rental Payments

The Lease requires the City to deposit with the Trustee, as assignee of the Authority, 15 days prior to each February 1 and August 1, commencing February 1, 2009 (the "Base Rental Payment Dates") an amount equal to the aggregate Base Rental Payment coming due and payable on each such Base Rental Payment Date. The Base Rental Payments are calculated to be sufficient to pay, when due, the principal of and interest on the Bonds. The Base Rental Payments payable in any Base Rental Payment period constitute payment for the use and occupancy of the Leased Property during such period.

The obligation of the City to make Base Rental Payments is payable from annual appropriations of the City from funds lawfully available therefor. The obligation of the City to make Base Rental Payments under the Lease does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the full faith and credit nor the taxing power of the City, the State or any of its political subdivisions is pledged to make Base Rental Payments under the Lease.

Pursuant to the Lease, the City covenants to take such action as may be necessary to include all Base Rental Payments due thereunder in its annual budgets and to make annual appropriations therefor. As provided in the Lease, the covenants of the City thereunder shall be deemed by the City to be and shall be duties imposed by law, and it shall be the duty of each and every public official of the City to take such action and to do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease agreed to be carried out and performed by the City.

California law requires, and the Lease provides, that the Base Rental Payments shall be abated in whole or in part during any period in which there is substantial interference with the use and occupancy of the Leased Property by the City due to damage, destruction or taking in eminent domain proceedings. Under these circumstances, failure to make any Base Rental Payment will not be an event of default under the Lease. See "RISK FACTORS - Abatement."

While Base Rental Payments made by the City to the Authority are payable from any revenues lawfully available to the City for such purpose, the City currently intends to pay Base Rental Payments from certain amounts in the Public Facility Element Special Revenue Fund of the City, which consists of certain development impact fees collected in connection with new development. See "RISK FACTORS – Dependence on Development Impact Fee Revenues" and "THE CITY – Development Impact Fee Revenues." The Lease and the Trust Agreement require that Base Rental Payments be deposited in the Revenue Fund maintained by the Trustee, which fund is held for the benefit of the owners of the Bonds.

The ability of the City to pay the Base Rental Payment when due is dependent on the financial condition of the City. See "THE CITY – Financial Position of the City" for more information on the City's finances.

Capitalized Interest Fund

The Bonds are payable solely from amounts on deposit in the Capitalized Interest Fund until the completion of the Project. The Project is expected to be completed in February 2008. Capitalized interest on the Bonds has been funded in the amount of $1,396,492.26, which amount is estimated to be sufficient to pay interest on the Bonds through August 1, 2008 (based on the actual interest rates of the Bonds). See "RISK FACTORS-Completion of the Project" and Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS – Trust Agreement- Creation of Funds and Accounts."

Reserve Fund

A Reserve Fund is established within the Revenue Fund under the Trust Agreement in an amount equal to the Reserve Requirement, which is an amount equal to the least of (i) 10% of the initial offering price of the Bonds to the public, (ii) 125% of the average annual Debt Service on all Outstanding Bonds, or (iii) maximum annual Debt Service on all Outstanding Bonds. All money in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of replenishing the Interest Account or the Principal Account, in that order, in the event of any deficiency at any time in either of such accounts, except that so long as the Authority is not in default under the Trust Agreement, any cash amounts in the Reserve Fund in excess of the Reserve Requirement shall be withdrawn from the Reserve Fund and deposited in the Acquisition and Construction Account prior to completion of the Project and thereafter in the Revenue Fund.

The Authority may satisfy the Reserve Fund Requirement at any time by the deposit with the Trustee for the credit of the Reserve Fund of a surety bond, an insurance policy or letter of credit as described below, or any combination thereof, subject to the consent of any Bond Insurer insuring the Bonds or any Additional Bonds. A surety bond or insurance policy issued to the Trustee, on behalf of the Owners, by a company licensed to issue an insurance policy guaranteeing the timely payment of principal of and interest on the Bonds (a "municipal bond insurer") may be deposited in the Reserve Fund to meet the Reserve Fund Requirement if the claims paying ability of such municipal bond insurer shall be rated "Aaa" by Moody's Investors Service, Inc. and "AAA" by Standard & Poor's Rating Services. If the claims paying ability of a municipal bond insurer falls below an "Aaa" rating by Moody's Investors Service, Inc. or an "AAA" rating by Standard & Poor's Rating Services, the Authority will use its best efforts to procure a replacement surety bond or insurance policy within 30 days from the date of the decline in such claims paying ability, meeting the requirements set forth above to the extent that, in the judgment of the Authority, such a substitute or replacement surety bond or insurance policy is available upon reasonable terms and at a reasonable cost, or will use its best efforts to deposit into the Reserve Fund a letter of credit meeting the requirements of the Trust Agreement in order to provide that there will be on deposit in the Reserve Fund an amount equal to the Reserve Fund Requirement.

A letter of credit may be deposited in the Reserve Fund to meet the Reserve Fund Requirement, subject to the consent of any Bond Insurer insuring the Bonds or any Additional Bonds, provided that any such letter of credit must be issued or confirmed by a state or national bank or a foreign bank with an agency or branch located in the continental United States which has outstanding an issue of unsecured long term debt securities rated at least equal to the second highest rating category (disregarding rating subcategories) by Moody's Investors Service, Inc. and Standard & Poor's Rating Services, but in no event less than the rating on the Bonds given by any rating agency which has a then effective rating on the Bonds. In the event that unsecured long-term debt securities of the state, national or foreign bank which has issued or confirmed any letter of credit are downgraded by Moody's Investors Service, Inc. or Standard & Poor's Rating Services to a rate below the requirements set forth above, the Authority will use its best efforts to obtain a substitute or replacement letter of credit within 30 days from the date of such downgrading from a state, national or foreign bank meeting the requirements set forth above, to the extent that, in the judgment of the Authority, such a substitute or replacement letter of credit is available upon reasonable terms and at a reasonable cost, or will use its best efforts to deposit into the Reserve Fund a replacement surety bond or insurance policy meeting the requirements of the Trust Agreement in order to provide that there will be on deposit in the Reserve Fund an amount equal to the Reserve Fund Requirement.

If the Authority replaces a cash-funded Reserve Fund, in whole or in part, with a surety bond, insurance policy or letter of credit meeting the requirements above, amounts on deposit in the Reserve Fund shall, upon written request of the Authority to the Trustee, be transferred, subject to the receipt by the Authority and Trustee of an Opinion of Counsel that such transfer will not cause the interest on the Bonds to be included in gross income for purposes of federal income taxation, to the Authority and applied for the acquisition, construction, installation or equipping of public capital improvements.

Casualty Insurance

The Lease requires the City to procure or cause to be procured and maintained throughout the term of the Lease, insurance against loss or damage to any structures or personal property constituting any part of the Leased Property by fire and lightning, with extended coverage insurance, vandalism and malicious mischief insurance, and sprinkler system leakage insurance and boiler explosion insurance. The extended coverage insurance shall, to the extent practicably available, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance must be in an amount equal to the lesser of (i) the replacement cost (without deduction for depreciation, except that such insurance may be subject to deductible clauses for any one loss of not to exceed $50,000) of all structures constituting any part of the Leased Property, excluding the cost of excavations, of grading and filling, and of the land, and (ii) the amount necessary, in the event of total or partial loss, to enable all the remaining Base Rental Payments to be paid. As an alternative to providing the insurance described above in this paragraph, the City may provide a self-insurance method or plan of protection upon the satisfaction of certain conditions contained in the Lease. See Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS – Facility Lease – Insurance."

Rental Interruption Insurance

The Lease requires the City to procure or cause to be procured and maintained throughout the term of the Lease rental interruption or use and occupancy insurance to cover loss, total or partial, of the rental income from or the use of the Leased Property as the result of any of the hazards covered by the casualty insurance required under the Lease, in an amount sufficient to pay the total rent under the Lease for the two-year period during which it is a maximum, except that such insurance may be subject to a deductible clause not to exceed $50,000.

Title Insurance

The Lease requires the City to obtain and deliver, on the delivery date of the Bonds, title insurance on the Leased Property, in an amount not less than the initial principal amount of the Bonds, issued by a company of recognized standing duly authorized to issue the same, subject only to Permitted Encumbrances, as described in "Appendix C – SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS – Facility Lease – Definitions." Proceeds of such insurance shall be delivered to the Trustee as a prepayment of rent and shall be applied by the Trustee to the redemption of Bonds. See "THE BONDS - Redemption."

Insurance Proceeds

If any part of the Leased Property covered by insurance is damaged or destroyed, the Authority, except as described below, is required to utilize the insurance proceeds for the repair, reconstruction or replacement of the damaged or destroyed portion of the Leased Property. Under the Trust Agreement, the Trustee is required to hold the insurance proceeds in a fund established by the Trustee for such purpose separate and apart from all other funds. The insurance proceeds are to be applied to the repair, reconstruction or replacement of the Leased Property to at least the same good order, repair and condition as it was in prior to the damage or destruction, to the extent that can be accomplished with such proceeds.

Any balance of such proceeds not required for such repair, reconstruction or replacement and the proceeds of use and occupancy insurance shall be treated by the Trustee as Base Rental Payments.

If the proceeds of such insurance together with any other available moneys are sufficient to prepay all, in case of damage or destruction in whole of the Leased Property, or that portion, in the case of partial damage or destruction of the Leased Property, of the Base Rental Payments relating to the damaged or destroyed portion of the Leased Property, the City may instead elect not to repair, reconstruct or replace the damaged or destroyed portion of the Leased Property. If the City makes that election, it is required to use such proceeds for the redemption of Outstanding Bonds pursuant to the Trust Agreement. See "THE BONDS – Redemption – Extraordinary Redemption." The City may not apply the proceeds of insurance to redeem the Bonds in part due to damage or destruction of a portion of the Leased Property unless the Authority certifies that the Base Rental Payments on the undamaged portion of the Leased Property will be sufficient to pay the initially-scheduled principal and interest on the Bonds remaining unpaid after such redemption.

If the Leased Property or portion thereof cannot be repaired or replaced during the period of time during which rental interruption insurance is available and Reserve Fund and Revenue Fund moneys are insufficient, the Base Rental Payments with respect to the Leased Property or portion thereof will be abated and the City will have no legal obligation to pay the abated amount. See "RISK FACTORS - Abatement," below. No assurance can be given that available insurance proceeds will be sufficient under all circumstances to repair or replace any damaged or taken portion of the Leased Property as a whole or to prepay all Base Rental Payments with respect to the Leased Property. Also, the City makes no representation as to the sufficiency of any insurance awards or the adequacy of any self-insurance to pay, when and as due, amounts payable under the Lease or the Bonds.

Eminent Domain Proceeds

If all of the Leased Property or so much of it as to render the remainder unusable for City's then-intended purposes is taken under the power or threat of eminent domain, the Lease will terminate when possession is taken. If less than all of the Leased Property is taken under the power or threat of eminent domain and the remainder is usable for the City's then-intended purposes, then the Lease will continue in full force and effect as to such remainder. In such event there will be a partial abatement of the rental due under the Lease in an amount equivalent to the amount by which the annual payments of principal of and interest on the Bonds then Outstanding will be reduced by the application of the eminent domain award to the redemption of Outstanding Bonds, and the City will have no legal obligation to pay the abated amount. See "RISK FACTORS - Abatement," below. No assurance can be given that any eminent domain proceeds will be sufficient to avoid partial abatement.

So long as any of the Bonds shall be Outstanding, any award made in eminent domain proceedings for taking the Leased Property or any portion thereof is to be paid to the Trustee and applied to the prepayment of the Base Rental Payments. See "THE BONDS – Redemption – Extraordinary Redemption." Any such award made after all of the Base Rental Payments and Additional Payments have been fully paid, or provision therefor made, is to be paid to the City.

Remedies Upon Default

So long as the Series 2006 Bond Insurer is not in default under its bond insurance policy, the Series 2006 Bond Insurer shall be deemed to be the exclusive owner of the Bonds for purposes of exercising all rights and privileges granted to the Holders of the Bonds for purposes of (i) any approval, consent or waiver with respect to the Bonds, (ii) the institution of any action with respect to the Bonds,

(iii) controlling or directing any remedies in an event of default. Subject to the foregoing, the following is a description of certain rights or remedies available in the event of a default.

If the City defaults under the Lease, the Authority may enforce its remedies thereunder. In general, remedies under the Lease include the right (i) to maintain such Lease in full force and effect and receive all rent from the City as it becomes due or re-let the Leased Property, or (ii) to terminate such Lease and the City's right of possession and recover damages recoverable at law. The Trust Agreement provides that any Holder of the Bonds may by legal action compel the Authority to carry out its duties under the Lease, including maintaining and enforcing its rights under the Lease. See Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS – Trust Agreement." An abatement of rental in accordance with the terms of the Lease due to damage, destruction or eminent domain is not an event of default under the Lease and none of the foregoing remedies is available. See "RISK FACTORS - Abatement."

While the Lease provides that the Leased Property may be re-let following a default, achieving such a remedy may not be practical due to the lack of a replacement lessee or other reasons. Moreover, although acceleration is a remedy provided in the Trust Agreement, the Base Rental payable pursuant to the Lease may not be accelerated. Therefore, the circumstances under which the Trustee might declare the principal of and accrued interest on the Bonds due and payable immediately are limited. See "RISK FACTORS – Limited Recourse on Default."

Additional Bonds

The Authority may at any time, with the consent of the Bond Insurer, issue Additional Bonds pursuant to a Supplemental Trust Agreement, payable from the Revenues as provided in the Trust Agreement and secured by a pledge of and charge and lien upon the Revenues as provided in the Trust Agreement equal to the pledge, charge and lien securing the Bonds and any other Additional Bonds theretofore issued under the Trust Agreement, and subject to the following specific conditions, which are thereby made conditions precedent to the issuance of any such Additional Bonds.

The Authority shall be in compliance with all agreements and covenants contained in the Trust Agreement, and no Event of Default shall have occurred and be continuing.

The Supplemental Trust Agreement shall require that the proceeds of the sale of such Additional Bonds shall be applied to the completion of the Leased Property, or for the refunding or repayment of any Bonds then Outstanding, including the payment of costs and expenses of and incident to the authorization and sale of such Additional Bonds. The Supplemental Trust Agreement may also provide that a portion of such proceeds shall be applied to the payment of the interest due or to become due on said Additional Bonds during the estimated period of any construction and for a period of not to exceed 12 months thereafter.

The Supplemental Trust Agreement shall provide, if necessary, that from such proceeds or other sources an amount shall be deposited in the Reserve Fund so that following such deposit there shall be on deposit in the Reserve Fund an amount at least equal to the Reserve Fund Requirement.

The aggregate principal amount of Bonds issued and at any time Outstanding under the Trust Agreement shall not exceed any limit imposed by law, by the Trust Agreement or by any Supplemental Trust Agreement.

The Lease shall have been amended, if necessary, so that the Base Rental Payments payable by the City under the Trust Agreement in each Fiscal Year shall at least equal Debt Service, including Debt Service on the Additional Bonds, in each Fiscal Year.

Other requirements for the authorization of Additional Bonds are described in Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS – Trust Agreement – Additional Bonds."

Limitations on the Issuance of Obligations Payable from Revenues

Under the Trust Agreement, the Authority agrees that it will not, so long as any of the Bonds are Outstanding, issue any obligations or securities, however denominated, payable in whole or in part from Revenues except (a) Additional Bonds of any Series authorized pursuant to the Trust Agreement; or (b) obligations which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and Additional Bonds and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Revenues after the prior payment of all amounts then required to be paid under the Trust Agreement from Revenues for principal, premium, interest and reserve fund requirements for the Bonds, as the same become due and payable and at the times and in the manner as required in the Trust Agreement.

Bond Insurance

The payment of principal of and interest on the Bonds when due will be guaranteed by a financial guaranty insurance policy to be issued by the Series 2006 Bond Insurer concurrently with the delivery of the Bonds. See "BOND INSURANCE" below.

BOND INSURANCE

The following information has been furnished by Ambac Assurance Corporation ("Ambac Assurance" or the "Series 2006 Bond Insurer") for use in this Official Statement. Reference is made to Appendix F for a specimen of the Bond Insurance Policy. Such information has not been independently confirmed or verified by the Authority or the City. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Payment Pursuant to Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Insurance Policy" or the "Bond Insurance Policy") relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Insurance Policy, Ambac Assurance will pay to The Bank of 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 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 Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking account 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 account 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, except to the extent that Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance's obligations under the Bond Insurance Policy shall be fully discharged.

In the event the Trustee has notice that any payment of principal of or interest on an 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 Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Insurance Policy. Specifically, the Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking account 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 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 Insurance Policy. Payment of interest pursuant to the 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 Insurance 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 **$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, Inc. 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 an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its 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. No representation is made by Ambac Assurance regarding the federal income tax treatment of payments that are made by Ambac Assurance under the terms of the Insurance Policy due to nonappropriation of funds by the City.

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 "BOND INSURANCE".

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

The following factors, along with the other information in this Official Statement, should be considered by potential investors in evaluating purchase of the Bonds. However, they do not purport to be an exhaustive listing of risks and other considerations which may be relevant to an investment in the Bonds. In addition, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks.

No Pledge of Revenues or Lien on Assets of the City

The Base Rental Payments are not secured by any pledge of or lien on taxes or other revenue of the City, but are payable from all funds lawfully available to the City. The City has the capacity to enter into other obligations which may constitute additional charges against its revenues. In the event the City's revenue sources are less than its total obligations, the City could choose to fund other obligations before making Base Rental Payments. The same result could occur if, because of State constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues.

The obligation of the City to pay the Base Rental Payments does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The obligation of the City to pay Base Rental Payments and additional payments does not constitute a debt of the City, the State or any of its political subdivisions, and does not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

Although the Lease does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease to make Base Rental Payments from any source of legally available funds (subject to certain exceptions and conditions), and the City has covenanted in the Lease to take such action as may be necessary to include all Base Rental Payments in its annual budgets and annually to appropriate amounts necessary to make such Base Rental Payments. The City is also liable for other obligations payable from any source of legally available funds. See "THE CITY – Financial Position of the City" herein and Appendix A - "AUDITED FINANCIAL STATEMENT FOR FISCAL YEAR ENDED JUNE 30, 2005" hereto.

Completion of the Project

The obligation of the City to make Base Rental Payments related to the Bonds does not commence until the completion of the Project. Construction of the Project has not yet commenced. The City currently estimates that substantial completion of the Project will occur in February 2008. There can be no assurances, however, that construction delays caused by the discovery of latent defects, inclement weather, natural disaster, contractor claims or other factors will not delay substantial completion of the Project.

The Trust Agreement provides that the Bonds will be paid solely from capitalized interest funded with proceeds of the Bonds before the Project is completed. Capitalized interest on the Bonds has been funded in the amount of $1,396,492.26, which amount is estimated to be sufficient to pay interest on the Bonds through August 1, 2008 (based on the actual rate on the Bonds). If the Project is not substantially completed by August 1, 2008, the Trustee may not have enough moneys available to pay debt service on the Bonds.

Abatement

The Base Rental Payments due under the Lease shall be abated proportionately during any period in which by reason of any damage or destruction (other than by eminent domain) there is substantial interference with the use and occupancy by the City of the Leased Property by the City, in the proportion in which the initial cost of that portion of the Leased Property rendered unusable bears to the initial cost of the whole of the Leased Property. Such abatement shall commence with such damage or destruction and end when use and occupancy or possession is restored. The Base Rental Payments due under the Lease shall also be abated during any period in which by reason of eminent domain there is substantial interference with the use and occupancy by the City of the Leased Property by the City. See "SOURCES OF PAYMENT FOR THE BONDS- "-Eminent Domain Proceeds".

It is not possible to predict the circumstances under which such an abatement of rental may occur. In addition, there is no statute, case or other law specifying how such an abatement of rental should be measured. For example, at the time of such abatement, the value of the Leased Property may be substantially higher or lower than its value at the time of issuance of the Bonds. Such a circumstance could have an effect on the amount of rental abated under the Lease and could have a material adverse effect on the security for and payment of the Bonds.

If damage, destruction or eminent domain proceedings with respect to the Leased Property results in abatement of the Base Rental Payments related to such Leased Property and if such abated Base Rental Payments, if any, together with moneys from rental interruption or use and occupancy insurance (in the event of any insured loss due to damage or destruction), eminent domain proceeds, if any, and moneys available in the Revenue Fund or Reserve Fund, are insufficient to make all payments of principal of and interest on the Bonds during the period that the Leased Property is being replaced, repaired or reconstructed, then all or a portion of such payments of principal and interest may not be made. Under the Lease and the Trust Agreement, no remedy is available to the Holders of the Bonds for nonpayment under such circumstances.

Seismic Considerations

The area in and surrounding the City, like all California communities, may be subject to unpredictable seismic activity. If severe seismic activity occurred in or around the City, there could be substantial damage to and interference with the City's right to use and occupy all or a portion of the Leased Property, which could result in abatement of Base Rental Payments. See "RISK FACTORS – Abatement." The City is not required to maintain earthquake insurance.

Dependence on Development Impact Fee Revenues

The City generally plans to use revenues derived from certain development impact fees to pay Base Rental Payments under the Lease. To the extent that development within the City does not occur as projected, or to the extent that such fee revenues are not generated as expected for any other reason, the amounts available to the City to make the Base Rental Payments when due will be adversely affected. See "THE CITY – Development Impact Fee Revenues." Base Rental Payments are payable from any source of legally available funds budgeted and appropriated therefore and the City is obligated pursuant to the Lease to take such action as may be necessary to include all Base Rental Payments in its annual budgets and annually to appropriate amounts necessary to make such Base Rental Payments.

General Economic Conditions

The City's financial condition is dependent in large part upon the general state of the local, regional and national economy. In addition, factors causing a general economic downturn could have a continuing negative impact on the City's financial condition. See "THE CITY – Financial Position of the City" herein.

Limited Recourse on Default

If the City defaults on its obligations to make Base Rental Payments with respect to the Leased Property, the Trustee, as assignee of the Authority, may (subject to the restrictions described herein) retain the Lease and hold the City liable for all Base Rental Payments on an annual basis and will have the right to re-enter and re-let the Leased Property. In the event such re-letting occurs, the City would be liable for any resulting deficiency in Base Rental Payments. Alternatively, the Trustee may terminate the Lease with respect to the Leased Property and proceed against the City to recover damages pursuant to the Lease. However, the Trustee may not sell or foreclose the Leased Property to obtain money for payment of the principal of or interest on the Bonds in the event of a default. See also "-No Acceleration Upon Default" below.

Due to the specialized nature of the Leased Property, no assurance can be given that the Trustee will be able to re-let any portion of the Leased Property so as to provide rental income sufficient to make principal and interest payments with respect to the Bonds in a timely manner, and the Trustee is not empowered to sell the Leased Property for the benefit of the Owners of the Bonds. In addition, due to the governmental function of the Leased Property, it is not certain whether a court would permit the exercise of the remedies of repossession and re-letting with respect thereto. Any suit for money damages would be subject to limitations on legal remedies against public agencies in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

No Acceleration Upon Default

If the City defaults on its obligations to make Base Rental Payments, the Trustee may have limited ability to re-let the Leased Property so as to preserve the tax exempt nature of the interest on the Bonds. In the event of default, there is no remedy of acceleration of any Base Rental Payments which have not come due and payable in accordance with the Lease. The City will continue to be liable for lease payments as they become due and payable in accordance with the Lease if the Trustee does not terminate the Lease, and the Trustee is required to seek a separate judgment each year for that year's defaulted Base Rental Payments. Any such suit for money damages would be subject to limitations on legal remedies against cities in California, including a limitation on enforcement of judgments against funds or property needed to serve the public welfare and interest.

No Liability of Authority to the Owners

Except as expressly provided in the Trust Agreement, the Authority shall not have any obligation or liability to the Owners of the Bonds with respect to the payment when due of the Base Rental Payments by the City, or with respect to the performance by the City of other agreements and covenants required to be performed by it contained in the Lease or the Trust Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

State of California Financial Condition

In recent years, the State has experienced significant financial and budgetary stress. Changes in revenues received by the State may affect the amount of funding, if any, received by the City and other cities in the State. The City cannot predict the extent of the budgetary problems the State will encounter in this or in any future fiscal years and it is not clear what measures would be taken by the State to balance its budget, as required by law. Accordingly, the City cannot predict the final outcome of future State budget negotiations, the impact such budgets will have on the State's finances and operations or what actions will be taken in the future by the State Legislature and Governor to address changing State revenues and expenditures. Further, current and future State budgets may be affected by national and State economic conditions and other factors over which the City has no control. See "THE CITY" herein.

CERTAIN LIMITATIONS ON TAXES AND APPROPRIATIONS

While the Lease does not obligate the City to impose any new taxes or increase any existing taxes to pay Base Rental Payments, limitations on the City's ability to impose taxes or appropriate funds could adversely affect the City's ability to raise and spend revenues. In such event, City funds which would otherwise be available absent such limitation might not be available to make Base Rental Payments. The following is a description of certain legal limitations related to the City's ability to impose taxes or appropriate funds.

Article XIIIA of the State Constitution

Section 1(a) of Article XIIIA of the State Constitution limits the maximum ad valorem tax on real property to 1% of full cash value (as defined in Section 2 of Article XIIIA), to be collected by counties and apportioned according to law. Section 1(b) of Article XIIIA provides that the 1% limitation does not apply to ad valorem taxes to pay interest or redemption charges on (1) indebtedness approved by the voters prior to July 1, 1978 or (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition. Section 2 of Article XIIIA defines "full cash value" to mean "the County assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIIIA provides that notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above.

The voters of the State subsequently approved various measures which further amended Article XIIIA. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first $1,000,000 of the full cash value of other real property between parents and children, do not constitute a "purchase" or "change of ownership" triggering reassessment under Article XIIIA. This amendment could serve to reduce the property tax revenues of the City. Other amendments permitted the State Legislature to allow persons over 55 or "severely disabled homeowners" who sell their residence and buy or build another of equal or lesser value within two years in the same city, to transfer the old residence's assessed value to the new residence.

In November 1990 election, the voters approved an amendment of Article XIIIA to permit the State Legislature to exclude from the definition of "new construction" seismic retrofitting improvements or improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

Article XIIIA has also 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, provided 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.

Article XIIIB of the State Constitution

Article XIIIB of the State Constitution limits the annual appropriations of the State and of 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, population and services for which the fiscal responsibility is shifted to or from the governmental entity. The "base year" for establishing this appropriations limit is the 1978-79 fiscal year, and the limit is adjusted annually to reflect changes in population, consumer prices and certain increases or decreases in the cost of services provided by the applicable public agency.

Appropriations of an entity of local government subject to Article XIIIB generally include authorizations to expend during a Fiscal Year the proceeds of taxes levied by or for the entity and the proceeds of State subventions, exclusive of certain State subventions, refunds of taxes, and benefit payments from retirement, unemployment insurance and disability insurance funds. "Proceeds of taxes" include, but are not limited to, all tax revenues, most State subventions and the proceeds to the local governmental entity from (1) regulatory licenses, user charges, and user fees (to the extent that such proceeds exceed the cost reasonably borne by such entity) and (2) the investment of tax revenues. Article XIIIB provides that if a governmental entity's revenues in any year exceed the amounts permitted to be spent, the excess must be returned by revising tax rates or fee schedules over the subsequent two years.

Article XIIIB does not limit the appropriation of moneys to pay debt service on indebtedness existing or authorized as of January 1, 1979, or for bonded indebtedness approved thereafter by a vote of the electors of the issuing entity at an election held for that purpose. Furthermore, in 1990, Article XIIIB was amended to exclude from the appropriations limit "all qualified capital outlay projects, as defined by the Legislature" from proceeds of taxes. The Legislature has defined "qualified capital outlay project" to mean a fixed asset (including land and construction) with a useful life of 10 or more years and a value which equals or exceeds $100,000. As a result of this amendment, the appropriations to pay the lease payments on the City's long-term General Fund lease obligations (including the Base Rental Payments) are generally excluded from the City's appropriations limit.

Articles XIIIC and XIIID of the State Constitution

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 the City to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIIIC requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City's General Fund, require a two-thirds vote. Further, any general purpose tax which the City 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 held within two years after November 5, 1996. The voter approval requirements of Article XIIIC reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet increased expenditure needs.

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.

Article XIIID conditions the imposition or increase of any "fee" or "charge" upon there being no written majority protest after a required public hearing and, for fees and charges other than for sewer, water or refuse collection services, voter approval. Article XIIID defines "fee" or "charge" to mean levies (other than ad valorem or special taxes or assessments) imposed by a local government upon a parcel or upon a person as an incident of the ownership or tenancy of real property, including a user fee or charge for a "property-related service." One of the requirements of Article XIIID is that before a property related fee or charge may be imposed or increased, a public hearing upon the proposed fee or charge must be held and mailed notice sent to the record owner of each identified parcel of land upon which the fee or charge is proposed for imposition. In the public hearing, if written protests of the proposed fee or charge are presented by a majority of the owners of affected identified parcel(s), an agency may not impose the fee or charge.

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 the City 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 the City's General Fund. If such repeal or reduction occurs, the City's operations could be adversely affected.

The City believes its fees, charges, assessments and taxes are in compliance with Articles XIIIC and XIIID.

Proposition 62

A statutory initiative ("Proposition 62") was adopted by the voters voting in the State at the November 4, 1986 General Election which (1) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity, (2) 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 within that jurisdiction, (3) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (4) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIIIA, (5) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities and (6) requires that any tax imposed by a local governmental entity on or after March 1, 1985 be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988.

Following its adoption by the voters, various provisions of Proposition 62 were declared unconstitutional at the appellate court level. On September 28, 1995, however, the California Supreme Court, in *Santa Clara City Local Transportation Authority v. Guardino*, 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 governmental or district to impose any general tax. The *Santa Clara* decision did not address the question of whether or not it should be applied retroactively.

In response to the *Santa Clara* decision, the California Legislature adopted Assembly Bill 1362, which provided that the *Santa Clara* decision should apply only prospectively to any tax that was imposed or increased by an ordinance or resolution adopted after December 14, 1995. Assembly Bill 1362 was vetoed by the Governor, hence the application of the *Santa Clara* decision on a retroactive basis remains unclear.

Proposition 62, as an initiative statute, does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature, except that it may be amended only by a vote of the State's electorate. However, Proposition 218, as a constitutional amendment and supersedes many of the provisions of Proposition 62.

The City does not believe that it imposes any tax or fee which is subject to the provisions of Proposition 62.

Proposition 1A

Proposition 1A, proposed by the Legislature in connection with the State's Fiscal Year 2004-05 Budget, approved by the voters in November 2004 and generally effective in Fiscal Year 2006-07, 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 motor vehicle license fee 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, as of 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 City revenues. 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 City.

Future Initiatives

Articles XIIIA, XIIIB, XIIIC and XIIID and Propositions 62 and 1A were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting the City's revenues or the City's ability to expend revenues.

THE AUTHORITY

The Lincoln Public Financing Authority was established pursuant to a Joint Exercise of Powers Agreement dated April 1, 1990, by and between the City and the Agency in accordance with provisions of the California Joint Exercise of Powers Act. The Authority was created for the purpose of providing financing for public capital improvements of the City and the Agency.

The Authority has no independent staff and consequently will be dependent upon the City's officers and employees to administer the Bonds on its behalf. The Governing Board of the Authority is comprised of the members of the City Council of the City.

THE CITY

General

The City of Lincoln, California (the "City") was incorporated in 1890. It is located in Placer County, California, at the base of the foothills of the Sierra Nevada mountains, approximately 27 miles northeast of Sacramento and 112 miles northeast of San Francisco. The City encompasses approximately 19 square miles and as of January 1, 2006, had an estimated total population of 33,589. See Appendix B - "CITY OF LINCOLN ECONOMIC AND DEMOGRAPHIC INFORMATION."

Organization and Governance

The City is organized under the Constitution and laws of the State of California as a general law municipal corporation. It is governed by a "council-manager" form of government. The City Council is comprised of five members, serving staggered four-year terms. The current composition of the City Council is as follows:

Name and Office	Expiration of Term
Ray Sprague, Mayor	November 2006
Kent Nakata, Mayor Pro Tempore	November 2006
Tom Cosgrove, Councilmember	November 2008
Primo Santini, Councilmember	November 2008
Spencer Short, Councilmember	November 2008

The City Council appoints the City Manager, who serves at the pleasure of the City Council. The City Manager is the chief executive officer of the City, responsible for carrying out the policies and programs of the City as directed by the City Council. All City services are under the direction of the City Manager. The City Manager's office also administers the City's personnel functions, oversees economic development activities and records management operations. The City Manager also serves as the

Executive Director of the Redevelopment Agency of the City of Lincoln and the Executive Director of the Lincoln Public Financing Authority.

Certain members of the current City management are described below:

Gerald F. Johnson, City Manager. Mr. Johnson was appointed as the City Manager and Executive Director of the Redevelopment Agency of the City in August, 2001. He has thirty-five years of public sector management experience, including twenty-five years of experience as a city manager. Prior to coming to the City, Mr. Johnson served as City Manager of three other California cities: Norco (1995-2001), Rialto (1988-1995), and Desert Hot Springs (1983-1985). He also served as City Manager of Ogdensburg, New York (1978-1983). Earlier in his career he was Director of Finance and Administration for New Rochelle, New York and Budget Director of Syracuse, New York. Mr. Johnson received his bachelors degree in government, magna cum laude, from the University of Redlands and his masters degree in public administration from Syracuse University. He is a corporate member of the International City Management Association and has authored several publications, including a "How to Guide for Assessing Effective Service Levels" published by the League of California Cities.

Steven Ambrose, Director of Finance & Administrative Services. Mr. Ambrose was appointed in February 2006 as the Interim Finance and Administrative Services Director for the City and subsequently appointed as the Finance and Administrative Services Director for the City in June 2006. Mr. Ambrose received his bachelor's degree in Accounting from California State University of Sacramento in 1983 and his CPA license in January 1988. Prior to his appointment, Mr. Ambrose was employed by the City as a Financial Analyst for the past 3 years and served as a consultant for 3 years prior. He is a member of the American Institute for Certified Public Accountants and the California Society of CPA's.

Rodney E. Campbell, Community Development Director. Mr. Campbell has worked for the City as the Community Development Director since May 1980. Mr. Campbell received his bachelor's degree in History in 1975, from the University of Santa Clara and his Juris Doctorate from the University of San Diego in 1979. He is a corporate member of the American Planning Association, the California State Bar Association and has received awards for California State Scholarship, California State Fellowship and the Lincoln Chamber of Commerce Employee of the Year.

John E. Pedri, Public Works Director. Mr. Pedri has worked for the City as the Public Works Director and City Engineer since July 1997. Mr. Pedri received his bachelor's degree in Environmental Civil Engineering from California State University of Sacramento in 1975 and received his professional engineer license in 1982. He has been a member of the American Public Works Association since 1984 and served as acting chairman in 1991. He was also a member of the Water Environmental Federation and the American Water Works Association for over 20 years.

Financial Position of the City

Revenues and Expenditures

Total General Fund revenues increased from $6.9 million in Fiscal Year 2004 to $10.6 million in Fiscal Year 2005. The increase in revenues is due to double digit growth in property values as well as rapid and continual growth in the new housing market that resulted in a significant increase in property values and a proportionate growth in sales tax revenues and an increase in administration fees charged as part of the building permit process.

Expenditures have increased based on the increased demands for City services due to population growth since Fiscal Year 2004. Total expenditures increased from $7.9 million in Fiscal Year 2004 to $9.8 million in Fiscal Year 2005.

Change in Fund Accounting

Prior to Fiscal Year 2001-02, the City's Financial Statements included revenues such as building permit fees, plan check fees and similar charges as General Fund revenues. Conversely, prior to Fiscal Year 2001-02, the City's Financial Statements included the cost of providing development services as General Fund expenses.

In Fiscal Year 2001-02, the City decided to separately account for those revenues and expenses related to development in a separate fund designated as the Development Services Fund to allow a more accurate accounting for the more cyclical revenues and expenses related to development. For purposes of comparison to Fiscal Year 2000-01, the Fiscal Year 2001-02 through Fiscal Year 2004-05 Development Services Fund revenues and expenses are included in the following table.

Historical Summary

The following table presents a historical summary of revenues, expenditures and fund balances for the City including the City's General Fund from fiscal year ended June 30, 2001 and the City's General Fund and Development Services Fund from fiscal year ended June 30, 2002.

Table 1
City of Lincoln
Historical Summary of Revenues, Expenditures and Fund Balances
General Fund and Development Services Fund
(Fiscal Years Ending June 30)
(in 000's)

	General Fund and Development Services Fund				
REVENUES	2001	2002	2003	2004	2005
Taxes and assessments	$2,129	$2,590	$3,983	$5,058	$12,583
Licenses and permits	3,861	2,954	3,687	5,966	452
Fines and penalties	7	14	12	66	104
Interest and investment income	0	0	809	(920)	(50)
Intergovernmental revenue	777	1,084	0	21	94
Charges for services	2,924	2,299	5,171	3,880	6,249
Use of property and money	409	446	0	0	0
Other	1,247	1,142	1,993	1,650	1,337
TOTAL REVENUES	$11,354	$10,529	$15,655	$15,721	$20,769
EXPENDITURES					
General government	$1,490	$1,979	$2,658	$2,392	$3,190
Public safety	2,021	2,515	3,224	4,103	5,451
Public works and facilities	2,825	4,787	6,311	7,877	10,450
Culture and recreation	0	0	0	656	564
Education	0	0	0	258	250
Capital outlay	261	395	261	327	79
TOTAL EXPENDITURES	$6,597	$9,676	$12,454	$15,613	$19,984
EXCESS (DEFC) OF REVENUES OVER EXP.	$4,757	$853	$3,201	$108	$785
OTHER FINANCING SOURCES (USES)					
Operating transfers in	$ 0	$ 0	$410	$469	$148
Operating transfers out	(2,382)	(441)	(2,290)	(166)	(0)
TOTAL OTHER FINANCING SOURCES (USES)	$(2,382)	$(441)	$(1,880)	$303	$148
EXCESS (DEF.) OF REV. & OTHER SOURCES OVER EXP. & OTHER USES	$2,375	$412	$1,321	$411	$933
FUND BALANCES (DEFICITS) - Beginning of Year	$5,866	$8,511	$8,814	$9,880[1]	10,452
Prior period adjustment	489	(109)	0	161	(382)
Residual equity transfer in	0	4,060	0	0	0
Residual equity transfer out	(219)	(4,060)	0	0	0
FUND BALANCES (Year)	$8,511	$8,814	$10,135[1]	$10,452	$11,003

(1) Fund balance ending Fiscal Year 2002-03 restated in Fiscal Year 2003-04 due to reclassification of certain amounts as a result of revised account classifications.

Source: City of Lincoln.

Development Impact Fee Revenues

The City currently intends to pay Base Rental Payments from certain amounts in the Public Facility Element Special Revenue Fund of the City that consist of residential and commercial development impact fees for administration purposes collected in connection with new development. The following table sets forth a five-year history of those certain development impact fee revenues. The following table does not include revenues from development impact fees for police, fire, library, parks, solid waste or other purposes.

Table 2
CITY OF LINCOLN
Certain Development Impact Fee Revenues – Historical

	2000-01	2001-02	2002-03	2003-04	2004-05	5-Yr. Total
Residential Fees						
Administration	$498,783	$461,212	$770,844	$903,589	$798,537	$3,432,965
Commercial Fees						
Administration	$4,988	$4,612	$2,989	$52,879	$49,663	$115,131
Totals	$503,771	$465,824	$773,833	$956,468	$848,200	$3,548,096

Source: City of Lincoln.

The following table is a five-year projection of residential building permit issuance in the City. For information on historical building permit issuance in the City, see Appendix B – "CITY OF LINCOLN ECONOMIC AND DEMOGRAPHIC INFORMATION – Building Activity."

Table 3
CITY OF LINCOLN
Projected Equivalent Dwelling Units

Development	2005-06	2006-07	2007-08	2008-09	2009-10	5-Yr. Total
Placer Holdings Incorporated	225	380	525	900	1,003	3,033
Del Webb	478	--	--	--	--	478
Lincoln Crossing	1,185	410	216	--	--	1,811
3-D South – Centex	77	108	--	--	--	185
Foskett Ranch	124	100	--	--	--	224
Joiner Village	96	--	--	--	--	96
Gateway	5	46	--	--	--	51
Lakeside	--	593	58	--	--	651
Aitken Ranch	--	126	356	107	--	589
Clover Meadows	--	29	--	--	--	29
Meadowlands	--	--	299	--	--	299
Highlands / Cypress	--	--	280	--	--	280
Fullerton Parcel	--	--	70	--	--	70
Area C - Twelve Bridges	--	--	--	100	--	100
VILLAGE 1[1]	--	--	--	200	200	400
VILLAGE 7[1]	--	--	--	502	600	1,102
TOTAL	2,190	1,792	1,804	1,809	1,803	9,398

[1] New development currently projected by the City's proposed general plan.
Source: City of Lincoln.

The City currently intends to pay Base Rental Payments from certain amounts in the Public Facility Element Special Revenue Fund of the City that consist of residential and commercial development impact fees for administration purposes collected in connection with new development. The following table sets forth a five-year projection of those certain development impact fee revenues. These projections are based on the projections of equivalent dwelling units to be constructed within the City, as set forth in the preceding table. While the City believes these projections to be reasonable, no assurance can be given that these development impact fee revenues can or will be attained at such levels. The following table does not include projected revenues from development impact fees for police, fire, library, parks, solid waste or other purposes.

Table 4
CITY OF LINCOLN
Certain Development Impact Fee Revenues - Projected

	2005-06	2006-07	2007-08	2008-09	2009-10	5-Yr. Total
Residential Fees Administration	$1,054,084	$1,005,002	$1,058,142	$1,097,882	$1,060,254	$5,275,364
Commercial Fees Administration	$ 23,613	$ 22,700	$ 21,975	$ 24,325	$ 26,700	$ 119,313
Totals	$1,077,697	$1,027,702	$1,080,117	$1,122,207	$1,086,954	$5,394,677

Source: City of Lincoln.

Retirement Benefit Obligations

The City contributes to the California Public Employees' Retirement System ("PERS"), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disabilities, 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. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with PERS and adopts those benefits through city ordinances. PERS may be contacted directly at CalPERS, Lincoln Plaza, 400 P Street, Sacramento, CA 95814, Telephone: 888-225-7377 for information related to PERS, including information relating to its financial position and investments.

Active plan members are required to contribute 7.0% of annual covered salary for miscellaneous employees and 9.0% of annual covered salary for safety employees. The City is required to contribute the remainder of the actuarially determined 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 contribution requirements are established by State statute and the contribution rate of plan members and the City are established and may be amended by PERS. The rate as of June 30, 2005 was 6.818% for miscellaneous and 19.419% for safety employees.

For fiscal year ended June 30, 2005, the City's annual pension cost for PERS was $490,752. For fiscal year ending June 30, 2006, the City's annual pension costs for PERS are estimated to be $744,633. The City expects the amounts of its PERS pension contributions to increase significantly in the near term due to the performance of PERS investments and increased funding requirements for public safety employees. For the six months ending December 30, 2006, the City has budgeted pension contributions of approximately $803,201.

The following table shows a three-year funding progression of the City's PERS miscellaneous plan.

Table 5
CITY OF LINCOLN
Schedule of Funding Progress
PERS - Miscellaneous Employees

Actuarial Valuation Date (June 30)	Actuarial Accrued Liability (AAL)	Actuarial Asset Value	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
2001	$5,060,146	$6,426,744	$(1,366,598)	127.0%	$2,671,854	(51.1)%
2002	$5,836,256	$6,278,070	$(441,814)	107.6%	$3,143,460	(14.1)%
2003	$7,236,832	$6,591,625	$645,207	91.1%	$3,741,924	17.2%

Source: City of Lincoln, Financial Statements for the year ended June 30, 2005.

The following table shows a three-year funding progression of the City's PERS safety plan.

Table 6
CITY OF LINCOLN
Schedule of Funding Progress
PERS – Safety Employees

Actuarial Valuation Date (June 30)	Actuarial Accrued Liability (AAL)	Actuarial Asset Value	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
2001	$3,038,418	$3,102,754	$(64,336)	102.1%	$799,998	(8.0)%
2002	$3,327,862	$2,950,662	$377,200	88.7%	$1,158,365	32.6%
2003	$3,993,465	$3,161,758	$831,707	79.2%	$1,561,458	53.3%

Source: City of Lincoln, Financial Statements for the year ended June 30, 2005.

In June 2004, the Governmental Accounting Standards Board ("GASB") issued Statement No. 45 ("GASB 45"), addressing the accounting and reporting of state and local governments' costs and obligations related to other post-employment benefits ("OPEB"), which include post-employment health care and other non-pension benefits. GASB 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as currently required for the accounting and reporting of pensions. GASB 45 effective dates are phased in, similar to GASB's Statement No. 34 which was implemented in recent years.

The City currently provides OPEB to retired employees who have retired and are eligible to receive such benefits under the City's PERS plan and the accounting policy now in effect is a "pay-as-you-go" plan. For the fiscal year ended June 30, 2005, there were 19 participants with annual costs of approximately $109,946.

While GASB 45 is not effective until the City's fiscal year beginning after December 15, 2008, the City contracted with Demsey Filliger & Associates to provide an initial analysis of the City's unfunded liability in regards to OPEB. The preliminary results of the analysis found the City's actuarial accrued liability for both current and future liabilities to be approximately $10.7 million as of July 1, 2005, representing the present value of all benefits expected to be paid by the City for its current 19 retirees and future retirees. Of this number, approximately $5.5 million represents the City's current unfunded liability for active and retired employees with approximately $1.7 representing the unfunded future liability for the current 19 retired employees. Although GASB 45 does not require pre-funding of OPEB, on March 28, 2006, the City Council directed the City's staff to pursue the establishment of an irrevocable trust with which to fund its OPEB liability.

For additional detail, see Note 5 ("City Employees Retirement Plan") and ("Other Postemployment Benefits") in Appendix A – "AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2005."

City Budget

Budget Process

Prior to June 1 of each year, the City Manager submits a proposed City operating budget to the City Council for the fiscal year commencing on the next July 1. The City Council then conducts public meetings. The final budget is formally adopted each year by City Council resolution.

Annual budgets for the general fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles. Accordingly, actual revenues and expenditures can be compared with related budget amounts without any reconciling items. The City Manager has the authority to make budget changes and adjustments up to a maximum of $10,000 per account, and the budget committee has the authority to make changes up to $35,000 per account. All other changes require City Council approval.

Budgetary data is prepared on a modified accrual basis consistent with the related "actual" amounts. Budget amounts shown in the financial statements for Fiscal Year 2005-06 represent the original budgeted amounts and all supplemental appropriations, which were immaterial. All unused appropriations lapse at the end of the fiscal year.

Fiscal Year 2005-06 Budget

The City's final budget for Fiscal Year 2005-06 was adopted by the City Council on June 14, 2005 (the "Final Budget"). The total Final Budget, including operations, capital improvement projects and debt service, was approximately $122 million. Of this amount, approximately $42 million was budgeted for City operations, an approximate 13% increase in expenditures over Fiscal Year 2004-05; approximately $78 million was budgeted for capital improvement projects, an approximate 27% increase over Fiscal Year 2004-05; and $2 million was budgeted for debt service. The Final Budget anticipated an increase in General Fund revenues from approximately $11.6 million in Fiscal Year 2004-05 to approximately $13 million in Fiscal Year 2005-06.

As of June 19, 2006, the amended final budget (the "Amended Final Budget"), including operations, capital improvement projects and debt service, was approximately $145 million, an approximate 19% increase from the Final Budget. Of this amount, approximately $52 million was budgeted for City operations, an approximate 24% increase in expenditures over the Final Budget; approximately $90 million was budgeted for capital improvement projects, an approximate 15% increase over the Final Budget and approximately $3 million was budgeted for debt service. The Amended Final

Budget anticipated an approximate 2% decrease in General Fund revenues from approximately $13 million in the Final Budget to approximately $12.7 million.

Proposed Fiscal Year 2006-07 Budget.

The City Council conducted publicly noticed workshops on February 13, 2006, May 15, 2006 and May 16, 2006 regarding the City's budget for Fiscal Year 2006-07. On June 13, 2006, the City presented the City Council with its preliminary budget for Fiscal Year 2006-07 (the "Proposed Budget"). As presented, the total Proposed Budget including operations, capital improvement projects and debt service, was approximately $176 million. Of this amount, approximately $50 million was budgeted for operations, an approximate 21% increase in expenditures over Fiscal Year 2005-06, approximately $113 million was budgeted for capital improvement projects, an approximate 45% increase over Fiscal Year 2005-06 and approximately $12 million was budgeted for debt service. Concurrently with the adoption of the final budget for Fiscal Year 2006-07, the City expects to direct the City Manager and the Finance & Administrative Services Director to implement and maintain reserves of ten (10%) percent of the General Fund, for economic reserve, and fifty (50%) percent of the Development Services Fund for prepaid services.

The Proposed Budget, as presented, included "one time" General Fund revenues in the amount of approximately $1.1 million anticipated in relation to certain Placer County Water Agency ("PCWA") water connections that have been acquired by the City. While the City supplies water from City-owned water wells to meet peak day demands, the City's primary source of its potable water supply is PCWA water connections. The City itself has acquired water connections from PCWA with the intent to resell the water connections to future developers, anticipating the sale of these connections in the amount of $1.1 million in Fiscal Year 2006-07. There is no assurance that the anticipated sales or anticipated amount of General Fund revenue from the sales will be realized. In the event the anticipated sales or anticipated amount of General Fund revenue from the sales are not realized or realized in a decreased amount, the City plans to commensurate adjustments to appropriations within the final budget for Fiscal Year 2006-07.

For additional detail, see Note 2 ("Budgetary Information") in Appendix A – "AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2005."

Employee Relations

The City has 200 regular full time employees. All participate in PERS for both retirement and health benefits. The City's employees, other than the City Manager and department heads, are represented as to wages, hours and other terms and conditions of employment, by five employee organizations as follows: Classified; Professional/Administrative; Mid-Management/Confidential; Lincoln Police Officers Association; Lincoln Police/Fire Mid-Management/Supervisory.

The City has a memorandum of understanding ("MOU") with the International Union of Operating Engineers, Local 39, covering all Classified employees. This MOU expires June 30, 2010.

The City has a MOU with the International Union of Operating Engineers, Local 39, covering all Professional/Administrative employees. This MOU expires June 30, 2010.

The City has a MOU with the employees in the City Mid-Management/Confidential group. The MOU expires June 30, 2010.

The City has a MOU with the Lincoln Professional Fire Suppression Officers. This MOU expires June 30, 2010.

The City has a MOU with the Lincoln Police Officers Association covering all of the patrol officers and dispatch personnel. This MOU expires June 30, 2010.

The City has an MOU with the Lincoln Police/Fire Mid-Management/Supervisory group. This MOU expires June 30, 2010.

The City has not experienced any labor interruptions in the past. All current MOs contain no-strike and no-lockout clauses.

Investment Policy

In accordance with the laws of the State of California, and under authority granted by the people of the City, the City's Treasurer is responsible for investing and safely keeping the unexpended cash funds of the City. An investment committee consisting of the City's Treasurer, one citizen at large and two council members of the City is established to provide general oversight and direction concerning the policy related to management of the City' s investment pool. This committee acts in an advisory manner to the City's Treasurer on areas covered by the City's investment policy. The Finance & Administrative Services Director and/or the City Manager act in a staff and advisory capacity to the investment committee. The investment committee meets quarterly or upon request of members of the investment committee.

Investment Objectives

The specific objectives for the City's investment portfolio are as follows:

A. Safety of Principal- Safety of principal is the foremost objective of the City. Each investment transaction seeks to ensure that capital losses are avoided, whether from securities default, broker-dealer default, or from erosion of the market value. The City seeks to preserve principal by mitigating the two types of risk, credit risk and market risk.

B. Liquidity- Because the City operates its own water, sewer, and garbage utilities and bills for these services monthly, significant cash flow is generated on a daily basis. Historical cash flow trends are compared to current cash flow requirements on an ongoing basis in an effort to ensure that the City's investment portfolio remains sufficiently liquid to enable the City to meet all reasonably anticipated operating requirements.

C. Yield- The investment portfolio is designed to attain a market average rate of return through budgetary and economic cycles, consistent with the risk limitations, prudent investment principles and cash flow characteristics identified within the financial statements.

Current Status of the Investment Portfolio

The most recent investment portfolio report was prepared on May 30, 2006. As of the date of this report, the City's investment portfolio had a book value of $54,000,000 with a market value of $52,472,140, for a net unrealized loss of $1,527,860. The investment portfolio posted a weighted average maturity of 3 years with a weighted average yield to maturity of 4.31% and was composed of approximately 24% in investments with a rating of "A" or better and approximately 76% in Federal Agency Coupons.

Legislation which would modify the currently authorized investments and place restrictions on the ability of municipalities to invest in various securities is considered from time to time by the California State Legislature. There can be no assurances that the investments in the City's investment portfolio will not vary significantly from the investments described herein. Additionally, the value of the various investments in the City's investment portfolio will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. There can be no assurance that the values of the various investments in the City's investment portfolio will not vary significantly from the values described herein.

For additional detail, see Note 3 ("Cash and Investments") in Appendix A – "AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2005."

Impact of State Budget on the City

The Governor released his proposed state budget for Fiscal Year 2006-07 in January 2006 and his May Revision to the proposed state budget for Fiscal Year 2006-07 in May 2006. There are no provisions in the proposed state budget that the City expects to have a material impact on its finances or operations.

Economic and Demographic Information

Information concerning the City's population growth, employment, personal incomes, building activity, commercial activity, assessed property values, property tax collections and overlapping debt burden is set forth in Appendix B – "CITY OF LINCOLN ECONOMIC AND DEMOGRAPHIC INFORMATION."

Audited Financial Statements

The City's audited financial statements for the fiscal year ended June 30, 2005 are included in Appendix A and should be read in their entirety. The City's financial statements were audited by the independent accounting firm of Price Paige & Company (the "Auditor"). The Auditor has not reviewed this Official Statement and the City has not sought the consent of the Auditor to the inclusion of the Auditor's report in this Official Statement.

As part of its audit, the Auditor made several findings and recommendations concerning internal controls and operating efficiencies. Among other things, these findings and recommendations included the following: (i) improve cash receipts documentation and reconciliation, (ii) address surplus in the Internal Service Fund and deficits in the Transit Fund, Gas Tax Fund and Transportation Development Act Fund, and (iii) update the current capitalization policy. On December 6, 2005, the City responded to the Auditor's findings and recommendations. The response stated that the City generally agreed with certain of the findings and recommendations and has either implemented or begun the process to implement the recommendations. However, the response also identified that the City disagreed in whole or in part with certain of the findings and recommendations, including, but not limited to the following: (i) improve cash receipts documents; (ii) address deficits in the Transit Fund, Gas Tax Fund and Transportation Development Act Fund and (iii) include a parameter that defines financial interest in real property, investments and other business income sources or position within the City's Conflict of Interest Code, in that the City disagreed with the Auditor's treatment or interpretations of certain factors related to such findings and recommendations.

The City's audited financial statements for prior years are on file for public inspection with the City Clerk.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority and the City have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Certain requirements and procedures contained or referred to in the Trust Agreement, the Lease, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the City have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the City or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the City and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or the City legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Authority, the City or the Beneficial Owners to incur significant expense.

CERTAIN LEGAL MATTERS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix D hereto. Orrick, Herrington & Sutcliffe LLP has also served as Disclosure Counsel. Orrick, Herrington & Sutcliffe LLP, Bond Counsel and Disclosure Counsel, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

FINANCIAL ADVISOR

The City has retained Public Financial Management, Inc., of San Francisco, California, as financial advisor (the "Financial Advisor") in connection with the issuance of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Financial Advisor is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

LITIGATION

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

CONTINUING DISCLOSURE

The City has covenanted for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City by not later than nine months after the end of the City's fiscal year (which is currently June 30) in each year commencing with the report for the fiscal year ended June 30, 2006 (the "Annual Report") and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed with each Nationally Recognized Municipal Securities Information Repository. The notices of material events will be filed by the City with the Municipal Securities Rulemaking Board. These covenants have been made in order to assist the Underwriters in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The specific nature of the information to be contained in the Annual Report or the notices of material events by the City is set forth in Appendix E - "FORM OF CONTINUING DISCLOSURE AGREEMENT." The City has not previously defaulted on any obligation to provide an annual report in accordance with the Rule with respect to any bond issue of the City.

RATINGS

Standard & Poor's Ratings Service, a division of the McGraw-Hill Companies, Inc. ("S&P"), is expected to assign the Bonds the ratings of "AAA" with the understanding that upon delivery of the Bonds the Series 2006 Bond Insurance Policy insuring payment when due of the principal of and interest on the Bonds will be issued by the 2006 Bond Insurer. S&P has also assigned an underlying rating of "A" to the Bonds.

Certain information was supplied by the Authority and the City to the rating agency to be considered in evaluating the Bonds. Such ratings express only the views of the rating agency and are not a recommendation to buy, sell or hold the Bonds.

There is no assurance that such ratings will continue for any given period of time or that they will not be reduced or withdrawn entirely by the rating agency, or either of them, if in its judgment circumstances so warrant. The Authority, the City and the Trustee undertake no responsibility to oppose any such revision or withdrawal. Any such downward revision or withdrawal may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds were purchased by Piper Jaffray & Co. (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a purchase price of $14,348,330.55 (calculated as the principal amount of the Bonds, less a net original issue discount of $103,456.95 and less an Underwriter's discount of $98,212.50). The initial public offering prices set forth on the cover page may be changed by the Underwriter. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof.

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MISCELLANEOUS

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations from and summaries and explanations of the Bonds and of statutes and other documents contained in this Official Statement do not purport to be complete, and reference should be made to the Bonds and such statutes and other documents for full and complete statements of their provisions.

The preparation and distribution of this Official Statement have been authorized by the Authority and the City.

LINCOLN PUBLIC FINANCING AUTHORITY

By: /s/ Gerald F. Johnson
Executive Director

CITY OF LINCOLN

By: /s/ Gerald F. Johnson
City Manager

APPENDIX A

AUDITED FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2005

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CITY OF LINCOLN
California

FINANCIAL STATEMENTS

For the Year Ended
June 30, 2005

CITY OF LINCOLN

June 30, 2005

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CITY OF LINCOLN

CITY OFFICIALS
For the Year Ended June 30, 2005

Council Members

Tom Cosgrove	Mayor
Ray Sprague	Mayor Pro Tem
Kent Nakata	Council Member
Primo Santini	Council Member
Spencer Short	Council Member

Department Heads

Gerald F. Johnson	City Manager
Rodney Campbell	Director of Community Development
Randy Graham	Director of Finance & Admin. Services
John Pedri	Director of Public Works/City Engineer
Bill Smull	Chief of Police

Elected Officials

Sheron Watkins	City Treasurer
Linda Stackpoole	City Clerk

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PRICE
PAIGE&
COMPANY
ACCOUNTANCY CORPORATION

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Lincoln, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, 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 of Lincoln, California's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, California, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, 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 November 14, 2005, on our consideration of the City'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 *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Telephone (559) 299-9540 • *Fax* (559) 299-2344 • *E-mail* ppc@ppcpas.com • www.ppcpas.com

The management's discussion and analysis, infrastructure assets reported using the modified approach, and the budgetary comparison schedules 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lincoln, California's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is also not a required part of the basic financial statements of the City of Lincoln, California. The combining financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Price Paige & Company

Clovis, California
November 14, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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As Management of the City of Lincoln (City), we offer readers of the City of Lincoln's financial statements this narrative overview and analysis of the financial activities of the City of Lincoln for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the City's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- The assets of the City of Lincoln exceeded its liabilities at the close of the most recent fiscal year by $344,317,384 (net assets). Of this amount, $10,528,790 (unrestricted net assets) may be used to meet the City's on-going obligations to citizens and creditors.
- The City's total net assets increased by $88,547,076. Governmental activities increased the City's net assets by $84,094,286 and business-type activities increased the City's net assets by $4,452,790.
- As of June 30, 2005, the City's governmental funds reported combining ending fund balances of $102,048,513, an increase of $16,947,512 in comparison with the prior year. Approximately 28% of this total amount, $28,834,273 is available to meet the City's current and future needs (unreserved fund balance).
- At the end of the fiscal year, unreserved fund balance of the General Fund was $4,180,936 or 43% of total General Fund expenditures.
- The City's total long-term debt increased by $9,930,509 in comparison with the prior year. The increase was principally caused by the issuance of $11,090,000 of Tax Allocation Revenue Bonds Series 2004A and 2004B bonds to finance certain redevelopment activities of the Redevelopment Agency of the City of Lincoln.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction of the City of Lincoln's basic financial statements. The City of Lincoln's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Lincoln's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Lincoln'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 Lincoln 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 only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Lincoln that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Lincoln included general government, public safety, public works and facilities, culture and recreation and education. The business-type activities of the City of Lincoln included water, sewer, solid-waste, transit, airport and Lincoln Public Financing Authority.

The City of Lincoln Redevelopment Agency and Lincoln Public Financing Authority, although legally separate, function for all practical purposes as departments of the City of Lincoln and, therefore, have been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 20-23 of this report.

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 Lincoln, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds if the City of Lincoln can be 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, governmental fund finance statements focus on *near-term inflows 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 evaluating a City's near-term financing requirements.

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 City's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The City of Lincoln maintains 29 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, public facility element (PFE) special revenue fund, Redevelopment Agency special revenue fund, Twelve Bridges capital project fund and Lincoln Crossing capital project fund. All of these are considered to be major 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 this report.

The basic governmental fund financial statements can be found on pages 26-32 of this report.

Proprietary funds. The City of Lincoln maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statement. The City of Lincoln uses enterprise funds to account for its Public Financing Authority and for its water, sewer, solid-waste, transit and airport operations. *Internal service fund* is an accounting device used to accumulate and allocate costs internally among the City of Lincoln's various functions. The City of Lincoln uses the internal service fund to account for its fleet of vehicles, facility maintenance and for its management of public works. Since all of these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for its Public Financing Authority and for the water and sewer operations, as all of these are considered to be major funds of the City of Lincoln.

The basic proprietary fund financial statements can be found on pages 34-38 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* available to support the City of Lincoln's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 39 of this report.

Notes to the financial statements. The notes 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 can be found on pages 42-73 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Lincoln's infrastructure assets reported using the modified approach. The City of Lincoln adopts an annual appropriate budget for its general fund, public facility element (PFE) special revenue fund and Redevelopment Agency special revenue fund. Budgetary comparison statements have been provided for these three major funds to demonstrate compliance with this budget.

Required supplementary information can be found on pages 76-80 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise funds, and fiduciary funds are presented immediately following the required supplementary information on infrastructure assets.

Combining and individual fund statements and schedules can be found on pages 83-108.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets can over time serve as a useful indicator of the City's financial position. City assets exceed liabilities by $344,317,384 at the close of the most recent fiscal year.

City of Lincoln's Net Assets

	Governmental Activities		Business-type Activities		Total		
	2005	2004	2005	2004	2005	2004	Variance
Assets:							
Current and other assets	$ 129,658,766	$ 107,172,766	$ 13,447,743	$ 8,067,741	$ 143,106,509	$ 115,240,507	$ 27,866,002
Capital assets	193,186,515	114,561,339	79,144,594	70,503,579	272,331,109	185,064,918	87,266,191
Total assets	322,845,281	221,734,105	92,592,337	78,571,320	415,437,618	300,305,425	115,132,193
Liabilities:							
Current and other liabilities	27,348,235	25,384,295	13,943,271	10,421,691	41,291,506	35,805,986	5,485,520
Long-term liabilities	22,240,716	23,277,943	7,588,012	383,797	29,828,728	23,661,740	6,166,988
Total liabilities	49,588,951	48,662,238	21,531,283	10,805,488	71,120,234	59,467,726	11,652,508
Net assets:							
Invested in capital assets, net of related debt	182,524,779	92,046,339	78,929,040	70,262,081	261,453,819	162,308,420	99,145,399
Restricted	63,406,487	6,400,061	863,288	4,941	64,269,775	6,405,002	57,864,773
Unrestricted	27,325,064	74,625,467	(8,731,274)	(2,501,190)	18,593,790	72,124,277	(53,530,487)
Total net assets	$ 273,256,330	$ 173,071,867	$ 71,061,054	$ 67,765,832	$ 344,317,384	$ 240,837,699	$ 103,479,685

By far, the largest portion of the City of Lincoln's net assets (76 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Lincoln'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 resources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (19 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* ($18,593,790) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Lincoln is able to report positive balances in all three categories of net assets for the government as a whole. However, only governmental activities report positive balances in all three categories of net assets.

The City's net assets increased by $103,479,685 during the current fiscal year. The continued growth is primarily a result of the increase in capital projects and business-type activities.

Governmental activities. Governmental activities increased the City of Lincoln's net assets by $84,094,286, thereby accounting for 95 percent of the total growth in the net assets of the City of Lincoln.

City of Lincoln's Change in Net Assets

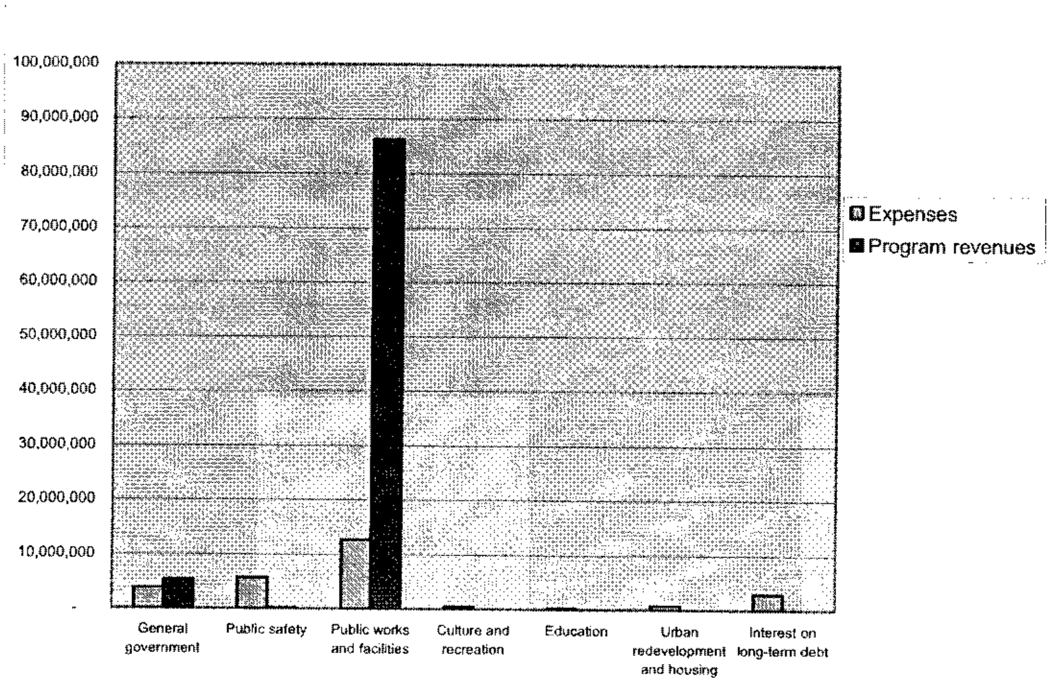
	Governmental Activities		Business-type Activities		Total		
	2005	2004	2005	2004	2005	2004	Variance
Revenues:							
Program revenues:							
Charges for services	$ 21,476,001	$ 17,478,287	$ 17,035,564	$ 13,651,255	$ 38,511,565	$ 31,129,542	$ 7,382,023
Operating grants and contributions	1,684,007	657,607	272,850	105,975	1,956,857	763,582	1,193,275
Capital grants and contributions	68,637,504	18,550	-	-	68,637,504	18,550	68,618,954
General revenues:							
Property taxes	5,492,387	4,373,220	83,167	70,775	5,575,554	4,443,995	1,131,559
Business taxes	1,428,148	1,324,103	242,826	304,853	1,670,974	1,628,956	42,018
Other local taxes	2,970,967	2,001,235	-	-	2,970,967	2,001,235	969,732
Fines and penalties	104,023	66,380	-	400	104,023	66,780	37,243
Interest income	3,252,166	1,939,034	923,091	312,013	4,175,257	2,251,047	1,924,210
Unrealized loss on investments	(338,046)	(1,336,587)	-	-	(338,046)	(1,336,587)	998,541
Licenses and permits	5,813,087	5,966,226	-	-	5,813,087	5,966,226	(153,139)
Rental income	4,700	-	-	-	4,700	-	4,700
Other revenues	1,660,406	16,175,141	41,889	13,734	1,702,295	16,188,875	(14,486,580)
Total revenues	112,185,350	48,663,196	18,599,387	14,459,005	130,784,737	63,122,201	67,662,536
Expenses:							
General government	3,887,293	3,004,078	-	-	3,887,293	3,004,078	883,215
Public safety	5,694,175	4,433,923	-	-	5,694,175	4,433,923	1,260,252
Public works and facilities	12,742,707	9,589,736	-	-	12,742,707	9,589,736	3,152,971
Culture and recreation	563,976	667,575	-	-	563,976	667,575	(103,599)
Education	249,649	258,580	-	-	249,649	258,580	(8,931)
Urban redevelopment and housing	869,174	-		-	869,174	-	869,174
Internal service	-	1,577,578	-	-	-	1,577,578	(1,577,578)
Interest on long-term debt	2,981,349	1,056,620	-	-	2,981,349	1,056,620	1,924,729
Water			5,316,115	4,523,431	5,316,115	4,523,431	792,684
Sewer	-	-	4,743,885	3,754,767	4,743,885	3,754,767	989,118
Solid-waste	-	-	2,929,347	2,734,750	2,929,347	2,734,750	194,597
Transit	-	-	531,887	523,695	531,887	523,695	8,192
Airport	-	-	1,287,797	1,523,753	1,287,797	1,523,753	(235,956)
Lincoln Public Finance Authority	-	-	440,307	-	440,307	-	440,307
Total expenses	26,988,323	20,588,090	15,249,338	13,060,396	42,237,661	33,648,486	8,589,175
Change in net assets before transfers	85,197,027	28,075,106	3,350,049	1,398,609	88,547,076	29,473,715	59,073,361
Transfers	(1,102,741)	(60,803)	1,102,741	60,803	-	-	-
Change in net assets	84,094,286	28,014,303	4,452,790	1,459,412	88,547,076	29,473,715	59,073,361
Net assets - beginning	173,071,867	145,057,564	67,765,832	66,306,420	240,837,699	211,363,984	29,473,715
Priior period adjustments	16,090,177	-	(1,157,568)	-	14,932,609	-	14,932,609
Net assets - ending	$ 273,256,330	$ 173,071,867	$ 71,061,054	$ 67,765,832	$ 344,317,384	$ 240,837,699	$ 103,479,685

Key elements of the increase/decrease in revenues for governmental activities are as follows:

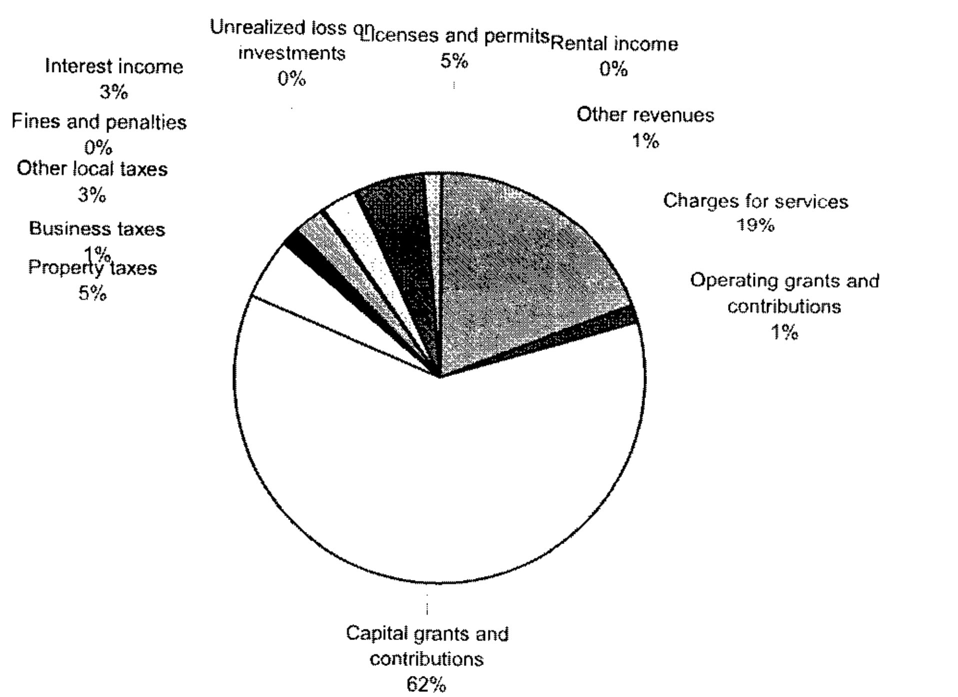
- Operating grants for governmental activities increased by $1,026,400, mostly as a result of an aggressive grant application strategy undertaken by the City of Lincoln during the current fiscal year. The new grant awards furnished resources to support two of the City's functions: general government and public works and facilities.

- Capital grants and contributions of governmental activities increased by $68,618,954 during the year. The increase was due to the City-issued Community Facility District No. 2003-1 (Lincoln Crossing Project) Special Tax Bonds, Series 2004 of $69,775,000 and Limited Obligation Improvement Bonds (Foskett Ranch Assessment District No. 2004-3) of $6,000,000. The bond proceeds were considered contributions from property owners.

Expenses and Program Revenue – Governmental Activities



Revenues by Source – Governmental Activities



Key elements of the increase/decrease in revenues for governmental activities are as follows:

- Public safety expenses increased by $1,260,252 or 28.42%. The increase was primarily due to the following:
    - Four new fire suppression positions were added in the fire department and four new police officer positions were added in the police department. In addition, two vacant positions, a fire operations chief and a police lieutenant were filled. This transition from volunteers to full-time employees required new turnout gear.
    - There were increases in outside contracts such as county animal control and background checks.
    - A document imaging system was purchased for approximately $15,000.

- Public works and facilities expenses increased by $3,152,971 or 32.88%. The increase was primarily due to the following:
    - The City opened a new WWTP which ran parallel to the old plant.
    - The Fleet Maintenance Division and the Airport Division were created within Public Works. This resulted in new positions being established and additional support costs.

- Internal service expenses decreased by $1,577,578 or 100%. The decrease was to internal service expenses was not eliminated in the statement of activities to remove the "doubling-up" effect on internal service fund activity.

- Interest on long-term debt increased by $1,924,729 or 182.16%. The increase was primarily due to the issuance of the Foskett Ranch Series 2004-3 limited obligation improvement bonds and the Lincoln Crossings Series 2004-A – A special tax bonds.

Business-type activities. Business-type activities increased the City's net assets by $4,452,790, accounting for 3.79 percent of the total growth in the City's net assets. Key elements accounting for the increase and decrease in revenues and expenses are as follows:

Charges for services increased by $3,384,309 or 24.79%. The increase was principally caused by an increase in water and solid waste and a 20% increase in the number of utility billing accounts within the City.

Water's expenses increased by $792,684 or 17.52%. The following factors accounted for the significant change in expenses:

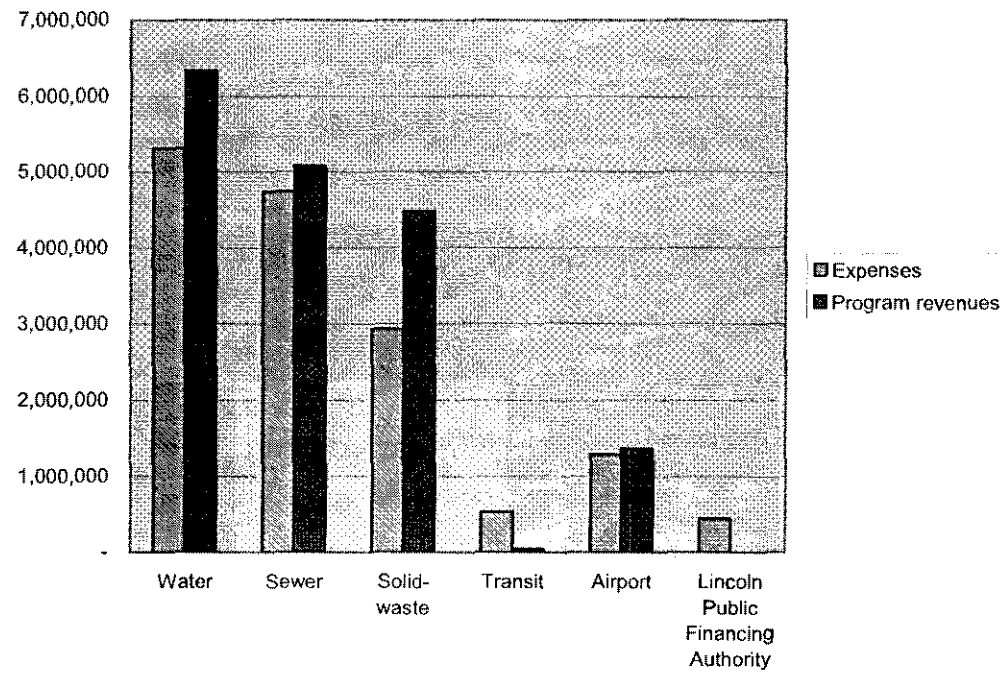
- In fiscal year 2004-05, the City grew by approximately 20%, thus causing a corresponding increase in water purchases.
- PCWA increased their water rates significantly; especially the rates for purchased water.

Sewer's expenses increased by $989,118 or 26.34%. The following factors accounted for the significant change in expenses:

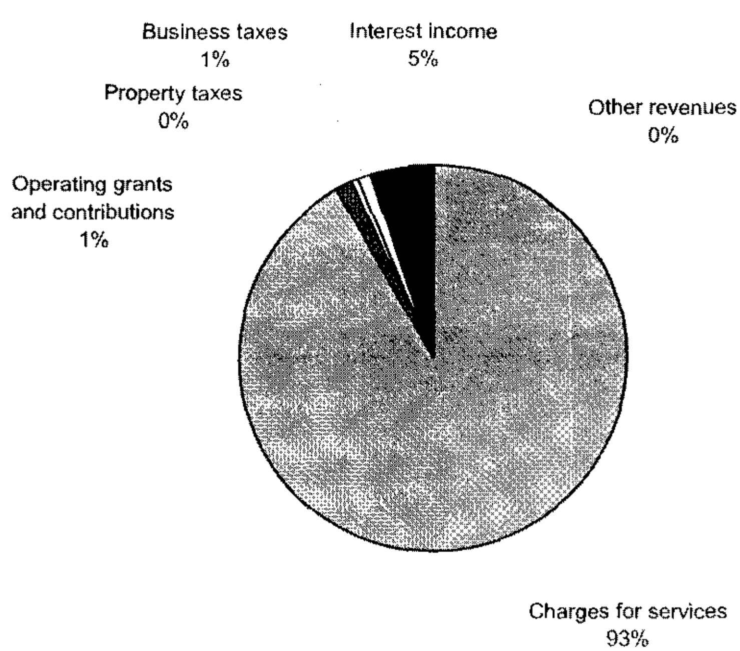
- In the fiscal year 2004-05, the City opened a new WWTRF which ran parallel to the old plan.

- Airport's expenses decreased by $235,956 or 15.49%. There was a significant reduction in both the amount of airport fuels purchased, as well as expenditures for airport improvement projects.

Expenses and Program Revenue – Business-type Activities



Revenues by Source – Business-type Activities



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City of Lincoln uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Lincoln's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Lincoln's governmental funds reported combined ending fund balances of $102,048,513, an increase of $16,947,512 in comparison with prior year. Approximately 28 percent of the total amount constitutes an *unreserved undesignated 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 already been committed; $73,214,240 is committed to pay debt services and the amount of long-term receivables and advances to other funds are long-term in nature and thus do not represent available spendable resources.

The general fund is the chief operating fund of the City of Lincoln. At the end of the current fiscal year, the unreserved, undesignated fund balance of the general fund was $4,180,936, while total fund balance reached $102,153,768. As a measure of the general fund's liquidity, it may be useful to compare both the unreserved, designated fund balance and to total fund balance to total fund expenditures. The unreserved, undesignated fund balance represents 43% of total general fund expenditures, while total fund balance represents 96% of that same amount.

The fund balance of the City's of Lincoln's general fund increased by $915,543 during the current fiscal year. The following provides an explanation of revenues by source that changed significantly over the prior year:

Revenue by Source
General Fund

	FY 2005		FY 2004		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Taxes and assessments	$ 7,221,547	68.31%	$ 5,057,742	73.30%	$ 2,163,805	58.95%
Licenses and permits	452,058	4.28%	387,205	5.61%	64,853	1.77%
Fines and penalties	104,023	0.98%	66,380	0.96%	37,643	1.03%
Interest and investment income	(207,134)	-1.96%	(1,118,819)	-16.21%	911,685	24.84%
Intergovernmental revenue	87,278	0.83%	10,031	0.15%	77,247	2.10%
Charges for services	1,589,376	15.04%	1,117,159	16.19%	472,217	12.87%
Other revenue	1,323,052	12.52%	1,380,333	20.00%	(57,281)	-1.56%
Total	$ 10,570,200	100.00%	$ 6,900,031	100.00%	$ 3,670,169	100.00%

- Taxes and assessments increased by $2,163,805 or 42.78%. The increase was primarily due to double digit growth in property values as well as rapid and continual growth in the new housing market has resulted in a significant increase in property values and a proportionate growth in sales tax revenues.

- Interest and investment income increased by $911,685 or 81.49%. The increase was primarily caused by the concurrent growth in our investment funds plus an active management of the City's cash in both LAIF and the bond ladder.

- Charges for services increased by $472,217 or 42.27%. The increase was primarily due to the City having experienced a greater than 20% growth in the number of households within its service area in the past year. Therefore, the administration fees charged as part of the building permit process increased proportionately.

The following provides an explanation of expenditures by function that changed significantly over the prior year:

Expenditures by Function
General Fund

	FY 2005		FY 2004		Increase/(Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
General government	$ 3,190,309	32.54%	$ 2,392,023	30.14%	$ 798,286	42.77%
Public safety	5,450,625	55.60%	4,103,463	51.70%	1,347,162	72.18%
Public works and facilities	288,960	2.95%	423,944	5.34%	(134,984)	-7.23%
Culture and recreation	563,976	5.75%	655,595	8.26%	(91,619)	-4.91%
Education	249,649	2.55%	257,980	3.25%	(8,331)	-0.45%
Capital outlay	59,592	0.61%	103,727	1.31%	(44,135)	-2.36%
Total	$ 9,803,111	100.00%	$ 7,936,732	100.00%	$ 1,866,379	100.00%

- General government increased by $798,286 or 33.37%. The decrease was primarily due to an increase in the professional services contract with the City attorney and an increase in professional services within the Finance and Administrative Service Division.

- Public safety increased by $1,347,162 or 32.83%. The increase was primarily due to the following:

  - Four new fire suppression positions were added in the fire department and four new police officer positions were added in the police department. In addition, two vacant positions, a fire operations chief and a police lieutenant were filled. This transition from volunteers to full-time employees required new turnout gear.
  - There were increases in outside contracts such as county animal control and background checks.
  - A document imaging system was purchased for approximately $15,000.

- Public works and facilities decreased by $134,984 or 31.84%. The decrease was primarily due to a decrease in professional services expenditures within Public Works Administration.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets amounted to $26,764,788 for the Water Fund, $34,051,821 for the Sewer Fund and $834,231 for Lincoln Public Financing Authority. The total growth of these major enterprise funds were $2,281,896, $462,314 and $111,878, respectively. Other factors concerning the finances of these three funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year there was a $57,355 increase in appropriations between the original and final amended budget. Following are the main components of the increase:

- A $2,000 grant from the Catheryn Gates Trust to purchase children's books.
- Lincoln Hills Foundation donated $2,355 to the Lincoln Police Department to purchase a life pack 500 Automatic External Defibrillator.
- A $3,000 grant of Federal Library Service and Technology Act Funds from the State. The library purchased materials to meet the needs of immigrants within our community.
- The City received a $50,000 grant from the United Auburn Indian Community. These funds were used to purchase a records information management system.

During the year, actual revenues were $1,067,765 higher than the final budgetary estimates. While taxes and assessment, license and permits, fines and penalties, intergovernmental revenues, and charges for services and other revenue exceeded their estimates, revenues from interest and investment income are lower than estimated. Actual expenditures were $1,313,261 lower than the final budgetary appropriations. The bulk of these cost savings resulted from the unspent appropriations of (a) $711,651 in Fire Department, (b) $614,324 in Police Department, and (c) $49,465 in Library. These savings eliminated the need to draw upon the existing fund balance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. The City of Lincoln's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to $272,350,730 (net of accumulated depreciation). This investment in capital assets includes land, building and facilities, machinery and equipment, park facilities, and roads. Total increase in the City of Lincoln's investments in capital assets for the current fiscal year is 47.16 percent (68.65 percent increase for governmental activities and 12.26 percent increase for business-type activities.)

City of Lincoln's Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	$ 8,570,898	$ 8,179,542	$ 1,657,650	$ 1,657,650	$ 10,228,548	$ 9,837,192
Infrastructure, modified approach	91,896,769	81,555,399	53,528,479	52,425,738	145,425,248	133,981,137
Construction in progress	84,784,953	19,455,455	15,714,771	7,788,889	100,499,724	27,244,344
Buildings and structures	4,014,579	4,185,897	6,513,139	6,825,117	10,527,718	11,011,014
Machinery and equipment	2,327,199	2,163,870	1,730,555	1,634,171	4,057,754	3,798,041
Land improvements	1,592,117	-	-	-	1,592,117	-
Total	$ 193,186,515	$ 115,540,163	$ 79,144,594	$ 70,331,565	$ 272,331,109	$ 185,871,728

Major capital asset events during the current fiscal year included the following:

- The $7,188,607 Highway 65 Widening and Lincoln Parkway Bridge project was completed and the opening was in the fall of 2004.
- The City's new Wastewater Treatment and Reclamation Facility (WWTRF) were completed.
- Design of the new City Hall/Western Placer Unified School District (WPUSD) building continued with expected construction to start in later fiscal year 2005-06.
- Design completed on the new $16,000 Joint Use Public Library that is primarily funded from the State of California Reading and Literacy Improvement and Public Library Construction and Revenue Bond Act of 2000.
- The $2,323,695 Joiner Parkway Bridge project was completed.
- The City purchased several vehicles including two refuge trucks, a transit bus, a solar message board, quick view camera, TDS410 scanner, and a document imaging system, all totaling $1,030,950.
- The $972,213 McBean Park Memorial Pool Improvements were completed.

The City's infrastructure assets are recorded at historical cost in the government-wide financial statements as required by Governmental Accounting Standard (GASB) Statement No. 34. The City has elected to use the modified approach to report its maintained road subsystem of the road network of $91,867,209. Infrastructure assets reported under the modified approach are not subject to depreciation per GASB Statement No. 34. For all other infrastructure systems, the City elects to use the modified approach as defined by GASB Statement No. 34 for infrastructure reporting. The City has commissioned an appraisal of other City-owned infrastructure assets. The complete valuation of the City's remaining infrastructure assets will be completed in the next year.

Additional information on the City of Lincoln's capital assets can be found in Note 1-D on pages 46-47 and required supplemental information on pages 76-77 of this report.

Long-term debt. At the end of the current fiscal year, the City of Lincoln had total debt outstanding of $29,627,007. Of this amount, $10,290,000 was comprised of lease revenue bonds, $19,121,453 of tax allocation revenue bonds, and $215,554 of loans payable.

City of Lincoln's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Lease revenue bonds	$ 10,290,000	$ 10,560,000	$ -	$ -	$ 10,290,000	$ 10,560,000
Tax allocation revenue bonds	11,056,453	-	8,065,000	8,895,000	19,121,453	8,895,000
Loans payable	-	-	215,554	241,498	215,554	241,498
Total	$ 21,346,453	$ 10,560,000	$ 8,280,554	$ 9,136,498	$ 29,627,007	$ 19,696,498

Major debt financing activities during the fiscal year included the following:

- During the current fiscal year, the City's total debt increased by $9,930,508 (or 50.42 percent). The increase was primarily caused by the issuance of Tax Allocation Revenue Bond Series 2004A and Housing Set-Aside Tax Allocation Revenue Bond Series 2004B of $8,720,000 and $2,370,000, respectively. The Series 2004A bonds were issued to finance certain redevelopment activities of the Redevelopment Agency of the City of Lincoln and the Series 2004B bonds were issued to finance certain low and moderate income housing activities of the Agency.

- The City issued Special Tax Bonds, Series 2004 in the amount of $66,775,000 for the Lincoln Community Facilities District No. 2003-1 (Lincoln Crossing Project) and are secured by a pledge of, and are payable from, the special taxes to be levied on certain real property within the District. The Special Tax Bonds, Series 2004 are limited obligations payable solely from the proceeds of special tax assessment and are not a debt, liability or obligation of the City.

- The City issued Limited Obligation Improvement Bonds in the amount of $6,000,000 for the Foskett Ranch Assessment District No. 2004-3, which are secured by unpaid assessments on real property in the District. The Limited Obligation Improvement Bonds are limited obligations payable solely from assessments received from the Placer County's tax roll and are not a debt, liability or obligation of the City.

Additional information on the City's long-term debt can be found in Note 4-E on pages 60-64 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The city council sets the direction of the city, allocates its resources and establishes priorities through the development and adoption of the budget. The city's annual budget therefore becomes the plan for financial expenditure and assures the efficient, effective use of the city's resources, as well as, establishing the highest priority objectives are met.

In considering the city budget for FY 2005-2006, the City Council and management met in a number of public meetings and workshops to review revenues and expenditures to discuss direction and set priorities. During these public meetings, they used the following facts and assumptions to develop the budget:

- Property tax revenues will increase by 34% due to the estimated rise in assessed valuation and the rapid growth which is expected to continue for the foreseeable future.
- Sales tax revenues will increase by 15% as a result of anticipated growth in the retail base in FY 2005-2006.
- Interest earnings on investments will increase by 10% due to active management of the city's cash in both LAIF and the bond ladder.
- Approximately 2,024 new homes will be constructed during the period July 1, 2005 through June 30, 2006.
- Revenue from licenses, permits, and development fees will increase by 7%.

- State subventions for FY 2005-06 will be based on the January 1, 2005 State Department of Finance population figure of 27,356.
- The City's population, and therefore the need for additional services, will increase from an estimated 25,388 in FY 2004/05 to 30,100 for FY 2005-06. This is a conservative estimated increase to the current population of 14%
- With the continued growth, the city is increasing its Capital Improvement Project budget from $61,272,589 in FY 2004-05 to 77,941,000 in FY 2005-06. This is necessary to provide the level of service our citizens expect and deserve. There projects are funded from the developer paid fees. No general funds are used for these projects.

All of these factors are considered in preparing the City of Lincoln's budget for the 2006 fiscal year.

REQUESTS FOR INFORMATION

This financial statement is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the city's finances and to demonstrate the city's accountability for the money it receives. If you have any questions about this report or need additional financial information, please write to the Finance & Administrative Services Director, City of Lincoln, 649 Fifth Street, Lincoln, CA. 95648, or call him at 916-645-3314, or send an email to him at rgraham@ci.lincoln.ca.us.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF LINCOLN
California

STATEMENT OF NET ASSETS
June 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current Assets:			
Cash and investments	$ 48,846,753	$ 18,395,732	$ 67,242,485
Receivables:			
Interest receivable	18,019	4,375	22,394
Accounts receivable	3,846,678	1,804,752	5,651,430
Taxes receivable	326,894	7,555	334,449
Internal balances	8,136,612	(8,136,612)	-
Prepaid costs and deferred charges	399,546	32,082	431,628
Due from other governmental agencies	719,991	449,195	1,169,186
Inventory	-	27,376	27,376
Total Current Assets	62,294,493	12,584,455	74,878,948
Restricted Assets:			
Cash with fiscal agents	60,266,178	863,288	61,129,466
Total Restricted Assets	60,266,178	863,288	61,129,466
Noncurrent Assets:			
Notes Receivable	7,098,095	-	7,098,095
Capital Assets:			
Not being depreciated:			
Land	8,570,898	1,657,650	10,228,548
Land improvements	1,592,117	-	1,592,117
Infrastructure	91,896,769	53,528,479	145,425,248
Construction in progress	84,784,953	15,714,771	100,499,724
Being depreciated:			
Facilities, net of accumulated depreciation	4,014,579	6,513,139	10,527,718
Equipment, net of accumulated depreciation	2,327,199	1,730,555	4,057,754
Total Noncurrent Assets	200,284,610	79,144,594	279,429,204
Total Assets	$ 322,845,281	$ 92,592,337	$ 415,437,618

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN
California

STATEMENT OF NET ASSETS
June 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Liabilies			
Current Liabilities:			
Accounts payable and accrued expenses	$ 8,507,649	$ 3,435,022	$ 11,942,671
Interest payable	334,879	125,817	460,696
Due to other governmental agencies	1,828	7,868,816	7,870,644
Deferred revenues	18,039,542	1,483,829	19,523,371
Compensated absences	109,741	16,099	125,840
Long-term debt - due within one year	325,000	807,637	1,132,637
Total Current Liabilities	27,318,639	13,737,220	41,055,859
Noncurrent Liabilities:			
Deposits	464,337	206,051	670,388
Compensated absences	784,522	115,095	899,617
Long-term debt - due in more than one year	21,021,453	7,472,917	28,494,370
Total Noncurrent Liabilities	22,270,312	7,794,063	30,064,375
Total Liabilities	49,588,951	21,531,283	71,120,234
Net Assets			
Invested in capital assets, net of related debt	182,524,779	78,929,040	261,453,819
Restricted for:			
Capital projects	58,228,738	-	58,228,738
Low/moderate income housing fund	3,140,308	-	3,140,308
Debt service	2,037,441	863,288	2,900,729
Unrestricted	27,325,064	(8,731,274)	18,593,790
Total Net Assets	$ 273,256,330	$ 71,061,054	$ 344,317,384

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN
California

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	$ 3,887,293	$ 4,008,831	$ 1,334,134	$ -
Public safety	5,694,175	-	190,000	-
Public works and facilities	12,742,707	17,467,170	149,800	68,637,264
Culture and recreation	563,976	-	-	-
Education	249,649	-	10,073	240
Urban redevelopment and housing	869,174	-	-	-
Interest on long-term debt	2,981,349	-	-	-
Total governmental activities	26,988,323	21,476,001	1,684,007	68,637,504
Business-Type Activites:				
Water	5,316,115	6,337,050	-	-
Sewer	4,743,885	5,078,313	7,000	-
Solid-waste	2,929,347	4,307,425	170,696	-
Transit	531,887	44,724	-	-
Airport	1,287,797	1,268,052	95,154	-
Lincoln Public Financing Authority	440,307	-	-	-
Total business-type activities	15,249,338	17,035,564	272,850	-
Total City of Lincoln	$ 42,237,661	$ 38,511,565	$ 1,956,857	$ 68,637,504

General revenues:
Taxes:
Property taxes
Business taxes
Other local taxes
Fines and penalties
Interest income
Unrealized loss on investments
Licenses and permits
Rental income
Other revenues
Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning

Prior period adjustments

Net assets - ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
$ 1,455,672	$ -	$ 1,455,672
(5,504,175)	-	(5,504,175)
73,511,527	-	73,511,527
(563,976)	-	(563,976)
(239,336)	-	(239,336)
(869,174)	-	(869,174)
(2,981,349)	-	(2,981,349)
64,809,189	-	64,809,189
$ -	$ 1,020,935	$ 1,020,935
-	341,428	341,428
-	1,548,774	1,548,774
-	(487,163)	(487,163)
-	75,409	75,409
-	(440,307)	(440,307)
-	2,059,076	2,059,076
64,809,189	2,059,076	66,868,265
5,492,387	83,167	5,575,554
1,428,148	242,826	1,670,974
2,970,967	-	2,970,967
104,023	-	104,023
3,252,166	923,091	4,175,257
(338,046)	-	(338,046)
5,813,087	-	5,813,087
4,700	-	4,700
1,660,406	41,889	1,702,295
(1,102,741)	1,102,741	-
19,285,097	2,393,714	21,678,811
84,094,286	4,452,790	88,547,076
173,071,867	67,765,832	240,837,699
16,090,177	(1,157,568)	14,932,609
$ 273,256,330	$ 71,061,054	$ 344,317,384

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FUND FINANCIAL STATEMENTS

CITY OF LINCOLN
California

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	General Fund	Public Facility Element (PFE) Special Revenue Fund	Redevelopment Agency Special Revenue Fund	Twelve Bridges Capital Project Fund
Assets				
Cash and investments	$ 1,375,964	$ 22,155,331	$ -	$ 301,678
Receivables:				
Interest receivable	1,661	9,052	135	82
Accounts receivable	554,534	1,346,722	200,867	-
Taxes receivable	192,506	-	74,181	-
Due from other funds	4,928,888	11,716,978	-	-
Due from other governmental agencies	-	719,991	-	-
Advances to other funds	-	2,531,789	-	-
Restricted assets:				
Cash with fiscal agents	-	-	-	19,233,405
Notes receivable	-	-	5,667,004	-
Total Assets	$ 7,053,553	$ 38,479,863	$ 5,942,187	$ 19,535,165
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued expenses	1,991,808	2,243,599	64,749	76,421
Due to other funds	86,598	-	1,760,834	-
Due to other governmental agencies	1,828	-	-	-
Deferred revenues	792,383	13,726,281	-	271,050
Advances from other funds	-	-	8,012,266	-
Deposits	-	-	-	-
Total Liabilities	2,872,617	15,969,880	9,837,849	347,471
Fund balances:				
Reserved for:				
Capital projects	-	-	-	19,233,405
Long-term receivables	-	-	5,667,005	-
Low/moderate income housing	-	-	-	-
Advances to other funds	-	2,531,789	-	-
Debt service	-	-	-	-
Unreserved, reported in:				
General fund	4,180,936	-	-	-
Special revenue funds	-	19,978,194	(9,562,667)	-
Capital projects funds	-	-	-	(45,711)
Permanent funds	-	-	-	-
Total Fund Balances	4,180,936	22,509,983	(3,895,662)	19,187,694
Total Liabilities and Fund Balances	$ 7,053,553	$ 38,479,863	$ 5,942,187	$ 19,535,165

The notes to the financial statements are an integral part of this statement.

Lincoln Crossing Capital Project Fund	Other Governmental Funds	Total Governmental Funds
$ 1,598,121	$ 23,033,366	$ 48,464,460
	-	
646	6,341	17,917
-	1,744,555	3,846,678
-	60,207	326,894
-	-	16,645,866
-	-	719,991
-	3,311,528	5,843,317
28,709,523	12,323,250	60,266,178
-	1,431,091	7,098,095
$ 30,308,290	$ 41,910,338	$ 143,229,396
-	$ 4,023,685	$ 8,400,262
-	1,883,428	3,730,860
-	-	1,828
536,363	2,713,464	18,039,541
-	2,531,789	10,544,055
-	464,337	464,337
536,363	11,616,703	41,180,883
28,709,523	9,487,468	57,430,396
-	1,460,243	7,127,248
-	3,140,308	3,140,308
-	-	2,531,789
-	2,984,499	2,984,499
-	-	4,180,936
-	12,743,808	23,159,335
1,062,404	77,652	1,094,345
-	399,657	399,657
29,771,927	30,293,635	102,048,513
$ 30,308,290	$ 41,910,338	$ 143,229,396

The notes to the financial statements are an integral part of this statement.

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CITY OF LINCOLN
California

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2005

Total Fund Balances - Governmental Funds	$ 102,048,513
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	192,771,880
Bond issue costs are reported as expenditures in the governmental funds.	399,546
Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in the governmental funds balance sheet.	(334,879)
Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds. The repayment reduces long-term liabilities in the government-wide statement of net assets.	(22,177,443)
Internal service funds are used by management to charge the costs of certain activities to the individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets.	548,713
Total net assets - governmental activities	$ 273,256,330

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN
California

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

	General Fund	Public Facility Element (PFE) Special Revenue Fund	Redevelopment Agency Special Revenue Fund	Twelve Bridges Capital Project Fund
Revenues:				
Taxes and assessments	$ 7,221,547	$ -	$ 1,359,073	$ -
Licenses and permits	452,058	-	-	-
Fines and penalties	104,023	-	-	-
Interest and investment income	(207,134)	672,389	29,675	609,579
Intergovernmental revenue	87,278	446,183	-	-
Charges for services	1,589,376	11,546,004	-	-
Contributions from property owners	-	-	-	-
Other revenue	1,323,052	-	165,149	-
Total revenues	10,570,200	12,664,576	1,553,897	609,579
Expenditures:				
Current:				
General government	3,190,309	-	157,677	17,453
Public safety	5,450,625	-	-	-
Public works and facilities	288,960	54,262	-	-
Culture and recreation	563,976	-	-	-
Education	249,649	-	-	-
Urban redevelopment and housing	-	-	491,285	-
Debt service:				
Principal retirement	-	-	-	-
Interest	-	-	324,647	-
Capital outlay	59,592	11,858,256	480,392	8,679,031
Total expenditures	9,803,111	11,912,518	1,454,001	8,696,484
Excess (deficiency) of revenues over (under) expenditures	767,089	752,058	99,896	(8,086,905)
Other financing sources (uses):				
Bond proceeds	-	-	-	-
Bond issuance costs	-	-	-	-
Bond discounts	-	-	-	-
Operating transfers in	148,454	-	1,542,019	-
Operating transfers out	-	(715,493)	-	-
Total other financing sources (uses)	148,454	(715,493)	1,542,019	-
Net change in fund balance	915,543	36,565	1,641,915	(8,086,905)
Fund balances, July 1, 2004	3,409,137	20,794,822	(4,590,171)	24,905,409
Prior period adjustment	(143,744)	1,678,596	(947,406)	2,369,190
Fund balances, June 30, 2005	$ 4,180,936	$ 22,509,983	$ (3,895,662)	$ 19,187,694

The notes to the financial statements are an integral part of this statement.

Lincoln Crossing Capital Project Fund	Other Governmental Funds	Total Governmental Funds
$ -	$ 1,310,882	$ 9,891,502
-	5,361,029	5,813,087
-	-	104,023
1,068,908	736,156	2,909,573
-	1,296,602	1,830,063
-	8,340,618	21,475,998
62,870,740	5,296,638	68,167,378
-	500,986	1,989,187
63,939,648	22,842,911	112,180,811
15,916	504,556	3,885,911
-	194,858	5,645,483
-	11,900,278	12,243,500
-	-	563,976
-	-	249,649
-	377,889	869,174
-	270,000	270,000
1,539,822	968,050	2,832,519
57,181,636	1,056,863	79,315,770
58,737,374	15,272,494	105,875,982
5,202,274	7,570,417	6,304,829
-	11,090,000	11,090,000
-	(412,788)	(412,788)
-	(34,529)	(34,529)
-	715,494	2,405,967
-	(1,690,474)	(2,405,967)
-	9,667,703	10,642,683
5,202,274	17,238,120	16,947,512
24,799,608	11,693,542	81,012,347
(229,955)	1,361,973	4,088,654
$ 29,771,927	$ 30,293,635	$ 102,048,513

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN
California

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

Total net change in fund balances - governmental funds	$ 16,947,512
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlay 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. This is the amount by which the capital outlays ($79,315,770) exceeded depreciation ($493,828) in the current period.	78,821,942
Interest payable on long-term debt did not require current financial resources. The amount eliminated represents the amount of interest not expended in the current year.	(147,848)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	(10,386,905)
Compensated absences 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.	(129,001)
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.	(1,102,742)
Internal service funds are used by management to charge the costs of certain activities to the individual funds. The change in net revenue of the internal service fund is reported with government activities.	91,328
Changes in net assets of governmental activities	$ 84,094,286

The notes to the financial statements are an integral part of this statement.

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CITY OF LINCOLN
California

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2005

	Business-Type Activities: Enterprise Funds					Governmental Activities
	Water Fund	Sewer Fund	Lincoln Public Financing Authority	Other Enterprise Funds	Total	Internal Service Funds
Assets						
Current assets:						
Cash and investments	$ 7,937,499	$ 3,749,230	$ 1,235,338	$ 5,473,665	$ 18,395,732	$ 382,293
Receivables:						
Interest receivable	1,852	1,086	2	1,435	4,375	102
Accounts receivable	891,963	397,276	-	515,513	1,804,752	-
Taxes receivable	-	-	-	7,555	7,555	-
Due from other funds	3,026	32,224	-	3,918	39,168	-
Prepaid costs	32,082	-	-	-	32,082	-
Due from other governmental agencies	189,234	259,961	-	-	449,195	-
Inventory	-	-	-	27,376	27,376	-
Total Current Assets	9,055,656	4,439,777	1,235,340	6,029,462	20,760,235	382,395
Restricted assets:						
Cash with fiscal agents	-	-	863,288	-	863,288	-
Total Restricted Assets	-	-	863,288	-	863,288	-
Noncurrent assets:						
Advances to other funds	-	240,738	6,925,000	-	7,165,738	-
Capital assets:						
Not being depreciated:						
Land	-	108,260	-	1,549,390	1,657,650	-
Infrastructure	23,334,994	30,193,485	-	-	53,528,479	-
Construction in progress	3,908,938	11,381,471	-	424,362	15,714,771	-
Being depreciated:						
Facilities, net of depreciation	-	2,689,246	-	3,823,893	6,513,139	47,795
Equipment, net of depreciation	269,634	308,846	-	1,152,075	1,730,555	366,840
Total Noncurrent Assets	27,513,566	44,922,046	6,925,000	6,949,720	86,310,332	414,635
Total Assets	$ 36,569,222	$ 49,361,823	$ 9,023,628	$ 12,979,182	$ 107,933,855	$ 797,030

CITY OF LINCOLN
California

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2005

	Business-Type Activities: Enterprise Funds					Governmental Activities
	Water Fund	Sewer Fund	Lincoln Public Financing Authority	Other Enterprise Funds	Total	Internal Service Funds
Liabilities						
Current liabilities:						
Accounts payable and accrued expenses	$ 853,573	$ 2,061,290	$ -	$ 520,159	$ 3,435,022	$ 107,389
Interest payable	1,350	-	124,397	70	125,817	-
Due to other funds	-	11,490,577	-	1,463,597	12,954,174	-
Due to other governmental agencies	7,868,816	-	-	-	7,868,816	-
Deferred revenues	52,596	25,061	-	1,406,172	1,483,829	-
Compensated absences	7,557	991	-	7,551	16,099	7,765
Long-term debt - due within one year	12,637	-	795,000	-	807,637	-
Total Current Liabilities	8,796,529	13,577,919	919,397	3,397,549	26,691,394	115,154
Noncurrent liabilities:						
Deposits	200,961	-	-	5,090	206,051	-
Compensated absences	54,027	7,083	-	53,985	115,095	55,508
Advances from other funds	550,000	1,725,000	-	190,000	2,465,000	-
Long-term debt - due in more than one year	202,917	-	7,270,000	-	7,472,917	-
Total Noncurrent Liabilities	1,007,905	1,732,083	7,270,000	249,075	10,259,063	55,508
Total Liabilities	9,804,434	15,310,002	8,189,397	3,646,624	36,950,457	170,662
Net Assets						
Invested in capital assets, net of related debt	27,298,012	44,681,308	-	6,949,720	78,929,040	434,256
Restricted for:						
Debt service	-	-	863,288	-	863,288	-
Unrestricted	(533,224)	(10,629,487)	(29,057)	2,382,838	(8,808,930)	192,112
Total Net Assets	$ 26,764,788	$ 34,051,821	$ 834,231	$ 9,332,558	70,983,398	$ 626,368
Some amounts reported for *business-type activities* in the statement of net assets are different because certain internal service fund assets are included with business-type activities.					77,656	
Net assets of business-type activities					$ 71,061,054	

CITY OF LINCOLN
California

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005

	Business-Type Activities: Enterprise Funds					Governmental Activities
	Water Fund	Sewer Fund	Lincoln Public Financing Authority	Other Enterprise Funds	Total	Internal Service Funds
Operating revenues:						
Charges for services	$ 4,310,078	$ 2,630,600	$ -	$ 4,194,731	$ 11,135,409	$ 1,880,072
Total operating revenues	4,310,078	2,630,600	-	4,194,731	11,135,409	1,880,072
Operating expenses:						
Salaries and benefits	570,788	243,468	-	1,030,491	1,844,747	1,058,658
General service and supplies	4,295,594	3,959,909	5,675	2,827,527	11,088,705	559,565
Support service	316,725	284,877	-	556,543	1,158,145	-
Depreciation ad amortization	97,773	146,901	-	365,630	610,304	99,368
Total operating expenses	5,280,880	4,635,155	5,675	4,780,191	14,701,901	1,717,591
Operating income (loss)	(970,802)	(2,004,555)	(5,675)	(585,460)	(3,566,492)	162,481
Non-operating revenue (expenses):						
Connection fees	2,026,972	2,447,713	-	1,425,470	5,900,155	-
Taxes	-	-	-	325,993	325,993	-
Interest and investment income	151,295	120,288	552,185	99,323	923,091	4,547
Interest expense	(51,692)	(125,184)	(434,632)	(13,585)	(625,093)	-
Intergovernmental revenue	7,000	-	-	265,850	272,850	-
Miscellaneous	16,382	24,052	-	1,455	41,889	1,962
Total non-operating revenues (expenses)	2,149,957	2,466,869	117,553	2,104,506	6,838,885	6,509
Income before contributions	1,179,155	462,314	111,878	1,519,046	3,272,393	168,990
Contributions						
Capital contributions	1,102,741	-	-	-	1,102,741	-
Total contributions	1,102,741	-	-	-	1,102,741	-
Changes in net assets	2,281,896	462,314	111,878	1,519,046	4,375,134	168,990
Net assets, July 1, 2004	24,066,373	35,904,092	-	7,795,367		561,608
Prior period adjustment	416,519	(2,314,585)	722,353	18,145		(104,230)
Net assets, June 30, 2005	$ 26,764,788	$ 34,051,821	$ 834,231	$ 9,332,558		$ 626,368

Some amounts reported for *business-type* activities in the statement of activities are different because the net revenue of certain internal service funds is reported with business-type activities.	77,656
Change in net assets of business-type activities	$ 4,452,790

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN
California

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005

	Business-Type Activities: Enterprise Funds					Governmental Activities
	Water Fund	Sewer Fund	Lincoln Public Financing Authority	Other Enterprise Funds	Total	Internal Service Fund
Cash flow from operating activities:						
Cash received from customers	$ 4,002,017	$ 2,561,011	$ -	$ 4,397,896	$ 10,960,924	$ 1,880,072
Cash paid to employees for services	(564,252)	(239,918)	-	(1,051,682)	(1,855,852)	(1,056,339)
Cash paid to suppliers for goods and services	(4,408,844)	(4,497,884)	(5,675)	(2,666,206)	(11,578,609)	(532,356)
Other operating cash receipts (payments)	(316,725)	(284,877)	-	(556,543)	(1,158,145)	-
Net cash provided (used) by operating activities	(1,287,804)	(2,461,668)	(5,675)	123,465	(3,631,682)	291,377
Cash flow from non-capital financing activities:						
Prior period adjustments	$ (135,050)	$ (2,925,774)	$ 1,085,783	$ (143,649)	$ (2,118,690)	$ 114
Cash received for connection fees	2,043,353	2,447,713	-	1,425,470	5,916,536	-
Cash received for taxes	-	-	-	320,168	320,168	-
Operating transfers in	445,000	-	-	-	445,000	-
Operating transfers out	(445,000)	-	-	(2,111)	(447,111)	-
Due from other funds	6,856,853	(32,224)	-	2,111	6,826,740	-
Due to other funds	-	11,468,480	-	(113,292)	11,355,188	-
Advances to other funds	-	-	630,000	-	630,000	-
Advances from other funds	(90,000)	(205,000)	-	(45,000)	(340,000)	-
Due from other governmental agencies	-	-	-	1,406,172	1,406,172	-
Due to other governmental agencies	(116,337)	25,061	-	(165,496)	(256,772)	-
Other receipts (payments)	-	24,051	-	171,402	195,453	1,962
Cash received from grants	7,000	-	-	95,154	102,154	-
Net cash provided (used) by non-capital financing activities	8,565,819	10,802,307	1,715,783	2,950,929	24,034,838	2,076
Cash flow from capital and related financing activities:						
Acquisition of capital assets	(3,171,111)	(4,585,926)	-	(563,552)	(8,320,589)	(25,517)
Disposition of capital assets	-	-	-	-	-	-
Principal paid on long-term debt	(11,782)	-	(830,000)	(14,162)	(855,944)	-
Interest paid on long-term debt	(51,692)	(125,184)	(446,011)	(13,585)	(636,472)	-
Net cash provided (used) by capital and related financing activities	(3,234,585)	(4,711,110)	(1,276,011)	(591,299)	(9,813,005)	(25,517)
Cash flow from investing activities:						
Interest income	150,442	119,701	552,183	98,160	920,486	4,457
Net cash provided (used) by investing activities	150,442	119,701	552,183	98,160	920,486	4,457
Net increase (decrease) in cash	4,193,872	3,749,230	986,280	2,581,255	11,510,637	272,393
Cash and cash equivalents at, July 1, 2004	3,743,627	-	1,112,346	2,892,410	7,748,383	109,900
Cash and cash equivalents at, June 30, 2005	$ 7,937,499	$ 3,749,230	$ 2,098,626	$ 5,473,665	$ 19,259,020	$ 382,293

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN
California

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005

Reconciliation of Operating Income (Loss) to Net cash
Provided (Used) by Operating Activities

	Business-Type Activities: Enterprise Funds					Governmental Activities
	Water Fund	Sewer Fund	Lincoln Public Financing Authority	Other Enterprise Funds	Total	Internal Service Fund
Operating income (loss)	$ (970,802)	$ (2,004,555)	$ (5,675)	$ (585,460)	$ (3,566,492)	$ 162,481
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities						
Depreciationa and amortization	97,773	146,901	-	365,630	610,304	99,368
Change in assets and liabilities						
Decrease (increase) in receivables	(463,962)	(69,589)	-	203,005	(330,546)	-
Decrease (increase) in prepaid costs	(31,238)	556	-	3,541	(27,141)	1,800
Decrease (increase) in inventory	-	-	-	(13,208)	(13,208)	-
Increase (decrease) in accounts payable and accrued liabilities	(82,012)	(538,531)	-	170,988	(449,555)	25,409
Increase (decrease) in deposits	155,901	-	-	160	156,061	-
Increase (decrease) in compensated absences	6,536	3,550	-	(21,191)	(11,105)	2,319
Net cash provided (used) by operating activities	$ (1,287,804)	$ (2,461,668)	$ (5,675)	$ 123,465	$ (3,631,682)	$ 291,377
Noncash investing, capital and financing activities:						
Contributions of fixed assets from Capital Projects Fund	$ 1,102,741	$ -	$ -	$ -	$ 1,102,741	$ -

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN
California

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
June 30, 2005

	Agency Funds
Assets	
Cash and investments	$ 7,999,955
Receivables:	
Interest receivable	1,895
Accounts receivable	49,772
Special assessment receivable	61,208
Restricted assets:	
Cash with fiscal agents	17,036,471
Total Assets	25,149,301
Liabilities	
Accounts payable and accrued liabilities	262,952
Agency obligations	39,231
Due to property owners	24,847,118
Total Liabilities	25,149,301
Net Assets	$ -

The notes to the financial statements are an integral part of this statement.

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NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lincoln, (the City) is incorporated under the laws and regulations of the State of California. The City operates under a Manager-Council form of government and provides the following services: public safety (Police and Fire), highways and streets, water, sewer, sanitation, airport, culture-recreation, public improvements, planning and zoning, and general administration.

A. Reporting Entity

The City operates as a self-governing local government unit within the State of California. It has limited authority to levy taxes and has the authority to determine user fees for the services it provides. Voters elect a city council that passes laws and determines broad policies. The council also oversees the operations of the City and approves all budgets, fund transfers and fund balance reserves.

The City's main funding sources include property taxes, sales taxes, other intergovernmental revenue from state and federal sources, user fees, and federal and state financial assistance.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations; therefore, data from these units are combined with data of the primary government.

The City's reporting entity includes the following blended component units:

City of Lincoln Redevelopment Agency

The California redevelopment process provides communities at a local level with the comprehensive tool for economic development. These tools are the powers of land assembly and site preparation for private development, the ability to finance necessary public improvements, the authority to impose conditions and restrictions for the quality of developments of an area, and the capability to broaden financing capabilities utilizing a variety of public and private sources.

The City of Lincoln Redevelopment Agency (the Agency) has one project area. The Agency is a separate legal entity, distinct from the City itself. City Council members serve as the Agency's board of directors. The annual budget is approved by the Agency's board.

Lincoln Public Financing Authority

The Lincoln Public Financing Authority (the Authority) was created to serve as a financing mechanism of various capital projects for the City. The Authority is governed by a board comprised of the City's elected council. The bond issuance authorizations are approved by the City's council and the legal liability for the Authority's debt remains with the City. The Authority provides services solely for the benefit of the City of Lincoln and is presented as a debt service fund.

Additionally, separate financial statements are issued for the City of Lincoln Redevelopment Agency and may be obtained from the City of Lincoln Finance Department. Component unit financial statements are not issued for the Lincoln Public Financing Authority.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Government-wide Financial Statements

The City's Government-wide Financial Statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of Governmental and Business-type Activities of the City. Fiduciary Activities of the City are not included in these statements.

The *Statement of Activities* presents a comparison between direct expense and program revenues for each function of the City's *governmental activities* and each different identifiable activity of the City's *business-type activities*. Direct expenses are those that are specifically associated with a program or function and, therefore are included in the program expense reported for individual function. Certain indirect costs, which cannot be identified and broken down, are included in the program expense reported for individual functions and activities. Program revenues include 1) charges paid by the recipients of goods and services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Certain eliminations have been made as prescribed by GASB No. 34 in regards to interfund 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. The following interfund activities have been eliminated: Due to/Due from Other Funds, Interfund Note Receivable/Interfund Long-term Debt, and Transfers In/Transfers Out.

When both restricted and unrestricted net assets are available, restricted resources are depleted first, before the unrestricted resources are used.

Governmental Fund Financial Statements

Governmental Funds are used to account for the City's general government activities. Governmental Fund financial statements include a Balance Sheet and Statements of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is present to reconcile the differences in the fund balances presented in these statements to the net assets presented in the government-wide financial statements.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

***Governmental Fund Financial Statements** (Continued)*

The City reports the following major governmental funds:

- The *General Fund* accounts for all revenues and expenditures necessary to carry out basic governmental activities of the City that are not accounted for through other funds.
- The *Public Facility Element (PFE) Fee Special Revenue Fund* accounts for fees collected from developers and community service fees for public facilities improvements including, but not limited to, Police, Fire, and City Administration facilities.
- The *Redevelopment Agency Special Revenue Fund* accounts for the tax revenues received to provide the community with a tool for economic development.
- The *Twelve Bridges Capital Project Fund* accounts for construction or purchase of improvements within the assessment district.
- The *Lincoln Crossing Capital Project Fund* accounts for construction or purchase of improvements within the assessment district.

The City reports the following major enterprise funds:

- The *Water Fund* accounts for the activities of the water operating and non-operating funds of the City of Lincoln's Public Works Department. Activities include accounting for the Lincoln resident's water use, water pipeline installation and repairs, and water meter installation and repairs.

- The *Sewer Fund* accounts for the activities of the sewer operating and non-operating funds of the City of Lincoln's Public Works Department. Activities include wastewater services and repair.

- The *Lincoln Public Financing Authority Fund* accounts for the Revenue Refunding Bonds, Series 2000 that were issued to refund the Revenue Bonds, Series 1994 and finance certain public capital improvements.

The City reports the following additional fund types:

- *Internal Service Fund* accounts for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost reimbursement basis.
- The *Agency Funds* account for assets held by the City as an agent for various individuals.

C. Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the 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. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting (Continued)

Governmental funds are reported using current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when measureable and available. Property and sales taxes, interest, certain state and federal grants, and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period, so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However debt service expenditures as well as expenditures related to claims and judgments and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements, to its business-type activities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. *Operating revenues*, such as charges for services, result from exchange transactions associated with the principal activity of each fund. *Nonoperating revenues*, such as interest income, state and federal grants, subsidies, result from nonexchange transactions or ancillary activities. *Operating expenses* include costs for providing services and delivering goods such as administrative expenses and depreciation on capital assets. All other expenses not meeting this definition are reported as *nonoperating expenses*.

D. Assets, Liabilities and Equity

1. *Cash and Cash Equivalents*

For the purposes of the accompanying statement of cash flows, the enterprise and internal service funds consider all highly liquid investments with maturity of three months or less when purchased, and their equity in the City's investment pool, to be cash equivalents.

2. *Restricted Assets*

Certain proceeds of general obligation debt and enterprise debt are classified as restricted assets on the balance sheet because their use is limited by applicable debt covenants. "Cash with fiscal agents" is used to report resources set aside for potential deficiencies in the repayment ability of the debt service fund and enterprise funds, and for payment of construction projects undertaken by the City.

3. *Inventory and Prepaid Costs*

Inventories are valued at cost using the "first-in, first-out" method. The costs of governmental fund-type inventories are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid costs.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (Continued)

4. *Receivables*

No amount has been provided as an allowance for doubtful accounts because, in the opinion of management, all material amounts are fully collectible.

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

• Lien date	March 1, 2004
• Levy date	September 30, 2004
• Due date	November 1, 2004 – 1st installment February 1, 2005 – 2nd installment
• Collection date	December 10, 2004 – 1st installment April 10, 2005 – 2nd installment

Under California law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool and are then allocated to the cities based on complex formulas prescribed by the state statutes. Accordingly, the City of Lincoln accrues only those taxes which are received from the county within sixty days after year-end.

5. *Interfund Transactions*

Interfund transactions are reflected as either loans, services provided or used, reimbursements or transfers. Loans reported as receivables and payables as appropriate are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the noncurrent portion of interfund loans). Any residual balances outstanding between the *governmental activities* and the *business-type activities* reported in the fund financial statements are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided or used, deemed to be at market or near-market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

6. *Capital Assets*

Capital assets, including infrastructure, are recorded at historical cost or at 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.

City policy has set the capitalization threshold for reporting capital assets as follows:

Depreciable Asset	Threshold
General Capital Assets	\$5,000 - \$50,000
Infrastructure Assets	\$25,000 - \$250,000

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (Continued)

6. *Capital Assets (continued)*

For capital assets, depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Depreciable Asset	Lives
Facilities and Improvements	20 - 50 years
Infrastructure Assets	15 - 15 years
Machinery and Equipment	5 - 20 years

GASB Statement No. 34 requires the inclusion of infrastructure assets in the City's basic financial statements. In accordance with GASB Statement No. 34, the City has included the value of all infrastructure assets in the government-wide statement of net assets. The City defines infrastructure assets as the basic physical assets that allow the City to function. The assets include:

- Streets and Pavement System
- Sewer Collection/Treatment System
- Water Purification/Distribution System

Each major infrastructure system can be divided into subsystems. For example, the street and pavement system can be subdivided into pavement, curb and gutters, sidewalks, medians, and other similar items. These subsystems were not delineated in the basic financial statements. The appropriate operating department maintains information regarding the subsystems.

The City elected to use the Modified Approach as defined by GASB Statement No. 34 for infrastructure reporting of its Street and Pavement System. The City commissioned a physical assessment of the streets' conditions during the 02/03 fiscal year. This assessment will be performed every 3 years. Each homogeneous segment of the City Pavement Condition Index (PCI) was assigned to each street segment. The index is expressed in a continuous scale for 0 to 100, where 0 is assigned to the least acceptable physical condition and 100 is assigned to segments of street that have the physical characteristics of a new street. The following conditions were defined: excellent physical condition is assigned to segments with a scale rating between 100 and 85, good condition is assigned to segments with a scale rating between 84 and 70, fair condition is assigned to segments with a scale rating between 69 and 55, poor condition is assigned to segments with a scale rating between 30 and 0. The City's policy relative to maintaining the street assets is to achieve a minimum rating of 70 for all street segments. This acceptable rating allows minor cracking and raveling of the pavement along with minor roughness that could be noticeable to drivers traveling at the posted speeds.

For all other infrastructure systems, the City elects to use the Modified Approach as defined by GASB Statement No. 34 for infrastructure reporting. The City has commissioned an appraisal of other City-owned infrastructure assets. The complete valuation of the City's remaining infrastructure assets will be completed over the next few years as allowed by GASB Statement No. 34.

7. *Deferred Revenues*

Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Such amounts have been deemed to be measurable, but not available.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (Continued)

8. *Long-term Obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

9. *Compensated Absences*

The City accrues a liability for Compensated Absences (unpaid annual leave, sick leave and compensatory time which meets the criteria in accordance with GASB Code Section C60.10). Unused vacation benefits are paid to employees upon termination. For employees with over five years of continuous employment, unused sick leave benefits are paid ratably in accordance to the length of service upon termination. Unused compensatory time is compensated for upon termination. Appointed officials and "administrative" employees are exempt from coverage under the Fair Labor Standards Act. Annual leave is accrued when incurred in proprietary funds and is reported as a fund liability. An amount that is expected to be liquidated with expendable available resources is reported as an expenditure and fund liability of the governmental fund that will pay for it. Amounts not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts.

10. *Use of Estimates*

The preparation of the 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 and disclosures. Accordingly, actual results could differ from those estimates.

11. *Effects of New GASB Pronouncements*

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

- Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3.* This statement addresses common deposit and investment risks related to credit risk. Deposits and investment policies related to the risk identified in this statement should be disclosed. The City has implemented this reporting requirement in the current fiscal year financial statements.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (Continued)

11. Effects of New GASB Pronouncements (Continued)

- Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* This statement established accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement is effective for the City's fiscal year beginning after December 15, 2007.

- Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans.* This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans. The statement applies for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This statement is effective for the City's fiscal year beginning after December 15, 2008.

- Statement No. 44 – *Economic Condition Reporting: The Statistical Section.* This statement amends the portions of NCGA Statement 1, Governmental Accounting and Financial Report Principles, that guide the preparation of the statistical section. This statement enhances and updates the statistical section that accompanies a state or local government's basic financial statements to reflect the significant changes that have taken place in government finance. This statement is effective for periods beginning after June 15, 2005.

- Statement No. 45, *Accounting and Financial Reporting by Employees for Postemployment Benefits Other than Pensions.* This statement addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. This statement is effective for the City's fiscal year beginning after December 15, 2008.

- Statement No. 46, *Net Assets Restricted by Enabling Legislations, an Amendment to GASB Statement No. 34.* This statement will help governments determine when net assets have been restricted to a particular use by the passage of enabling legislation and to specify how those net assets should be reported in financial statements. This statement is effective for periods beginning after June 15, 2005.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City's procedures to establish the budgetary data reflected in the financial statements are:

1. Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1.

2. Public meetings are conducted by the City Council.

3. The final budget is legally enacted through adoption of a resolution.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

A. Budgetary Information (Continued)

4. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. Accordingly, actual revenues and expenditures can be compared with related budgeted amounts without any reconciling items. Debt service funds achieve effective budgetary control through the various bond indenture provisions. Capital projects funds adopt project-length budgets.

5. The City Manager has authority to make budget changes and adjustments up to a maximum of $10,000 per account, while the budget committee has authority to make changes up to $35,000. Changes and adjustments exceeding these amounts require City Council approval.

The budgetary data is prepared on the modified accrual basis consistent with the related "actual" amounts.

The budget for the fiscal year ended June 30, 2005, was adopted on June 8, 2004. Amounts shown in the financial statements represent the original budgeted amounts and all supplemental appropriations. The supplemental appropriations were immaterial. All unused appropriations for budgeted amounts lapse at the end of the fiscal year.

B. Deficit Fund Equity

The Redevelopment Agency Special Revenue Fund has a deficit of $3,895,662. The Redevelopment Agency invests in the community by cleaning up blight. This brings in more business thus generating additional tax revenue. The Agency depends upon tax increments for reimbursement and has historically run in the deficit.

The Gas Tax Special Revenue Fund has a deficit of $781,851. With the explosive growth in Lincoln over the last four to five years there has been a need to maintain the roads. Therefore, the City spent more than its received including $250,000 that was transferred from General Fund.

The Transportation Special Revenue Fund has a deficit of $484,487. The City is currently submitting a claim for $2 million to the State for Article 4 funds. These funds will eliminate the deficit.

The Police Grants Special Revenue Fund has a deficit of $56,830. Some of the City's police grants require a City match, however, this match has not been completed for fiscal year 2004-05. The grants manager is currently working with the accounting staff to identify the match requirements. Once completed, fund will be transferred from the appropriate appropriation to correct the deficit.

The Highway 65 Capital Projects Fund has a deficit of $388,466. On September 23, 2005, the City has invoiced the Union Pacific Railroad for $1,250,000. In addition, the State Department of Transportation is currently being billed for $1,200,000. These funds when received will eliminate the deficit.

The Transit Fund has a deficit of $345,859. The City is currently submitting a claim for $2 million to the State for Article 4 funds. These funds will eliminate the deficit.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

The City maintains a cash and investment pool, which includes cash balances and authorized investments of all funds, which the City invests to enhance interest earnings. The pooled interest earned is allocated quarterly to each fund based upon average cash and investments.

A reconciliation of the City's deposit and investment balances as of June 30, 2005:

Cash on hand	$ 1,450
Deposits with financial institutions	6,159,465
Investments	147,218,309
Total cash and investments	$ 153,379,224

	Government-wide Statement of Net Assets
Statement of Net Assets:	
Cash and investments	$ 67,242,485
Cash with fiscal agents	61,129,466
Fiduciary Funds:	
Cash and investments	7,999,955
Cash with fiscal agents	17,036,471
Total	$ 153,408,377

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

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

NOTE 3 – DETAILED NOTES ON ALL FUNDS (Continued)

A. Cash and Investments (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of * Portfolio	Maximum investment in One Issuer
Local Agency Investment Fund (LAIF)	As Permitted**	As Permitted**	None
US Treasury Bonds/Bills	5 years	100%	None
US Gov't Agency Bonds	5 years	100%	None
Repurchase Agreements	90 days	100%	None
Bonds Issued by Local Agencies	5 years	80%	None
Negotiable Certificates of Deposit	5 years	30%	None
Medium Term Corporate Notes	5 years	30%	None
Bankers Acceptances	180 days	40%	None
Time Certificates of Deposit	1 year	25%	None
Commercial Paper of Prime Quality	180 days	25%	None
Reverse Repurchase Agreements	92 days	20%	None

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.
** As permitted by law. LAIF investments are considered safe and liquid. The law permits a local municipality to invest a maximum of $40,000,000. There is no maximum term, as LAIF is a demand account.

Investments Authorized by the Debt Agreements

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
US Treasury Bonds/Bills	None	None	None
US Gov't Agency Bonds	None	None	None
Money Market Funds	N/A	None	None
Certificates of Deposit	1 year	None	None
Investment Contracts	None	None	None
Commercial Paper	None	None	None
Banker's Acceptances	1year	None	None
Repurchase Agreements	30 days	None	None
Pre-refunded Municipal Bonds	None	None	None

NOTE 3 – DETAILED NOTES ON ALL FUNDS (Continued)

A. Cash and Investments (Continued)

Interest Rate

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City manages its exposure to interest rate risk by selecting maturities of investments based on liquidity requirements. The City's investment policy requires the weighted-average maturity of the pooled portfolio should not exceed two years and the following percentages of the portfolio should not be invested in the following maturity sectors:

Range	Percentage of Portfolio
1 to 365 Days	Not to exceed 90%
1 to 5 Years	Not to exceed 70%
Over 5 Years	Council authorization requried

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

		Remaining Maturity (in Months)			
Investment Type		Less	13 to 24 Months	25 to 60 Months	Months
State investment pool	$ 4,114,713	$ 4,114,713	$ -	$ -	$ -
Money market funds	116,213	116,213	-	-	-
Fedl Farm Credit Bank Bonds	1,641,151	-	-	1,641,151	-
Fedl Home Loan Bank Bonds	20,789,655	-	1,496,315	17,293,340	2,000,000
Fedl Home Loan Mtg Corp Notes	4,462,200	-	-	4,462,200	-
Fedl Natl Mtg Assn Notes	13,502,960	-	981,270	12,521,690	-
Corporate Notes	14,996,560	1,018,360	2,036,970	11,941,230	-
Mutual Funds	9,428,921	9,428,921	-	-	-
Held by bond trustee:					
Money market funds	15,390,935	15,390,935	-	-	-
Investment contracts	4,622,663	4,622,663	-	-	-
CMAP	23,390,833	23,390,833	-	-	-
Federal Agency Notes	5,451,079	5,451,079	-	-	-
Federal Agency Discount Notes	29,310,426	29,310,426	-	-	-
Total	$ 147,218,309	$ 92,844,143	$ 4,514,555	$ 47,859,611	$ 2,000,000

Credit Rate Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating required by the City's investment policy and the actual rating as of year-end for each investment type.

NOTE 3 – DETAILED NOTES ON ALL FUNDS (Continued)

A. Cash and Investments (Continued)

Credit Rate Risk (Continued)

Investment Type		AAA	AA3	AA1	A1	Not Rated
State investment pool	$ 4,114,713	$ -	$ -	$ -	$ -	$ 4,114,713
Money market funds	116,213	-	-	-	-	116,213
Fedl Farm Credit Bank Bonds	1,641,151	1,641,151	-	-	-	-
Fedl Home Loan Bank Bonds	20,789,655	20,789,655	-	-	-	-
Fedl Home Loan Mtg Corp Notes	4,462,200	4,462,200	-	-	-	-
Fedl Natl Mtg Assn Notes	13,502,960	13,502,960	-	-	-	-
Corporate Notes	14,996,560	-	5,972,850	1,003,370	8,020,340	-
Mutual Funds	9,428,921	-	-	9,428,921	-	-
Held by bond trustee:						
Money market funds	15,390,935	-	-	-	-	15,390,935
Investment contracts	4,622,663	-	-	-	-	4,622,663
CMAP	23,390,833	23,390,833	-	-	-	-
Federal Agency Notes	5,451,079	5,451,079	-	-	-	-
Federal Agency Discount Notes	29,310,426	-	-	-	29,310,426	-
Total	$ 147,218,309	$ 69,237,878	$ 5,972,850	$ 10,432,291	$ 37,330,766	$ 24,244,524

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City's investments are as follows:

Issuer	Investment Type	Reported Amount	% of Total Investments
Fedl Home Loan Bank	Bonds	20,789,655	14%
Fedl Natl Mtg Assn	Notes	13,502,960	9%

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterpart (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under the state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

GASB Statement No. 40 requires the following disclosure be made with respect to custodial credit risk relating to deposits and investments.

NOTE 3 – DETAILED NOTES ON ALL FUNDS (Continued)

A. Cash and Investments (Continued)

Custodial Credit Risk (Continued)

As of June 30, 2005, the carrying amount of the City's bank deposits was $ 6,159,459 and the respective bank balances totaled $604,506. Of the total bank balance, $197,117 was insured through the Federal Depository Insurance Company (FDIC). The remaining $407,389 was collateralized with pooled securities held by the financial institutions' trust department. These securities are held in the name of the financial institution and not that of the City.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amount based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Pools*, investments were stated at fair value using the aggregate method in all funds, resulting in the following investment income:

interest, dividends and realized gain on sale of investments	$	1,744,086
Change in Carrying Value: A.G. Edwards & Sons, Inc.		(338,046)
Total Return on Deposits & Investments	$	1,406,040

The calculation of realized gains and losses is independent of a calculation of the net change in fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year that matured or were called/sold in the current year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

The types of investments made during the year were substantially the same as those held as of June 30, 2004. Fair value fluctuates with interest rates, and increasing rates could cause fair value to decline below original cost. The City's management believes the liquidity in the portfolio is sufficient to meet cash flow requirements and to preclude the City from having to sell investments below original cost for that purpose.

NOTE 3 – DETAILED NOTES ON ALL FUNDS (Continued)

B. Notes Receivable

The City had the following notes receivable at June 30, 2005:

The Community Development Block Grant (CDBG) Special Revenue Funds has received funding over the years from the California Department of Housing and Community Development for FHA Title 1 and other revolving loans. Notes were issued to borrowers for homebuyers, construction and housing rehabilitation. The notes are secured by first deeds of trust. The notes have various monthly installment amounts and due dates.	$	1,431,091
The Redevelopment Agency Special Revenue Fund entered into various notes with developers in connection with redevelopment projects. The terms of the notes required that the payments on the notes begin eighteen months after the final invoice of the projects.		5,667,004
Total	$	7,098,095

C. Interfund Transactions

Transfers

Funds are transferred from one fund to support expenditures of other funds in accordance with the authority established for the individual fund. Transfers within fund types have been eliminated with the government-wide financial statements.

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

	Transfer In	Transfer Out
Major Funds:		
General Fund	$ 148,454	$ -
Public Facility Element (PFE) Special Revenue Fund	-	715,493
Redevelopment Agency Special Revenue Fund	1,542,019	-
Non-major Funds:		
Other Special Revenue Funds	-	148,455
Debt Service Fund	715,494	1,542,019
Total	$ 2,405,967	$ 2,405,967

NOTE 3 – DETAILED NOTES ON ALL FUNDS (Continued)

C. Interfund Transactions (Continued)

Advances

A summary of the advances to other funds and advances from other funds for the fiscal year ended June 30, 2005, is as follows:

	Advances To	Advances From
Major Funds:		
Public Facility Element (PFE) Special Revenue Fund	$ 2,531,789	$ -
Redevelopment Agency Special Revenue Fund	-	8,012,266
Water Fund	-	550,000
Sewer Fund	240,738	1,725,000
Lincoln Public Financing Authority	6,925,000	-
Non-major Funds:		
Park in Lieu Special Revenue Fund	-	2,531,789
Development Service Special Revenue Fund	3,311,528	-
Airport Fund	-	190,000
Total	$ 13,009,055	$ 13,009,055

This is a long-term advance that will be repaid upon completion of certain restrictions as outlined in the original loan agreement.

Due to/from other funds

Due to/from balances have primarily been recorded when funds overdraw their share of pooled cash. Activities within fund types have been eliminated within the government-wide financial statements.

A summary of the amounts due to and due from, for the year ended June 30, 2005, is as follows:

	Due From	Due To
Major Funds:		
General Fund	$ 4,928,888	$ 86,598
Public Facility Element (PFE) Special Revenue Fund	11,716,978	-
Redevelopment Agency Special Revenue Fund	-	1,760,834
Water Fund	3,026	-
Sewer Fund	32,224	11,490,577
Non-major Funds:		
Gas Tax Special Revenue Fund	-	746,363
Transportation Special Revenue Fund	-	477,168
Development Service Special Revenue Fund	-	170,411
Police Grants Fund	-	98,852
Highway 65 Capital Projects Fund	-	390,634
Airpark Drive Capital Projects Fund	-	-
Solid Waste Fund	2,111	-
Transit Fund	-	388,751
Airport Fund	1,807	1,074,846
Total	$ 16,685,034	$ 16,685,034

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets

Capital assets of the governmental activities for the year ended June 30, 2005, is as follows:

	Balances July 1, 2004	Acquisitions	Dispositions	Balances June 30, 2005
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 8,179,542	$ 391,356	$ -	$ 8,570,898
Infrastructure, modified approach	81,555,399	10,341,370	-	91,896,769
Construction in progress	19,455,455	78,365,725	(13,036,227)	84,784,953
Total capital assets, not being depreciated	109,190,396	89,098,451	(13,036,227)	185,252,620
Capital assets, being depreciated:				
Buildings and structures	5,810,513	-	-	5,810,513
Machinery and equipment	4,022,495	585,207	-	4,607,702
Land improvements	-	1,592,117	-	1,592,117
Total capital assets, being depreciated	9,833,008	2,177,324	-	12,010,332
Accumulated depreciation:				
Buildings and structures	(1,624,616)	(171,318)	-	(1,795,934)
Machinery and equipment	(1,858,625)	(421,878)	-	(2,280,503)
Total acumulated depreciation	(3,483,241)	(593,196)	-	(4,076,437)
Total capital assets, being depreciated, net	6,349,767	1,584,128	-	7,933,895
Governmental activity capital assets, net	$ 115,540,163	$ 90,682,579	$ (13,036,227)	$ 193,186,515

Depreciation expense was charged to governmental functions as follows:

Governmental activities:	
General government	$ 107,017
Public safety	34,412
Public works and facilities	352,399
Capital assets held by the City's internal service fund charged to the various functions on a prorated basis based on their usage of the assets	99,368
Total depreciation expense - governmental activities	$ 593,196

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

Capital assets of the business-type activities for the year ended June 30, 2005, is as follows:

	Balances July 1, 2004	Acquisitions	Dispositions	Balances June 30, 2005
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 1,657,650	$ -	$ -	$ 1,657,650
Infrastructure, modified approach	52,425,738	1,102,741	-	53,528,479
Construction in progress	7,788,889	7,925,882	-	15,714,771
Total capital assets, not being depreciated	61,872,277	9,028,623	-	70,900,900
Capital assets, being depreciated:				
Buildings and structures	12,461,288	-	-	12,461,288
Machinery and equipment	3,931,488	394,710	(124,373)	4,201,825
Total capital assets, being depreciated	16,392,776	394,710	(124,373)	16,663,113
Accumulated depreciation:				
Buildings and structures	(5,636,171)	(311,978)	-	(5,948,149)
Machinery and equipment	(2,297,317)	(298,326)	124,373	(2,471,270)
Total acumulated depreciation	(7,933,488)	(610,304)	124,373	(8,419,419)
Total capital assets, being depreciated, net	8,459,288	(215,594)	-	8,243,694
Governmental activity capital assets, net	$ 70,331,565	$ 8,813,029	$ -	$ 79,144,594

Depreciation expense was charged to business-type functions as follows:

Business-type activities:	
Water fund	$ 97,774
Sewer fund	146,900
Solid waste fund	112,736
Transit fund	14,859
Airport	238,035
Total depreciation expense - business-type activities	$ 610,304

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

E. Long-term Debt

The following is a summary of long-term debt transactions of the City of Lincoln for the fiscal year ended June 30, 2005:

	Outstanding 07/01/04	Issued/ Transferred	Retired/ Transferred	Outstanding 06/30/05	Due Within One Year
Governmental Activities					
Revenue Bonds:					
Lease Revenue Bond, Series 2003	$ 10,560,000	$ -	$ (270,000)	$ 10,290,000	$ 275,000
Tax Allocation Bonds:					
Tax Allocation Revenue Bonds, Series 2004A and 2004B	-	11,090,000	-	11,090,000	50,000
Less: Issuance discounts	-	(33,547)	-	(33,547)	-
Total General Obligations Long-term Debt	$ 10,560,000	$ 11,056,453	$ (270,000)	$ 21,346,453	$ 325,000
Business-Type Activities					
Revenue Bonds:					
Tax Allocation Revenue Bonds, Series 2000	$ 8,895,000	$ -	$ (830,000)	$ 8,065,000	$ 795,000
Loans Payable:					
Safe Water Bond Act Loan	227,336	-	(11,782)	215,554	12,637
Federal Airport Improvement Program Loan	14,162	-	(14,162)	-	-
Total Enterprise Obligation Long-Term Debt	$ 9,136,498	$ -	$ (855,944)	$ 8,280,554	$ 807,637

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

E. Long-term Debt (Continued)

Revenue Bonds:

Lease Revenue Bond, Series 2003 - In July 2003, the Lincoln Public Financing Authority issued Lease Revenue Bonds (Public Safety and Corporation Yard Project), Series 2003 in the amount of $10,560,000. The bond was issued to acquire and construct a new public safety facility. The final maturity date on the bonds is September 15, 2017. Each payment includes interest at an annual rate between 4.25% to 5.90%.

As of June 30, 2005, annual debt service requirements are as follows:

2003 LPFA Revenue Bonds

Year Ended June 30,	Principal	Interest	Total
2006	$ 275,000	$ 437,994	$ 712,994
2007	285,000	429,594	714,594
2008	295,000	422,369	717,369
2009	300,000	415,669	715,669
2010	305,000	407,344	712,344
2011-2015	1,685,000	1,876,153	3,561,153
2016-2020	2,040,000	1,506,926	3,546,926
2021-2025	2,560,000	968,750	3,528,750
2026-2029	2,545,000	262,375	2,807,375
Total	$ 10,290,000	$ 6,727,174	$ 17,017,174

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

E. Long-term Debt (Continued)

Tax Allocation Revenue Bonds, Series 2004A and 2004B - In September 2004, the Lincoln Public Financing Authority issued Tax Allocation Revenue Bonds, Series 2004A and 2004B in the amount of $8,720,000 and $2,370,000, respectively. The Series 2004A bonds were issued to finance certain redevelopment activities of the Redevelopment Agency of the City of Lincoln and the Series 2004B bonds were issued to finance certain low and moderate income housing activities of the Agency. The Series 2004A bonds have interest rates ranging from 3.50% to 4.35% and mature September 2013 through September 2026. The Series 2004B bonds have interest rates ranging from 5.00% to 5.70% and mature September 2014 through September 2033. The principal, interest, and redemption premiums, if any, on the Series 2004 bonds are limited obligation payable solely from the proceeds of special tax assessment.

As of June 30, 2005, annual debt service requirements are as follows:

Series 2004 RDA Tax Allocation Bonds - Series A & B

Year Ended June 30,	Principal	Interest	Total
2006	$ 50,000	$ 516,553	$ 566,553
2007	35,000	511,552	546,552
2008	40,000	513,053	553,053
2009	40,000	507,553	547,553
2010	45,000	509,053	554,053
2011-2015	875,000	2,476,413	3,351,413
2016-2020	2,735,000	2,192,763	4,927,763
2021-2025	4,480,000	1,276,198	5,756,198
2026-2030	2,205,000	316,529	2,521,529
2031-2034	585,000	65,888	650,888
	11,090,000	8,885,555	19,975,555
Less: Issuance discounts	(33,547)	-	(33,547)
Total	$ 11,056,453	$ 8,885,555	$ 19,942,008

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

E. Long-term Debt (Continued)

Revenue Refunding Bonds Series 2000 - In September 2000, the Lincoln Public Financing Authority issued Revenue Refunding Bonds, Series 2000 in the amount of $12,275,000. The Revenue Refunding Bonds were issued to (1) refund certain Lincoln Public Financing Authority Revenue Bonds, Series 1994 and certain Local Government Finance Authority 1989 Refunding Revenue Bonds (Redevelopment Agency of the City of Lincoln Financing), (2) finance certain public capital improvements, (3) to fund a Reserve Account for Bonds, and (4) to pay costs of issuance. The term of the revenue bonds will end September 15, 2017. Each payment includes interest at an annual rate between 4.25 and 5.90%. Interest on the Bonds is payable on March 15 and September 15 of each year. Principal of the Bonds is payable on September 15 of each year. At June 30, 2005, the total principal outstanding was $8,065,000.

As of June 30, 2005, annual debt service requirements of are as follows:

2000 LPFA Revenue Bonds			
Year Ended June 30,	Principal	Interest	Total
2006	$ 795,000	$ 407,425	$ 1,202,425
2007	800,000	368,745	1,168,745
2008	800,000	329,145	1,129,145
2009	785,000	289,128	1,074,128
2010	775,000	248,960	1,023,960
2011-2015	3,045,000	683,388	3,728,388
2016-2018	1,065,000	87,013	1,152,013
Total	$ 8,065,000	$ 2,413,804	$ 10,478,804

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

E. Long-term Debt (Continued)

Loans Payable:

Safe Water Bond Act Loan - On June 1, 1993, the City entered into loan agreement with the California Statewide Communities Development Authority in amount $314,594 to refinance the prior loan. The balance of the loan at the time of the refinancing was $304,986. The loan requires a semi-annual installment of $13,887 through January 1, 2017, including interest at 7.125%.

As of June 30, 2005, annual debt service requirements are as follows:

Safe Drinking Water Bond Act Loan

Year Ended June 30,	Principal	Interest	Total
2006	$ 12,637	$ 15,137	$ 27,774
2007	13,554	14,221	27,775
2008	14,537	13,238	27,775
2009	15,591	12,184	27,775
2010	16,721	11,053	27,774
2011-2015	103,653	35,217	138,870
2016-2017	38,860	2,800	41,660
Total	$ 215,553	$ 103,850	$ 319,403

Federal Airport Improvement Program Loan - On November 9, 1994, the City entered into loan agreement with the State of California Department of Transportation in the amount $107,778 for the airfield pavement. The loan was due in annual installments of $12,445 to $16,415 including interest at 5.9%. The obligations on the loan were fully paid as of June 30, 2005.

Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The City believes it is in compliance with all significant limitations and restrictions.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

F. Non-City Obligations

The following bond issues are not reported in the City's financial statements, because these are special obligations payable solely from and secured by, specific revenue sources described in the resolutions and official statements of the respective issues. Neither the full faith and credit nor the taxing power of the City, the State of California, or any political subdivision thereof, is pledged for payment of these bonds.

	Project Description	Original Amount	Outstanding Balance
Special Tax Bonds, Series 1998 Community Facilities District No. 1998-1	Lincoln Airpark	$ 3,380,000	$ 2,970,000
Limited Obligation Improv. Bond, Assessment District No. 1999	Twelve Bridges	$ 47,800,000	$ 38,280,000
Limited Obligation Improv. Bond, Assessment District No. 2001	Twelve Bridges	$ 15,550,000	$ 14,060,000
Limited Obligation Improv. Bond, Assessment District No. 2003	Lincoln Crossing	$ 28,225,000	$ 28,225,000
Limited Obligation Improv. Bond, Assessment District No. 2004	Lincoln Crossing	$ 69,775,000	$ 69,775,000
Limited Obligation Improv. Bond, Assessment District No. 2004-3	Foskett Ranch	$ 6,000,000	$ 6,000,000
Statewide Comm. Infrastructure Program Revenue Bond No. 2003	SCIP	$ 810,000	$ 810,000
Statewide Comm. Infrastructure Program Revenue Bond No. 2004	SCIP	$ 650,034	$ 650,034

G. Fund Balances Reservations and Designations

The government-wide and business-type activities financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvements of the assets.

- *Restricted Net Assets* – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of government.

- *Unrestricted Net Assets* – This amount is all net assets that do not meet the above definitions.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

G. Fund Balances Reservations and Designations (Continued)

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

- *Reserved for capital projects* – to reflect the funds held by trustee or fiscal agents for capital improvements. These funds are not available for general operations.
- *Reserved for long-term receivable* – used to segregate a portion of fund balance to indicate that long-term receivables do not represent available, spendable resources even though they are a component of assets.
- *Reserved for advances to other funds* – to reflect the amount due from other funds that are long-term in nature. Such amounts do not represent available spendable resources.
- *Reserved for low/moderate income housing fund* – used to represent that portion of fund balance segregated for low/moderate income housing fund of the Redevelopment Agency.
- *Reserved for debt services* – to reflect the funds held by trustee or fiscal agents for future payment of bond principal and interest. These funds are not available for general operations.

H. Prior Period Adjustments

Operating fund balance was restated in the following funds:

Governmental Funds

General Fund: Decreased by $143,744, due to prior year understatement of revenues ($17,267), understatement of amounts due to other funds ($1,807) and overstatement of accounts receivable ($159,204).

Public Facility Element (PFE) Special Revenue Fund: Increased by $1,678,596, due to prior year understatement of grants receivable ($1,540,817), understatement of revenues ($363,459) and understatement of expenditures ($225,680).

Redevelopment Agency Special Revenue Fund: Decreased by $947,406, due to prior year understatement of accounts receivable ($168), overstatement of interfund debt ($540,000), overstatement of revenue ($232,621) and understatement of expenditures ($1,254,953).

Twelve Bridges Capital Project Fund: Increased by $2,369,190, due to prior year overstatement of liability to other agencies ($182,207), understatement of due to other funds ($15,974) and overstatement of expenditures ($2,202,957).

Lincoln Crossing Capital Project Fund: Decreased by $229,955, due to prior year overstatement of cash ($229,955).

Gas Tax Special Revenue Fund: Increased by $23,867 due to the City recording compensated absences liability in the fund financial statements in the prior year.

Supplemental Fees Special Revenue Fund: Decreased by $4,147, due to the City overstating revenues in the prior year.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

H. Prior Period Adjustments (Continued)

***Governmental Funds** (Continued)*

Park & Rec Tax Special Revenue Fund: Decreased by $192,211, due to overstatement of revenues in the prior year.

Development Service Special Revenue Fund: Decreased by $238,614, due to the City recording compensated absences liability in the fund financial statements in the prior year ($59,004) and overstatement of revenue ($297,618).

Police Grants Special Revenue Fund: Decreased by $3,733, due to the City recording compensated absences liability ($1,763) and overstatement of accounts receivable ($5,496) in the fund financial statements in the prior year.

Community Development Block Grants Special Revenue Fund: Decreased by $75,008, due to prior year overstatement of accounts receivable.

HOME Investment Partnership Program Special Revenue Fund: Decreased by $98,463, due to prior year overstatement of accounts receivable.

Special Districts Special Revenue Fund: Increased by $1,245, due to the City recording compensated absences liability in the fund financial statements in the prior year.

Debt Service Fund: Increased by $1,948,917, due to understatement of expenditures ($900,000), understatement of revenues ($225,681) and overstatement of other liabilities ($778,709) in the prior year. In addition, non-City obligated debts' transactions were recorded in the debt service funds in prior year and prior period adjustments were made to increase the beginning fund balance by $229,488. The Lincoln Public Financing Authority Fund was accounted as debt services fund, rather than an enterprise fund ($1,615,039) which increased the debt service fund beginning fund balance.

Airpark Drive Capital Project Fund: Increased by $57 due to several transactions in the prior year being incorrectly recorded in the capital project fund.

Foskett Ranch AD2004-3 Capital Project Fund: Increased by $63, due to several prior year transactions being incorrectly recorded in capital projects fund.

Proprietary Funds

Water Fund: Increased by $416,519, due to prior year understatement of utility receivable ($356,934), overstatement of interfund fund liabilities ($190,000), understatement of revenues ($147,470) and understatement of expenses ($277,885).

Sewer Fund: Decreased by $2,314,585, due to prior year understatement of utility receivable ($181,507), understatement of miscellaneous receivable ($16,361), overstatement of capital assets ($41,679), overstatement of interfund fund liabilities ($455,000), overstatement of revenues ($25,317) and understatement of expenses ($2,900,457).

Lincoln Public Financing Authority Fund: increased by $722,353. The Lincoln Public Financing Authority Fund was accounted for as a debt services fund in the prior year. The fund should be accounted for as an enterprise fund. A prior period adjustment of $722,353 was made to increase the beginning fund balance.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

H. Prior Period Adjustments (Continued)

***Proprietary Funds** (Continued)*

Solid Waste Fund: *Increased* by $49,938, due to prior year understatement of utility receivable ($200,242), overstatement of capital assets ($130,333), and overstatement of revenues ($19,971).

Airport Fund: *Decreased* by $31,793, due to prior year overstatement of interfund liability ($91,807), and understatement of expenses ($123,600).

Internal Service Fund: *Decreased* by $104,230 due to prior year overstatement of payroll liabilities ($115), and overstatement of capital assets ($104,345).

Governmental Activities:

Governmental activities beginning net assets increased by $16,090,177 due to the above-mentioned prior period adjustments to the governmental funds, internal service fund and additional adjustments are as follows:

Understatement of capital assets ($1,084,169), overstatement of long-term debt ($11,955,000), overstatement of interest payable ($178,167), understatement of other liabilities ($1,025,878) and understatement of expenses ($85,705).

NOTE 5 – OTHER INFORMATION

A. Joint Power Authority – Self-Insurance

The City is a member of the Northern California Cities Joint Power Authority (JPA) with a number of other Northern California cities. The Authority is a joint powers authority organized in accordance with Article 1, Chapter 5, Division 7, Title 1, of the California Government Fund Programs. The purpose is to create a common pool of funds to be used to meet obligations of the parties to provide workers' compensation benefits for their employees and to provide excess liability insurance. The Authority is governed by a member from each city. The City of Lincoln council members do not have significant oversight responsibility, since they evenly share all factors of responsibility with the other cities. However, ultimate liability for payment of claims and insurance premiums resides with member cities. The Authority is empowered to make supplemental assessments as needed to eliminate deficit positions of member cities. The JPA has instituted increases in the premium amounts in an effort to eliminate the current deficit in fund equity. If the JPA becomes insolvent, the City of Lincoln's share of the Authority's financial data and transactions are included in the accounts as expenditures and fund balance of the General Fund.

The participants at June 30, 2005, from the most recent data available, were as follows:

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

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 of each equity.

NOTE 5 – OTHER INFORMATION (Continued)

A. Joint Power Authority – Self-Insurance (Continued)

The City's insurance coverage and the respective coverage providers are as follows:

Amount	Coverage Provider	Payment Source
Liability Claims:		
$ 0 - 25,000	Self-insured	Banking layer
25,001 - 500,000	Northern California Cities Self-insurance Fund	Shared risk pool
500,001 - 10,000,000	CA Joint Powers Risk Management Authority	Shared risk pool
Workers' Compensation:		
$ 0 - 100,000	Self-insured	Banking layer
100.001 - 300,000	Northern California Cities Self-insurance Fund	Shared risk pool
300,001 - 5,000,000	Commercial insurance	Shared risk pool

The following Joint Powers Authority disclosures are made in compliance with GASB Code Section J.50.103.

NORTHERN CALIFORNIA CITIES
JOINT POWERS AUTHORITY
SUMMARY OF FINANCIAL INFORMATION
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Total Authority	City of Lincoln's Share
ASSETS:		
Cash and investments	$ 36,161,540	$ 355,026
Accounts receivable	556,112	85,016
Interest receivable	401,361	4,008
Excess accounts receivable	483,758	-
Total Assets	$ 37,602,771	$ 444,050
LIABILITIES		
Accounts payable	$ 80,239	$ 2,655
Dividends payable	679,618	-
Unpaid claims and claims adjustment expenses	25,436,554	717,144
Total Liabilities	26,196,411	719,799
FUND EQUITY	11,406,360	(275,749)
Total Liabilities and Fund Equity	$ 37,602,771	$ 444,050
Total revenues	$ 16,232,892	$ 355,021
Total expenditures	14,441,788	583,115
Excess of revenue over expenditures	1,791,104	(228,094)
Fund Equity, July 1, 2004	9,615,256	(47,655)
Fund Equity, June 30. 2005	$ 11,406,360	$ (275,749)

NOTE 5 – OTHER INFORMATION (Continued)

A. Joint Power Authority – Self-Insurance (Continued)

A reconciliation of the changes in the aggregate liabilities of claims for the Authority as a whole is as follows:

	2005
Reserves for losses and loss adjustment expenses at July 1.	$ 22,896,801
Provision for losses and loss adjustment expenses attributable to insured events of current and prior fiscal years.	8,917,893
Less claims paid attributable to insured events of current and prior fiscal years.	(6,378,140)
	$ 25,436,554

The Authority establishes claims' liabilities based on estimates of the ultimate cost 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 claims' 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 separate financial statements of the Joint Powers Authority are available at the Authority's office.

B. Deferred Compensation Plan

In accordance with Government Accounting Standards Board Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans," the City no longer reports the existing deferred compensation plans within its financial statements.

C. City Employees Retirement Plan

Plan Description: The City of Lincoln 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. A menu of benefit provisions, as well as other requirements, are established by State statutes within the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with PERS and adopts those benefits through city ordinances. PERS issues a separate comprehensive annual financial report. A copy of PERS' annual financial report may be obtained from the PERS Executive Office, 400 P Street, Sacramento, California 95814.

NOTE 5 – OTHER INFORMATION (Continued)

C. City Employees' Retirement Plan (Continued)

Funding Policy: Active plan members are required to contribute 7.0 percent (9.0 percent for safety employees) of their annual covered salary. The City is required to contribute the actuarially determined 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 current rate is 6.818% for non-safety and 19.419% for safety employees. The contribution requirements are established by State statute and the contribution rate of plan members and the City are established and may be amended by PERS.

Annual Pension Cost: For fiscal year 2005, the City's annual pension cost of $490,752 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:

1. 8.25% investment rate of return (net of administrative expenses);
2. Projected annual salary increases that vary by duration of service; and
3. 2.0% per year cost-of-living adjustment.

Both 1 and 2 (above) included an inflation component of 3.5%. The actuarial value of PERS assets were determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS' unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization periods at June 30, 2005, were 15 years for both miscellaneous and safety employees.

Five-year trend information for PERS:

Fiscal Year Ending	Annual Pension Cost (APC)	Percent of APC Contributed	Net Pension Obligation
6/30/2001	$ 205,899	100%	$ -
6/30/2002	$ 287,790	100%	$ -
6/30/2003	$ 422,614	100%	$ -
6/30/2004	$ 425,399	100%	$ -
6/30/2005	$ 490,752	100%	$ -

NOTE 5 – OTHER INFORMATION (Continued)

C. City Employees' Retirement Plan (Continued)

The most recent available data from the California Public Employees Retirement System for funding progress is as follows:

Funded Status of the Plans:

Actuarial Valuation Date	(1) Actuarial Accrued Liability (AAL)	(2) Actuarial Value of Assets	(1)-(2) Unfunded AAL (UAAL)	(2)/(1) Funded Ratio	(3) Covered Payroll	{(1)-(2)/(3)} UAAL as of % of Covered Payroll
6/30/2001						
Misc:	$ 5,060,146	$ 6,426,744	$ (1,366,598)	127.0%	$ 2,671,854	-51.1%
Safety:	$ 3,038,418	$ 3,102,754	$ (64,336)	102.1%	$ 799,998	-8.0%
6/30/2002						
Misc:	$ 5,836,256	$ 6,278,070	$ (441,814)	107.6%	$ 3,143,460	-14.1%
Safety:	$ 3,327,862	$ 2,950,662	$ 377,200	88.7%	$ 1,158,365	32.6%
6/30/2003						
Misc:	$ 7,236,832	$ 6,591,625	$ 645,207	91.1%	$ 3,741,924	17.2%
Safety:	$ 3,993,465	$ 3,161,758	$ 831,707	79.2%	$ 1,561,458	53.3%

D. Other Postemployment Benefits

The City extends health benefits to retired employees who have retired and are eligible to receive such benefits under the City's PERS plan. The accounting policy now in effect is a "pay-as-you-go" plan. For the fiscal year ended June 30, 2005, there were 19 participants with annual costs of approximately $109,946.

E. Proposition 218 Disclosure

In November 1996, Proposition 218 was approved by voters. This proposition regulates the City's ability to impose, increase and extend taxes, assessments and fees, by requiring voter approval before any such revenue source or increase can be implemented. In addition, the proposition provides that these taxes, assessments, and fees are subject to the voter initiative process and may be rescinded by voters in the future. As a result, the City's ability to finance the services for which the taxes, assessments, and fees were imposed may be significantly impaired. The taxes, assessments, and fees that are subject to the provisions of Proposition 218 that the City currently imposes for its benefit or as an agent for a special district, or receives for other government agencies, may include:

- Lighting and landscaping special taxes
- Community facilities districts' special taxes
- Business license fees
- Transient Occupancy Tax

NOTE 5 – OTHER INFORMATION (Continued)

F. Postclosure Landfill Costs

State and Federal laws and regulations require that the City of Lincoln, California place a final cover on its landfill that had been closed in November 1988, and to perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. Since the closure in 1988, the monitoring has been performed by outside consultants. The total costs for the maintenance and monitoring for the remaining required term have not been determined by the consultants. The nature of the estimates made and the potential for changes due to inflation or deflation, technology, or applicable laws and regulations may affect the ultimate costs. Currently, the costs are paid as they are incurred. For the fiscal year ended June 30, 2005, the costs were $187,148.

G. Contingent Liabilities

Grant Revenues

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. 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 government expects such amounts, if any, to be immaterial.

Litigation

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's counsel that resolution of these matters will not have a material adverse effect on the final condition of the government.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LINCOLN
California

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
For the Year Ended June 30, 2005

Infrastructure Assets Reporting Using the Modified Approach

The City elected to use the Modified Approach as defined by GASB Statement No. 34 for infrastructure reporting of its Street and Pavement System. The City commissioned a physical assessment of the streets conditions during the 02/03 fiscal year. This assessment will be performed every 3 years. Each homogeneous segment of the City Pavement Condition Index (PCI) was assigned to each street segment. The index is expressed in a continuous scale for 0 to 100, where 0 is assigned to the least acceptable physical condition and 100 is assigned to segments of street that have the physical characteristics of a new street. The following conditions were defined: excellent physical condition is assigned to segments with a scale rating between 100 and 85, good condition is assigned to segments with a scale rating between 84 and 70, fair condition is assigned to segments with a scale rating between 69 and 55, poor condition is assigned to segments with a scale rating between 30 and 0. The City's policy relative to maintaining the street assets is to achieve a minimum rating of 70 for all street segments. This acceptable rating allows minor cracking and raveling of the pavement along with minor roughness that could be noticeable to drivers traveling at the posted speeds.

As of June 30, 2005, the City's maintained road system was rated at a PCI index as follows:

	FY 2003	
PCI Condition Rating	Number of Miles	Percent
Arterial:		
Excellence (85-100)	$ 5.02	4%
Good (70-84)	1.58	1%
Fair (55-69)	1.48	1%
Poor (40-54)	1.20	1%
Failed (0-39)	24.09	18%
Collector:		
Excellence (85-100)	3.22	2%
Good (70-84)	1.87	1%
Fair (55-69)	0.96	1%
Poor (40-54)	0.95	1%
Failed (0-39)	8.57	6%
Industrial:		
Excellence (85-100)	2.65	2%
Good (70-84)	0.49	0%
Fair (55-69)	-	0%
Poor (40-54)	0.89	1%
Failed (0-39)	0.74	1%
Residential:		
Excellence (85-100)	2.22	2%
Good (70-84)	6.32	5%
Fair (55-69)	2.26	2%
Poor (40-54)	4.83	4%
Failed (0-39)	58.04	44%
Alleys:		
Excellence (85-100)	3.33	3%
Good (70-84)	-	0%
Fair (55-69)	-	0%
Poor (40-54)	-	0%
Failed (0-39)	1.32	1%
Total	132.03	100%

CITY OF LINCOLN
California

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
For the Year Ended June 30, 2005

For the year ended June 30, 2005, actual maintenance and preservation costs were less than estimated by $229,205 or 22 percent.

Fiscal Year	Estimated Maintenance & Preservation Costs	Actual Maintenance and Preservation Costs	Variance
2003	539,384	837,929	$ 298,545
2004	1,476,338	851,245	(625,093)
2005	1,030,376	801,171	(229,205)
2006	2,189,872	N/A	N/A
2007	1,669,629	N/A	N/A

CITY OF LINCOLN
California

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET TO ACTUAL
GENERAL FUND
Year Ended June 30, 2005

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes and assessments	$ 7,010,546	$ 7,010,546	$ 7,221,547	$ 211,001
Licenses and permits	333,825	333,825	452,058	118,233
Fines and penalties	76,676	76,676	104,023	27,347
Interest and investment income	683,000	683,000	(207,134)	(890,134)
Intergovernmental revenue	9,000	59,000	87,278	28,278
Charges for services	1,029,558	1,029,558	1,589,376	559,818
Other revenue	302,475	309,830	1,323,052	1,013,222
Total revenues	9,445,080	9,502,435	10,570,200	1,067,765
Expenditures:				
Current:				
General government	2,991,494	3,208,518	3,190,309	18,209
Public safety	6,112,705	6,404,508	5,450,625	953,883
Public works and facilities	322,310	322,310	288,960	33,350
Culture and recreation	701,621	701,621	563,976	137,645
Education	294,165	299,665	249,649	50,016
Capital outlay	179,750	179,750	59,592	120,158
Total expenditures	10,602,045	11,116,372	9,803,111	1,313,261
Excess (deficiency) of revenues over (under) expenditures	(1,156,965)	(1,613,937)	767,089	2,381,026
Other financing sources (uses):				
Operating transfers in	-	-	148,454	148,454
Total other financing sources (uses)	-	-	148,454	148,454
Net change in fund balance	(1,156,965)	(1,613,937)	915,543	2,529,480
Fund balances, July 1, 2004	3,409,137	3,409,137	3,409,137	-
Prior period adjustment	(143,744)	(143,744)	(143,744)	-
Fund balances, June 30, 2005	$ 2,108,428	$ 1,651,456	$ 4,180,936	$ 2,529,480

CITY OF LINCOLN
California

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET TO ACTUAL PUBLIC FACILITY ELEMENT (PFE) SPECIAL REVENUE FUND Year Ended June 30, 2005

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
Interest and investment income	$ 639,444	$ 639,444	$ 672,389	$ 32,945
Intergovernmental revenue	-	-	446,183	446,183
Charges for services	18,269,801	18,269,801	11,546,004	(6,723,797)
Total revenues	18,909,245	18,909,245	12,664,576	(6,244,669)
Expenditures:				
Current:				
Public works and facilities	1,510,207	1,510,207	54,262	1,455,945
Capital outlay	36,228,759	37,923,311	11,858,256	26,065,055
Total expenditures	37,738,966	39,433,518	11,912,518	27,521,000
Excess (deficiency) of revenues over (under) expenditures	(18,829,721)	(20,524,273)	752,058	21,276,331
Other financing sources (uses):				
Operating transfers out	-	-	(715,493)	(715,493)
Total other financing sources (uses)	-	-	(715,493)	(715,493)
Net change in fund balance	(18,829,721)	(20,524,273)	36,565	20,560,838
Fund balances, July 1, 2004	20,794,822	20,794,822	20,794,822	-
Prior period adjustment	1,678,596	1,678,596	1,678,596	-
Fund balances, June 30, 2005	$ 3,643,697	$ 1,949,145	$ 22,509,983	$ 20,560,838

CITY OF LINCOLN
California

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET TO ACTUAL REDEVELOPMENT AGENCY SPECIAL REVENUE FUND
Year Ended June 30, 2005

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes and assessments	$ 1,463,000	$ 1,463,000	$ 1,359,073	$ (103,927)
Interest and investment income	51,205	51,205	29,675	(21,530)
Other revenue	-	-	165,149	165,149
Total revenues	1,514,205	1,514,205	1,553,897	39,692
Expenditures:				
Current:				
General government	382,108	93,354	157,677	(64,323)
Principal retirement	290,000	290,000	-	290,000
Interest	334,816	334,816	324,647	10,169
Capital outlay	1,264,456	1,349,456	480,392	869,064
Total expenditures	2,271,380	2,067,626	962,716	1,104,910
Excess (deficiency) of revenues over (under) expenditures	(757,175)	(553,421)	591,181	1,144,602
Other financing sources (uses):				
Operating transfers in	-	-	1,542,019	1,542,019
Total other financing sources (uses)	-	-	1,542,019	1,542,019
Net change in fund balance	(757,175)	(553,421)	2,133,200	2,686,621
Fund balances, July 1, 2004	(4,590,171)	(4,590,171)	(4,590,171)	-
Prior period adjustment	(947,406)	(947,406)	(947,406)	-
Fund balances, June 30, 2005	$ (6,294,752)	$ (6,090,998)	$ (3,404,377)	$ 2,686,621

SUPPLEMENTARY INFORMATION

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CITY OF LINCOLN
California

DESCRIPTION OF FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than capital projects) that are legally restricted to expenditures for specified purposes.

Park In-Lieu Fund
Established to account for fees collected from developers in lieu of dedicating land for park or recreational purposes. Fees are used to purchase property for public parks.

Gas Tax Fund
Established to receive and expend the City's allocation of the State gasoline taxes.

Transportation Fund
Established to account for monies received for street projects.

Supplemental Fees Funds
Established to account for supplemental activities that are supported by external sources of funds.

Park & Rec Tax Fund
Established to account for monies received from the State and County to be used for traffic/street/transit improvements.

Development Service Fund
Established to account for monies received in relation to all aspects of developing property and/or projects within the City. The activities are accounted for within the Community Development Department. Monies are received from license and permit costs and additional fees for services within the City of Lincoln and the surrounding areas.

Police Grants Fund
Established to account for grants received for special police services.

Community Development Block Grants Fund
Established to account for Community Development Block Grants received for community services.

HOME Investment Partnership Program Fund
Established to account for HOME Investment Partnership Grants received for community services.

Special Districts Fund
Established to provide improvements and maintenance to public property within the district.

Low/Moderate Income Housing Fund
Established to account for the tax revenues received to provide the community with a tool for economic development.

Other Special Revenue Fund
Established to account for the activities of several Special Revenue Funds that include:

- Traffic Mitigation Fund
- Foskett Property Purchase Fund
- Housing Rehabilitation Fund
- Revitalization Loan Fund
- Housing Survey Grant Fund
- PTA Grant Fund
- Oak Tree Mitigation Fund
- Parkway Overcrossing Fund
- Lincoln Community Fund

DESCRIPTION OF FUNDS

Debt Service Funds account for the accumulation of property taxes and other revenues for period payment of interest and principal on general obligation and revenue bonds.

Debt Service Fund
Established to centrally budget all County debt service payments. Amounts are transferred into this fund from the various funding sources before payments are made.

Capital Projects Funds are used to account for financial resources to be used for the acquisition of land or acquisition and construction of major facilities other than those financed in the proprietary fund types.

Capital Improvement Fund
Accounts for bond proceeds, federal and local funds and transfers from other funds which are designated for various buildings and general improvements.

Highway 65 Funds
Established to construct the Highway 65 Bypass and to widen Highway 65 in a timely manner to relieve the existing and future traffic congestion.

Airpark Drive Fund
Established to construct improvements for Airpark Drive.

Foskett Ranch Fund
Established to construct improvements for Foskett Ranch.

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting of the City's programs.

Markham Ravine
Established for the purpose of preserving open space surrounding the Markham Ravine area.

Stormwater Retention
Established for the purpose of protecting open space easements surrounding the stormwater retention area.

Suncal Open Space
Established for the purpose of preserving the open space endowment at the Suncal-Lincoin crossing.

Sterling Point
Established for the purpose of protecting the open space and wetland habitat at Sterling Point.

3-D South Wetland Presv Endowment Fund
Established for the purpose of preserving the open space within the 3-D project.

Brookview Open Space Maint Trust Fund
Established for the purpose of preserving the open space within the Brookview 4 subdivision.

WWTRF Tertiary Storage Basins Maint Fund
Established for the purpose of providing erosion protection and vegetation control for the WWTRF storage basins.

CITY OF LINCOLN
California

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2005

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Assets					
Deposits and investments with City Treasury	$ 22,016,950	$ 148,660	$ 468,161	$ 399,595	$ 23,033,366
Receivables:					
Interest receivable	6,058	57	125	101	6,341
Accounts receivable	1,744,555	-	-	-	1,744,555
Taxes receivable	60,207	-	-	-	60,207
Advances to other funds	3,311,528	-	-	-	3,311,528
Restricted assets:					
Cash with fiscal agents	173,822	7,115,128	5,034,300	-	12,323,250
Notes receivable	1,431,091	-	-	-	1,431,091
Total Assets	$ 28,744,211	$ 7,263,845	$ 5,502,586	$ 399,696	$ 41,910,338
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued expenses	$ 4,023,646	$ -	$ -	$ 39	$ 4,023,685
Due to other funds	1,492,794	-	390,634	-	1,883,428
Deferred revenues	2,713,464	-	-	-	2,713,464
Advances from other funds	2,531,789	-	-	-	2,531,789
Deposits	464,337	-	-	-	464,337
Total Liabilities	11,226,030	-	390,634	39	11,616,703
Fund balances:					
Reserved for:					
Capital projects	3,561	4,449,607	5,034,300	-	9,487,468
Long-term receivables	1,460,243	-	-	-	1,460,243
Low/moderate income housing	3,140,308	-	-	-	3,140,308
Debt service	170,261	2,814,238	-	-	2,984,499
Unreserved	12,743,808	-	77,652	399,657	13,221,117
Total Fund Balances	17,518,181	7,263,845	5,111,952	399,657	30,293,635
Total Liabilities and Fund Balances	$ 28,744,211	$ 7,263,845	$ 5,502,586	$ 399,696	$ 41,910,338

CITY OF LINCOLN
California

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Revenues:					
Taxes and assessments	$ 1,310,882	$ -	$ -	$ -	$ 1,310,882
Licenses and permits	5,361,029	-	-	-	5,361,029
Interest and investment income	561,494	102,095	63,972	8,595	736,156
Intergovernmental revenue	1,296,362	-	240	-	1,296,602
Charges for services	8,340,618	-	-	-	8,340,618
Contributions from property owners	-	-	5,296,638		5,296,638
Other revenue	384,288	-	25,000	91,698	500,986
Total revenues	17,254,673	102,095	5,385,850	100,293	22,842,911
Expenditures:					
Current:					
General government	2,247	465,905	32,389	4,015	504,556
Public safety	194,858	-	-	-	194,858
Public works and facilities	11,900,262	-	16	-	11,900,278
Urban redevelopment and housing	377,889	-	-	-	377,889
Debt service:					
Principal retirement	-	270,000	-	-	270,000
Interest	53,100	600,450	314,500	-	968,050
Capital outlay	1,048,024	-	8,839	-	1,056,863
Total expenditures	13,576,380	1,336,355	355,744	4,015	15,272,494
Excess (deficiency) of revenues over (under) expenditures	3,678,293	(1,234,260)	5,030,106	96,278	7,570,417
Other financing sources (uses):					
Bond proceeds	2,370,000	8,720,000	-	-	11,090,000
Bond issuance costs	(101,215)	(311,573)	-	-	(412,788)
Bond discounts	(23,700)	(10,829)	-	-	(34,529)
Operating transfers in	-	715,494	-	-	715,494
Operating transfers out	(148,455)	(1,542,019)	-	-	(1,690,474)
Total other financing sources (uses)	2,096,630	7,571,073	-	-	9,667,703
Net change in fund balance	5,774,923	6,336,813	5,030,106	96,278	17,238,120
Fund balances, July 1, 2004	12,330,322	(1,021,885)	81,726	303,379	11,693,542
Prior period adjustment	(587,064)	1,948,917	120	-	1,361,973
Fund balances, June 30, 2005	$ 17,518,181	$ 7,263,845	$ 5,111,952	$ 399,657	$ 30,293,635

CITY OF LINCOLN
California

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
June 30, 2005

	Park In-Lieu Fund	Gas Tax Fund	Transportation Fund	Supplemental Fees Fund	Park & Rec Tax Fund
Assets					
Deposits and investments with City Treasury	$ 2,971,702	$ -	$ -	$ 4,524,191	$ 1,213,590
Receivables:					
Interest receivable	787	-	-	1,197	321
Accounts receivable	-	13,928	-	-	-
Taxes receivable	-	-	-	-	-
Advances to other funds	-	-	-	-	-
Restricted assets:					
Cash with fiscal agents	-	-	-	-	-
Notes receivable	-	-	-	-	-
Total Assets	$ 2,972,489	$ 13,928	$ -	$ 4,525,388	$ 1,213,911
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued expenses	$ -	$ 49,416	$ 7,319	$ -	$ 65,103
Due to other funds	-	746,363	477,168	-	-
Deferred revenues	-	-	-	2,022,150	541,314
Advances from other funds	2,531,789	-	-	-	-
Deposits	-	-	-	-	-
Total Liabilities	2,531,789	795,779	484,487	2,022,150	606,417
Fund balances:					
Reserved for:					
Capital projects	-	-	-	-	-
Long-term receivables	-	-	-	-	-
Low/moderate income housing	-	-	-	-	-
Debt service	-	-	-	-	-
Unreserved	440,700	(781,851)	(484,487)	2,503,238	607,494
Total Fund Balances	440,700	(781,851)	(484,487)	2,503,238	607,494
Total Liabilities and Fund Balances	$ 2,972,489	$ 13,928	$ -	$ 4,525,388	$ 1,213,911

CITY OF LINCOLN
California

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
June 30, 2005

	Development Service Fund	Police Grants Fund	Development Block Grants Fund	Investment Partnership Program Fund	Special Districts Fund
Assets					
Deposits and investments with City Treasury	$ 6,119,659	$ 51,267	$ 570,447	$ 190,824	$ 760,525
Receivables:					
Interest receivable	1,761	37	163	67	201
Accounts receivable	1,562,767	-	124,643	43,217	-
Taxes receivable	-	-	-	-	41,662
Advances to other funds	3,311,528	-	-	-	-
Restricted assets:					
Cash with fiscal agents	-	-	-	-	-
Notes receivable	-	-	491,233	756,752	-
Total Assets	$ 10,995,715	$ 51,304	$ 1,186,486	$ 990,860	$ 802,388
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued expenses	$ 3,457,571	$ 9,282	$ 240,875	$ 19,833	$ 32,445
Due to other funds	170,411	98,852	-	-	-
Deferred revenues	150,000	-	-	-	-
Advances from other funds	-	-	-	-	-
Deposits	393,898	-	-	-	-
Total Liabilities	4,171,880	108,134	240,875	19,833	32,445
Fund balances:					
Reserved for:					
Capital projects	-	-	-	-	-
Long-term receivables	-	-	520,385	756,752	-
Low/moderate income housing	-	-	-	-	-
Debt service	-	-	-	-	-
Unreserved	6,823,835	(56,830)	425,226	214,275	769,943
Total Fund Balances	6,823,835	(56,830)	945,611	971,027	769,943
Total Liabilities and Fund Balances	$ 10,995,715	$ 51,304	$ 1,186,486	$ 990,860	$ 802,388

CITY OF LINCOLN
California

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
June 30, 2005

	Low/Moderate Income Housing Fund	Other Special Revenue Funds	Total
Assets			
Deposits and investments with City Treasury	$ 2,947,160	$ 2,667,585	$ 22,016,950
Receivables:			
Interest receivable	781	743	6,058
Accounts receivable	-	-	1,744,555
Taxes receivable	18,545	-	60,207
Advances to other funds	-	-	3,311,528
Restricted assets:			
Cash with fiscal agents	173,822	-	173,822
Notes receivable	-	183,106	1,431,091
Total Assets	$ 3,140,308	$ 2,851,434	$ 28,744,211
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and accrued expenses	$ -	$ 141,802	$ 4,023,646
Due to other funds	-	-	1,492,794
Deferred revenues	-	-	2,713,464
Advances from other funds	-	-	2,531,789
Deposits	-	70,439	464,337
Total Liabilities	-	212,241	11,226,030
Fund balances:			
Reserved for:			
Capital projects	3,561	-	3,561
Long-term receivables	-	183,106	1,460,243
Low/moderate income housing	3,140,308	-	3,140,308
Debt service	170,261	-	170,261
Unreserved	(173,822)	2,456,087	12,743,808
Total Fund Balances	3,140,308	2,639,193	17,518,181
Total Liabilities and Fund Balances	$ 3,140,308	$ 2,851,434	$ 28,744,211

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CITY OF LINCOLN
California

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
Year Ended June 30, 2005

	Park In-Lieu Fund	Gas Tax Fund	Transportation Fund	Supplemental Fees Fund	Park & Rec Tax Fund
Revenues:					
Taxes and assessments	$ -	$ 458,299	$ -	$ -	$ 507,856
Licenses and permits	-	-	-	-	-
Interest and investment income	67,120	-	2	79,299	27,893
Intergovernmental revenue	-	-	-	-	142,800
Charges for services	295,244	-	-	532,925	-
Other revenue	-	45,764	610	-	-
Total revenues	362,364	504,063	612	612,224	678,549
Expenditures:					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works and facilities	-	888,957	234,638	-	19,235
Urban redevelopment and housing	-	-	-	-	-
Debt service:					
Interest	-	-	-	-	-
Capital outlay	-	92,870	100,899	-	724,103
Total expenditures	-	981,827	335,537	-	743,338
Excess (deficiency) of revenues over (under) expenditures	362,364	(477,764)	(334,925)	612,224	(64,789)
Other financing sources (uses):					
Bond proceeds	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Bond discounts	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	362,364	(477,764)	(334,925)	612,224	(64,789)
Fund balances, July 1, 2004	78,336	(327,954)	(149,562)	1,895,161	864,494
Prior period adjustment	-	23,867	-	(4,147)	(192,211)
Fund balances, June 30, 2005	$ 440,700	$ (781,851)	$ (484,487)	$ 2,503,238	$ 607,494

CITY OF LINCOLN
California

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
Year Ended June 30, 2005

	Development Service Fund	Police Grants Fund	Community Development Block Grants Fund	HOME Investment Partnership Program Fund	Special Districts Fund
Revenues:					
Taxes and assessments	$ -	$ -	$ -	$ -	$ -
Licenses and permits	5,361,029	-	-	-	-
Interest and investment income	157,251	3,749	112,515	10,383	11,139
Intergovernmental revenue	7,000	326,204	493,643	326,715	-
Charges for services	4,659,650	-	-	-	966,270
Other revenue	13,842	-	324,072	-	-
Total revenues	10,198,772	329,953	930,230	337,098	977,409
Expenditures:					
Current:					
General government	-	-	-	-	-
Public safety	-	194,858	-	-	-
Public works and facilities	10,160,640	12,620	-	-	584,172
Urban redevelopment and housing	-	-	355,165	22,467	-
Debt service:					
Interest	-	-	-	-	-
Capital outlay	19,219	84,908	-	-	22,125
Total expenditures	10,179,859	292,386	355,165	22,467	606,297
Excess (deficiency) of revenues over (under) expenditures	18,913	37,567	575,065	314,631	371,112
Other financing sources (uses):					
Bond proceeds	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Bond discounts	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	18,913	37,567	575,065	314,631	371,112
Fund balances, July 1, 2004	7,043,536	(90,664)	445,554	754,859	397,586
Prior period adjustment	(238,614)	(3,733)	(75,008)	(98,463)	1,245
Fund balances, June 30, 2005	$ 6,823,835	$ (56,830)	$ 945,611	$ 971,027	$ 769,943

CITY OF LINCOLN
California

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
Year Ended June 30, 2005

	Low/Moderate Income Housing Fund	Other Special Revenue Funds	Total
Revenues:			
Taxes and assessments	$ 336,778	$ 7,949	$ 1,310,882
Licenses and permits	-	-	5,361,029
Interest and investment income	46,478	45,665	561,494
Intergovernmental revenue	-	-	1,296,362
Charges for services	-	1,886,529	8,340,618
Other revenue	-	-	384,288
Total revenues	383,256	1,940,143	17,254,673
Expenditures:			
Current:			
General government	-	2,247	2,247
Public safety	-	-	194,858
Public works and facilities	-	-	11,900,262
Urban redevelopment and housing	257	-	377,889
Debt service:			
Interest	53,100	-	53,100
Capital outlay	-	3,900	1,048,024
Total expenditures	53,357	6,147	13,576,380
Excess (deficiency) of revenues over (under) expenditures	329,899	1,933,996	3,678,293
Other financing sources (uses):			
Bond proceeds	2,370,000	-	2,370,000
Bond issuance costs	(101,215)	-	(101,215)
Bond discounts	(23,700)	-	(23,700)
Operating transfers out	-	(148,455)	(148,455)
Total other financing sources (uses)	2,245,085	(148,455)	2,096,630
Net change in fund balance	2,574,984	1,785,541	5,774,923
Fund balances, July 1, 2004	565,324	853,652	12,330,322
Prior period adjustment	-	-	(587,064)
Fund balances, June 30, 2005	$ 3,140,308	$ 2,639,193	$ 17,518,181

CITY OF LINCOLN
California

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS FUNDS
June 30, 2005

	Capital Improvement Fund	Highway 65 Funds	Airpark Drive Fund	Foskett Ranch AD2004-3	Total
Assets					
Cash and investments	$ 441,430	$ 2,167	$ -	$ 24,564	$ 468,161
Receivables:					
Interest receivable	117	1	-	7	125
Accounts receivable	-	-	-	-	-
Cash with fiscal agents	-	-	-	5,034,300	5,034,300
Total Assets	$ 441,547	$ 2,168	$ -	$ 5,058,871	$ 5,502,586
Liabilities and Fund Balances					
Liabilities:					
Due to other funds	$ -	$ 390,634	$ -	$ -	$ 390,634
Total Liabilities	-	390,634	-	-	390,634
Fund balances:					
Reserved for:					
Capital projects	-	-	-	5,034,300	5,034,300
Unreserved	441,547	(388,466)	-	24,571	77,652
Total Fund Balances	441,547	(388,466)	-	5,058,871	5,111,952
Total Liabilities and Fund Balances	$ 441,547	$ 2,168	$ -	$ 5,058,871	$ 5,502,586

CITY OF LINCOLN
California

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS FUNDS
Year Ended June 30, 2005

	Capital Improvement Fund	Highway 65 Funds	Airpark Drive Fund	Foskett Ranch AD2004-3	Total
Revenues:					
Interest and investment income	$ 11,149	$ 52	$ -	$ 52,771	$ 63,972
Intergovernmental revenue	240	-	-	-	240
Contributions from property owners	-	-	-	5,296,638	5,296,638
Other revenue	-	-	-	25,000	25,000
Total revenues	11,389	52	-	5,374,409	5,385,850
Expenditures:					
Current:					
General government	31,288	-	-	1,101	32,389
Public works and facilities	16	-	-	-	16
Interest	-	-	-	314,500	314,500
Capital outlay	8,839	-	-	-	8,839
Total expenditures	40,143	-	-	315,601	355,744
Net change in fund balance	(28,754)	52	-	5,058,808	5,030,106
Fund balances, July 1, 2004	470,301	(388,518)	(57)	-	81,726
Prior period adjustment	-	-	57	63	120
Fund balances, June 30, 2005	$ 441,547	$ (388,466)	$ -	$ 5,058,871	$ 5,111,952

CITY OF LINCOLN
California

COMBINING BALANCE SHEET
PERMANENT FUNDS
June 30, 2005

	Markham Ravine Trust	Stormwater Retention Maint.	Suncal Open Space	Sterling Point
Assets				
Cash and investments	$ 131	$ 27,425	$ 232,032	$ 51,179
Receivable:				
Interest receivable	-	7	62	13
Total Assets	$ 131	$ 27,432	$ 232,094	$ 51,192
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued expenses	$ 39	$ -	$ -	$ -
Total Liabilities	39	-	-	-
Fund balances:				
Unreserved	92	27,432	232,094	51,192
Total Fund Balances	92	27,432	232,094	51,192
Total Liabilities and Fund Balances	$ 131	$ 27,432	$ 232,094	$ 51,192

CITY OF LINCOLN
California

COMBINING BALANCE SHEET
PERMANENT FUNDS
June 30, 2005

	3-D South Wetland Presv Endowment	Brookview Open Space Maint Trust	WWTRF Tertiary Storage Basins Maint Trust	Total
Assets				
Cash and investments	$ 22,986	$ 15,232	$ 50,610	$ 399,595
Receivable:				
Interest receivable	6	-	13	101
Total Assets	$ 22,992	$ 15,232	$ 50,623	$ 399,696
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued expenses	$ -	$ -	$ -	$ 39
Total Liabilities	-	-	-	39
Fund balances:				
Unreserved	22,992	15,232	50,623	399,657
Total Fund Balances	22,992	15,232	50,623	399,657
Total Liabilities and Fund Balances	$ 22,992	$ 15,232	$ 50,623	$ 399,696

CITY OF LINCOLN
California

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES PERMANENT FUNDS
Year Ended June 30, 2005

	Markham Ravine Trust	Stormwater Retention Maint.	Suncal Open Space	Sterling Point
Revenues:				
Interest and investment income	$ 8	$ 666	$ 5,634	$ 1,242
Other revenue	3,896	-	-	-
Total revenues	3,904	666	5,634	1,242
Expenditures:				
Current:				
General government	4,015	-	-	-
Total expenditures	4,015	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(111)	666	5,634	1,242
Net change in fund balance	(111)	666	5,634	1,242
Fund balances, July 1, 2004	203	26,766	226,460	49,950
Fund balances, June 30, 2005	$ 92	$ 27,432	$ 232,094	$ 51,192

CITY OF LINCOLN
California

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
PERMANENT FUNDS
Year Ended June 30, 2005

	3-D South Wetland Presv Endowment	Brookview Open Space Maint Trust	WWTRF Tertiary Storage Basins Maint Trust	Total
Revenues:				
Interest and investment income	$ 190	$ 232	$ 623	$ 8,595
Other revenue	22,802	15,000	50,000	91,698
Total revenues	22,992	15,232	50,623	100,293
Expenditures:				
Current:				
General government	-	-	-	4,015
Total expenditures	-	-	-	4,015
Excess (deficiency) of revenues over (under) expenditures	22,992	15,232	50,623	96,278
Net change in fund balance	22,992	15,232	50,623	96,278
Fund balances, July 1, 2004	-	-	-	303,379
Fund balances, June 30, 2005	$ 22,992	$ 15,232	$ 50,623	$ 399,657

CITY OF LINCOLN
California

DESCRIPTION OF FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

Solid Waste Fund

Accounts for the activities of the Solid Waste Operating and Non-Operating Funds of the City of Lincoln's Public Works Department. Activities include accounting for the City of Lincoln residents' solid waste (garbage) services.

Transit Fund

Accounts for the activities of the City of Lincoln's transit services. The City of Lincoln provides fixed route and demand-response public transit services to its residents.

Airport Fund

Accounts for the activities of the publicly-owned Lincoln Regional Airport. The Airport was established in 1947 as a regional center for general and corporate aviation.

CITY OF LINCOLN
California

COMBINING STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
June 30, 2005

	Solid Waste Fund	Transit Fund	Airport Fund	Total
Assets				
Current assets:				
Cash and investments	$ 5,473,565	$ -	$ 100	$ 5,473,665
Receivables:				
Interest receivable	1,435	-	-	1,435
Accounts receivable	390,088	5,936	119,489	515,513
Taxes receivable	-	-	7,555	7,555
Due from other funds	2,111	-	1,807	3,918
Inventory	-	-	27,376	27,376
Total Current Assets	5,867,199	5,936	156,327	6,029,462
Noncurrent assets:				
Capital assets:				
Not being depreciated:				
Land	10	-	1,549,380	1,549,390
Construction in progress	-	-	424,362	424,362
Being depreciated:				
Facilities, net of depreciation	-	38,715	3,785,178	3,823,893
Equipment, net of depreciation	1,110,743	25,790	15,542	1,152,075
Total Noncurrent Assets	1,110,753	64,505	5,774,462	6,949,720
Total Assets	$ 6,977,952	$ 70,441	$ 5,930,789	$ 12,979,182

CITY OF LINCOLN
California

COMBINING STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
June 30, 2005

	Solid Waste Fund	Transit Fund	Airport Fund	Total
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	$ 203,017	$ 20,248	$ 296,894	$ 520,159
Interest payable	-	-	70	70
Due to other funds	-	388,751	1,074,846	1,463,597
Deferred revenues	1,406,172	-	-	1,406,172
Compensated absences	2,719	896	3,936	7,551
Total Current Liabilities	1,611,908	409,895	1,375,746	3,397,549
Noncurrent liabilities:				
Deposits	-	-	5,090	5,090
Compensated absences	19,440	6,406	28,139	53,985
Advances from other funds	-	-	190,000	190,000
Total Noncurrent Liabilities	19,440	6,406	223,229	249,075
Total Liabilities	1,631,348	416,301	1,598,975	3,646,624
Net Assets				
Invested in capital assets, net of related debt	1,110,753	64,505	5,774,462	6,949,720
Unrestricted	4,235,851	(410,365)	(1,442,648)	2,382,838
Total Net Assets	$ 5,346,604	$ (345,860)	$ 4,331,814	$ 9,332,558

CITY OF LINCOLN
California

COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS ENTERPRISE FUNDS
Year Ended June 30, 2005

	Solid Waste Fund	Transit Fund	Airport Fund	Total
Operating revenues:				
Charges for services	$ 2,881,955	$ 44,724	$ 1,268,052	$ 4,194,731
Total operating revenues	2,881,955	44,724	1,268,052	4,194,731
Operating expenses:				
Salaries and benefits	585,745	328,476	116,270	1,030,491
General service and supplies	1,861,255	169,917	796,355	2,827,527
Support service	394,289	26,860	135,394	556,543
Depreciation ad amortization	112,736	14,859	238,035	365,630
Total operating expenses	2,954,025	540,112	1,286,054	4,780,191
Operating income (loss)	(72,070)	(495,388)	(18,002)	(585,460)
Non-operating revenue (expenses):				
Connection fees	1,425,470	-	-	1,425,470
Taxes	-	242,826	83,167	325,993
Interest and investment income	99,323	-	-	99,323
Interest expense	-	-	(13,585)	(13,585)
Intergovernmental revenue	170,696	-	95,154	265,850
Miscellaneous	749	506	200	1,455
Total non-operating revenues (expenses)	1,696,238	243,332	164,936	2,104,506
Income (loss) before transfers	1,624,168	(252,056)	146,934	1,519,046
Changes in net assets	1,624,168	(252,056)	146,934	1,519,046
Net assets, July 1, 2004	3,672,498	(93,804)	4,216,673	7,795,367
Prior period adjustment	49,938	-	(31,793)	18,145
Net assets, June 30, 2005	$ 5,346,604	$ (345,860)	$ 4,331,814	$ 9,332,558

CITY OF LINCOLN
California

COMBINING STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
Year Ended June 30, 2005

	Solid Waste Fund	Transit Fund	Airport Fund	Total
Cash flow from operating activities:				
Cash received from customers	$ 2,777,906	$ 350,164	$ 1,269,826	$ 4,397,896
Cash paid to employees for services	(609,207)	(327,904)	(114,571)	(1,051,682)
Cash paid to suppliers for goods and services	(1,929,953)	(170,008)	(566,245)	(2,666,206)
Other operating cash receipts (payments)	(394,289)	(26,860)	(135,394)	(556,543)
Net cash provided (used) by operating activities	(155,543)	(174,608)	453,616	123,465
Cash flow from non-capital financing activities:				
Prior period adjustments	$ (20,049)	$ -	$ (123,600)	$ (143,649)
Cash received for connection fees	1,425,470	-	-	1,425,470
Cash received for taxes	-	242,826	77,342	320,168
Operating transfers in	-	-	-	-
Operating transfers out	(2,111)	-	-	(2,111)
Due from other funds	2,111	-	-	2,111
Due to other funds	-	(68,724)	(44,568)	(113,292)
Advances to other funds	-	-	-	-
Advances from other funds	-	-	(45,000)	(45,000)
Due from other governmental agencies	1,406,172	-	-	1,406,172
Due to other governmental agencies	749	-	(166,245)	(165,496)
Other receipts (payments)	170,696	506	200	171,402
Cash received from grants	-	-	95,154	95,154
Net cash provided (used) by non-capital financing activities	2,983,038	174,608	(206,717)	2,950,929
Cash flow from capital and related financing activities:				
Acquisition of capital assets	(342,593)	-	(220,959)	(563,552)
Disposition of capital assets	-	-	-	-
Principal paid on long-term debt	-	-	(14,162)	(14,162)
Interest paid on long-term debt	-	-	(13,585)	(13,585)
Net cash provided (used) by capital and related financing activities	(342,593)	-	(248,706)	(591,299)
Cash flow from investing activities:				
Interest income	98,160	-	-	98,160
Net cash provided (used) by investing activities	98,160	-	-	98,160
Net increase (decrease) in cash	2,583,062	-	(1,807)	2,581,255
Cash and cash equivalents at, July 1, 2004	2,890,503	-	1,907	2,892,410
Cash and cash equivalents at, June 30, 2005	$ 5,473,565	$ -	$ 100	$ 5,473,665

CITY OF LINCOLN
California

COMBINING STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
Year Ended June 30, 2005

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

	Business-Type Activities: Enterprise Funds			
	Solid Waste Fund	Transit Fund	Airport Fund	Total
Operating income (loss)	$ (72,070)	$ (495,388)	$ (18,002)	$ (585,460)
Adjustments to reconcile operating income (loss) to net cash used by operating activities				
Depreciation and amortization	112,736	14,859	238,035	365,630
Change in assets and liabilities				
Decrease (increase) in receivables	(104,049)	305,440	1,614	203,005
Decrease (increase) in prepaid costs	-	-	3,541	3,541
Decrease (increase) in inventory	-	-	(13,208)	(13,208)
Increase (decrease) in accounts payable and accrued liabilities	(68,698)	(91)	239,777	170,988
Increase (decrease) in deposits	-	-	160	160
Increase (decrease) in compensated absences	(23,462)	572	1,699	(21,191)
Net cash provided (used) by operating activities	$ (155,543)	$ (174,608)	$ 453,616	$ 123,465

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DESCRIPTION OF FUNDS

Agency Funds are custodial in nature and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time.

Little League Fund
Accounts for monies held as agent for Little League activities.

Payroll Asset Fund
Accounts for monies held for payroll charges including federal, state, and other payroll-related deductions.

Series 1999 (95-1) Special Assessment District
Accounts for the monies held from the Twelve Bridges Limited Obligation Revenue Bonds Series 1999 for improvements within the assessment district. Monies are received from special tax assessments. These bonds are not a liability of the City.

Series 2001 (95-2) Special Assessment District
Accounts for the monies held from the Twelve Bridges Limited Obligation Revenue Bonds held to finance the construction/acquisition of public improvements within the assessment district. Monies are received from special tax assessments. These bonds are not a liability of the City.

Series 2003-1 Special Assessment District
Accounts for the monies held from the Special Tax Bonds for improvements within the Lincoln Crossing Assessment District. Monies are received from special tax assessments. These bonds are not a liability of the City.

Series 2004-1 Special Assessment District
Accounts for the monies held from the Special Tax Bonds for improvements within the Lincoln Crossing Assessment District. Monies are received from special tax assessments. These bonds are not a liability of the City.

Lincoln Bond: 98-1
Community Facilities District No. 1998-1 Special Tax Bonds to finance the acquisition of public improvements to property within the community facilities district and finance wetland mitigation measures. Revenue received from property tax assessment. These bonds are not a liability of the City.

SCIP 2003A Assessment District
Accounts for monies held for the Statewide Community Infrastructure Program Revenue Bonds. These are tax exempt bonds that are not a liability of the City.

SCIP 2004A Assessment District
Accounts for monies held for the Statewide Community Infrastructure Program Revenue Bonds. These are tax exempt bonds that are not a liability of the City.

Foskett Ranch Assessment District
Accounts for the monies held from the Limited Obligation Revenue Bonds held to finance the construction/acquisition of public improvements within the assessment district. Monies are received from special tax assessments. These bonds are not a liability of the City.

CITY OF LINCOLN
California

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2005

	Little League	Payroll Asset Fund	Series 1999 (95-1) Assessment District	Series 2001 (95-2) Assessment District	Series 2003-1 Assessment District
Assets					
Cash and investments	$ 39,221	$ 7,846	$ 3,174,490	$ 1,278,741	3,078,944
Receivables:					
Interest receivable	10	-	839	339	592
Accounts receivable	-	-	-	-	33,395
Special assessment receivable	-	-	46,692	14,516	-
Restricted assets:					
Cash with fiscal agents	-	-	3,754,076	1,147,693	2,900,371
Total Assets	39,231	7,846	6,976,097	2,441,289	6,013,302
Liabilities					
Accounts payable and accrued liabilities	-	7,846	4,785	248,759	-
Agency obligations	39,231	-	-	-	-
Due to property owners	-	-	6,971,312	2,192,530	6,013,302
Total Liabilities	39,231	7,846	6,976,097	2,441,289	6,013,302
Net Assets	$ -	$ -	$ -	$ -	$ -

CITY OF LINCOLN
California

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2005

	Series 2004-1 Assessment District	Lincoln Bond 98-1	SCIP 2003A Assessment District	SCIP 2004A Assessment District	Foskett Ranch AD2004-3	Total
Assets						
Cash and investments	$ -	$ 332,217	$ -	$ -	$ 88,496	$ 7,999,955
Receivables:						
Interest receivable	-	92	-	-	23	1,895
Accounts receivable	-	16,377	-	-	-	49,772
Special assessment receivable	-	-	-	-	-	61,208
Restricted assets:						
Cash with fiscal agents	6,983,107	457,274	524,486	657,212	612,252	17,036,471
Total Assets	6,983,107	805,960	524,486	657,212	700,771	25,149,301
Liabilities						
Accounts payable and accrued liabilities	-	-	-	-	1,562	262,952
Agency obligations	-	-	-	-	-	39,231
Due to property owners	6,983,107	805,960	524,486	657,212	699,209	24,847,118
Total Liabilities	6,983,107	805,960	524,486	657,212	700,771	25,149,301
Net Assets	$ -	$ -	$ -	$ -	$ -	$ -

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ADDITIONAL INFORMATION

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PRICE
PAIGE&
COMPANY
ACCOUNTANCY CORPORATION

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

To the Honorable Mayor and
Member of the City Council
City of Lincoln, 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 Lincoln, California, as of and for the year ended June 30, 2005, which collectively comprise the City of Lincoln, California's basic financial statements and have issued our report thereon dated November 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lincoln, California's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Lincoln, California's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying schedule of findings and questioned cost as items 05-1, 05-2, 05-3, 05-4, 05-7 and 05-8.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions, described above, we consider items 05-3 and 05-4 to be material weaknesses.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lincoln, California's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as item 05-5, 05-6, 05-7, 05-8, and 05-9.

This report is intended solely for the information and use of the audit committee, management, City Council, and federal awarding agencies, and is not intended to be and should not be and should not be used by anyone other than these specified parties.

Price Paige & Company

Clovis, California
November 14, 2005

PRICE
PAIGE&
COMPANY
ACCOUNTANCY CORPORATION

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and
Member of the City Council
City of Lincoln, California

Compliance

We have audited the compliance of the City of Lincoln, California, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The City of Lincoln, California's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Lincoln's management. Our responsibility is to express an opinion on the City of Lincoln, California's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States of America; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Lincoln, California's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Lincoln, California's compliance with those requirements.

In our opinion, the City of Lincoln, California complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 05-6, 05-7, 05-8 and 05-9.

Internal Control Over Compliance

The management of the City of Lincoln, California is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Lincoln, California's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with *OMB Circular A-133.*

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We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect City of Lincoln, California's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 05-6 and 05-7.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the audit committee, management, the City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Price Paige & Company

Clovis, California
November 14, 2005

CITY OF LINCOLN
California

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2005

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed Through Dept. of Housing and Community Development			
Community Development Block Grants	14.228	02-STBG-1708	$ 68,979
Community Development Block Grants	14.228	03-STBG-1831	456,801
Community Development Block Grants	14.228	04-STBG-1906	14,186
HOME-Investment Partnerships Program	14.239	01-HOME-0521	210,140
HOME-Investment Partnerships Program	14.239	02-HOME-0645	1,427
HOME-Investment Partnerships Program	14.239	03-HOME-0694	19,640
Total Passed Through Dept. of Housing and Community Development			771,173
Total U.S. Department of Housing and Urban Development			771,173
U.S. DEPARTMENT OF TRANSPORTATION			
Passed Through Department of Transporation - Federal Aviation Administration			
Airport Improvement Program	20.106	DTFA08-01-C-31096	16,746
Airport Improvement Program	20.106	DTFA08-02-C-31316	34,500
Airport Improvement Program	20.106	DTFA08-02-C-31387	7,073
Passed Through Department of Transporation			
Highway Planning and Construction	20.205	ACSTPL-5089(004)	446,183
Passed Through Office of Traffic Safety			
Highway Planning and Construction	20.205	PT0417	12,620
Total U.S. Department of Transportation			517,122
U.S. DEPARTMENT OF JUSTICE			
Direct Program			
COPS In School Award	16.710	2001SHWX0205	17,765
Universal COPS Grant	16.710	1996UMWX1288	38,514
Total U.S. Department of Justice			56,279
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,344,574

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2005

NOTE 1 – Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Lincoln, California and is presented on the modified accrued basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

CITY OF LINCOLN
California

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2005

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	X yes	___ no
Reportable condition(s) identified - not considered to be material weaknesses?	X yes	___ none reported
Noncompliance material to financial statements noted?	___ yes	X no

FEDERAL AWARDS

Internal control over major programs:		
Material weakness(es) identified?	X yes	___ no
Reportable condition(s) identified - not considered to be material weaknesses?	X yes	___ none reported
Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	X yes	___ no

IDENTIFICATION OF MAJOR PROGRAMS

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Community Development Block Grants/State's Program
20.205	Highway Planning and Construction (Federal Aid Highway Program)

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
Auditee qualified as low-risk auditee?	___ yes	X no

CITY OF LINCOLN
California

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2005

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 05-1

During our audit, we noted that the City did not properly record building permit revenues to the individual funds in both the current and previous years. Significant amounts of building permit revenues were adjusted to the correct funds as prior period adjustments during the current year. Revenue coding to transaction should be reviewed on a monthly basis to identify any significant discrepancies or other unusual amounts.

Recommendation

We recommend the Finance and Administrative Assistant Director review revenue coding to transaction on a monthly basis to identify any significant discrepancies or other unusual amounts.

Finding 05-2

During our review of payroll, we noted that the City did not properly accrue the workers compensation liability through the payroll system. This resulted in an understatement of expenses for the year of approximately $110 thousand dollars. All payroll liability accounts should be reviewed on a monthly basis to identify any significant discrepancies or other unusual amounts.

Recommendation

We recommend the Finance and Administrative Assistant Director review all payroll liability accounts on a monthly basis to identify any significant discrepancies or other unusual amounts

Finding 05-3

During our audit we found that numerous debt transactions within the special assessment districts' were accounted for improperly as follows: 1) Property tax collections for some of these districts were improperly accounted for as revenue within the governmental fund types. Generally accepted accounting principles require that these collections be accounted for within an agency fund. 2) Debt service payments were inappropriately charged to a debt service fund instead of an appropriate agency fund as required by generally accepted accounting principles. 3) The City reported special assessment debt that had no governmental commitment as City debt within their financial statements. Generally accepted accounting principles are clear that special assessment debt that has no governmental commitment should not be reported as debt of the City but should only be disclosed in the footnotes to the financial statements.

Recommendation

We recommend that the Finance and Administrative Service Department set up schedules to keep track of activities for each special assessment district during the year. In addition, the Finance and Administrative Service Department should go back to previous records to identify the transactions which are not accounted for properly and then proper adjustments should be made. Also, we recommend that the City provide training and supervision to the accountants who are responsible for the special assessment districts' accounting.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding 05-4

During our audit, we noted a significant amount of non-standard journal entries were made during the year to correct errors which were in previous transactions or journal entries.

Recommendation

We recommend the Finance and Administrative Assistant Director review journal entries prepared by the accountants before entering into the accounting system. By doing so, it will minimize the number of journal entries needed to be made to correct previous journal entries.

Finding 05-5

During the audit, we noted that the Conflict of Interest Code does not address or establish parameters that define financial interest in real property, investments, and other business income sources or position.

Recommendation

We recommend the City include the parameters that define financial interest in real property, investments, and other business income sources or position in the Conflict of Interest Code.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 05-6

During the audit, we noted that Public Works Department has applied and received a federal grant award from the State, but did not notify the Finance and Administrative Service Department regarding the grant award. Due to the absence of communication, the City understated grants receivable of $1.5 Million in fiscal year 2004. In addition, a single audit was not performed in fiscal year 2004 due to the City's Finance and Administrative Service Department not having knowledge of the grant award.

Recommendation

We recommend that departments, which have applied for and received grants, should notify the Finance and Administrative Service Department of the application and award of any grants. In addition, a department should provide a copy of the grant award agreement, and related grant information and reports which are submitted for reimbursement to the Finance and Administrative Service Department. This will allow the Finance and Administrative Service Department to be a participant in all of the City's financial transactions and will insure that all transactions are properly recorded in the City's financial records in the accounting period in which they occurred.

Questioned Costs

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding 05-7

In our testing of compliance requirements related to the 2003 CDBG grant fund, we found that the City had inappropriately recorded approximately $288,000 of grant expenditures in a liability account. As a result, the City's schedule of federal awards expended was incorrect and the calculation of major programs in accordance with the requirements of OMB Circular A-133 was also incorrect.

Recommendation

We recommend that the Finance and Administrative Service Department communicate with the departments responsible for the administration of grants when preparing the schedule of expenditures of federal awards. In addition, the Finance and Administrative Service Department should obtain financial reports from the departments responsible for the administration of grants on a monthly basis.

Questioned Costs

None

Finding 05-8

In our testing of compliance requirements related to the CDBG program income, we found that the City did not properly record program income in the accounting system.

Recommendation

As required by CDBG guidelines, the City should establish and maintain a complete and accurate accounting of all program income activity within their accounting system. Either a separate fund or a separate cost center should be used to properly track all of this activity. This will help ensure that program income is used only for purposes allowed under the regulations and will assist the City in preparing the required annual reports.

Finding 05-9

In our testing of compliance requirements related to the CFDA 14.228 Community Development Block Grants/State's Program (State-Administered Small Cities Program), we found that the City did not submit the Annual Program Income Report for the period ended June 30, 2005 and Quarterly Program Income Reports for the quarters ended September 30, 2004, December 31, 2004 and March 31, 2004 in a timely manner. According to the CDBG grant award agreements, the City is required to submit Quarterly Program Income Report by the end of the month following the quarter ended and the Annual Program Income Report must be submitted by the City by August 15, 2005.

Recommendation

We recommend that management establish policies and procedures to ensure the Annual and Quarterly Program income Reports are submitted to the State in accordance with grantor specifications.

Questioned Costs

None

CITY OF LINCOLN
California

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2005

No findings reported in prior year.

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APPENDIX B

CITY OF LINCOLN ECONOMIC AND DEMOGRAPHIC INFORMATION

The following information is presented as general background data. The Bonds are payable solely from Base Rental Payments made by the City of Lincoln and other sources as described herein. The taxing power of the City of Lincoln, the State of California or any political subdivision thereof is not pledged to the payment of the bonds.

The financial and economic data for the City is presented for information purposes only. The Bonds are not a debt or obligation of the City.

General

The City was founded by miners in 1859 and incorporated on August 7, 1890 as a general law city. The City is located in California's Sacramento Valley, near the foothills of the Sierra Nevada mountains, about 27 miles northeast of Sacramento and 112 miles east of San Francisco.

The City has an average July temperature of 81 degrees and an average January temperature of 46 degrees. The temperature drops below freezing an average of eight days per year. Rainfall averages 22 inches annually and occurs mostly during the winter.

Population

The City's population in 2002 was 16,900. As of January 2006, the City's population was estimated to be 33,589, representing an increase of 99% over the 2002 census figure. The Sacramento Area Council of Governments estimates that the population of the City will reach 47,250 by 2010, but such figure does not account for possible annexations. With annexations, the City's proposed general plan projects that the City's population will ultimately grow to 132,000.

Most of the projected population growth in the City is based on the current and planned development in the communities of Twelve Bridges and Lincoln Crossing. Development at Twelve Bridges began in 1998 and is expected to contain approximately 11,000 housing units, approximately half of which are being constructed by Del Webb as part of its active senior community. As of June 15, 2006, approximately 7,865 housing units have been constructed. The Lincoln Crossing project began development in 2002 and is expected to contain approximately 2,950 residences. As of June 15, 2006, approximately 2,200 residences have been constructed.

The following table summarizes recent population trends for the City, Placer County and the State of California.

CITY OF LINCOLN, COUNTY OF PLACER, AND STATE OF CALIFORNIA
Population

Year	City of Lincoln	Placer County	State of California
2002	16,900	272,000	35,049,000
2003	19,900	283,500	35,612,000
2004	23,413	296,599	36,144,000
2005	27,356	305,675	36,810,358
2006(1)	33,589	316,508	37,172,015

(1) *Source: City of Lincoln.*
Source: State of California, Department of Finance; U.S. Bureau of the Census

Employment

The civilian labor force in the City increased to an annual average of 6,900 in May 2006, up approximately 1.5% from the 2005 average of 6,800. The following table summarizes the labor force, employment and unemployment figures over the past five years for the City, the County, the State of California and the nation as a whole.

CITY OF LINCOLN, COUNTY OF PLACER AND STATE OF CALIFORNIA
Civilian Labor Force, Civilian Employment and Civilian Unemployment
Annual Averages

Year	Area	Civilian Labor Force	Civilian Employment	Civilian Unemployment	Rate
2002	City of Lincoln	6,100	5,600	500	8.9%
	Placer County	146,500	139,600	6,900	4.7%
	California	17,330,700	16,168,200	1,162,500	6.7%
2003	City of Lincoln	6,500	5,900	600	9.0%
	Placer County	153,400	146,000	7,400	4.8%
	California	17,403,900	16,212,600	1,191,300	6.8%
2004	City of Lincoln	6,800	6,200	600	8.4%
	Placer County	159,300	152,200	7,100	4.5%
	California	17,499,600	16,407,900	1,091,700	6.2%
2005	City of Lincoln	6,800	6,300	500	7.5%
	Placer County	162,100	155,700	6,400	4.0%
	California	17,695,600	16,746,900	948,700	5.4%
2006(1)	City of Lincoln	6,900	6,400	500	6.8%
	Placer County	163,000	157,100	5,900	3.6%
	California	17,716,500	16,896,800	819,700	4.6%

(1) Preliminary, as of May 2006.
Source: State of California, Employment Development Department

Sacramento-Arden Arcade-Roseville Metropolitan Statistical Area ("MSA"), which includes the wage and salary employment figures for the past five calendar years within the MSA are shown in the following table. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the City.

SACRAMENTO-ARDEN ARCADE-ROSEVILLE MSA
Industry Employment
Annual Averages, March 2005 Benchmark

	2002	2003	2004	2005	2006[2]
Wage & Salary Employment[1]					
Total, All Industries	839,100	853,500	866,500	887,400	908,400
Total Farm	7,900	7,500	7,400	7,100	7,800
Total Non-Farm	832,200	846,000	859,100	880,300	900,600
Natural Resources & Mining	800	700	700	700	700
Construction	61,300	66,500	70,800	73,300	74,100
Manufacturing	47,000	46,300	47,300	49,000	50,200
Trade, transportation and utilities	140,600	143,100	146,100	149,000	151,200
Wholesale trade	25,600	26,300	26,500	26,800	27,400
Retail trade	92,700	94,900	96,700	98,700	100,100
Finance and insurance	41,300	44,800	45,400	47,000	47,700
Real estate, rental & leasing	13,900	14,600	15,100	16,400	16,600
Professional & business services	96,100	95,800	98,400	102,600	107,500
Educational & health services	78,000	81,000	84,600	87,500	89,100
Government	226,800	226,200	221,600	224,100	229,900

(1) Based on place of work.
(2) Preliminary, as of May 2006.
Source: California Employment Development Department.

Major Employers

In recent years, new employment opportunities have been created in the City and the nearby cities of Roseville and Rocklin. As a result, the area has become more balanced relative to jobs and housing and less economically dependent on employment opportunities and services provided by adjacent Sacramento County. Hewlett-Packard has a large campus in nearby Roseville and Oracle has a large facility in Rocklin. The United Auburn Indian Community opened the Thunder Valley Casino, located between Roseville, Rocklin and the City, in the Summer of 2003. The casino brought over 2,000 new jobs to the area. Other major employers in the area include Western Placer Unified School District, Sierra Pacific Industries, Del Webb/Sun City, Gladding McBean, Horizon Instructional Services and BZ Plumbing.

Effective Buying Income

"Effective Buying Income" is defined as personal income less personal tax and nontax payments, a number often referred to as "disposable" or "after-tax" income. Personal income is the aggregate of wages and salaries, other than labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local, nontax payments, fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. Government definitions, the resultant figure is commonly known as "disposable personal income."

The following table summarizes the Effective Buying Income for Placer County and the State for the period 2000 through 2004.

PLACER COUNTY AND CALIFORNIA
Effective Buying Income

	Total Effective Buying Income[1]	Median Household Effective Buying Income	Percent of Households over $50,000
2000			
Placer County	6,030,354	54,389	54.2%
California	652,190,282	44,464	44.3%
2001			
Placer County	5,833,619	49,427	49.2%
California	650,521,407	43,532	41.9%
2002			
Placer County	6,352,855	50,350	50.4%
California	647,879,427	42,484	40.5%
2003			
Placer County	6,834,353	50,504	50.6%
California	674,721,020	42,924	41.2%
2004			
Placer County	7,318,021	51,455	51.9%
California	705,108,410	43,915	42.5%

[1] Dollars in thousands.
Source: "Survey of Buying Power," Sales & Marketing Management Magazine.

Building Activity

Residential building activity for the past five calendar years for the City is shown in the following tables. While the City is required under the Lease to make Base Rental Payments from any source of legally available funds in each year the City has use and occupancy of the Leased Property, the City currently intends to pay Base Rental Payments from certain amounts in the Public Facility Element Special Revenue Fund of the City, which consists of certain development impact fees collected in connection with new development. See "THE CITY – Development Impact Fee Revenues."

CITY OF LINCOLN
Building Permits, New Residential

	2002	2003	2004	2005	2006[1]
Single Family Units	1,441	1,803	2,100	2,689	476
Multifamily Units	0	80	0	111	104
Total Units	1,441	1883	2,100	2,800	580

[1] Preliminary, as of May 2006.
Source: Construction Industry Research Board.

CITY OF LINCOLN
Building Permit Valuations

	2002	2003	2004	2005	2006[1]
Residential					
New Single Family	$250,069,410	$341,366,342	$457,683,155	$606,874,739	$108,462,655
New Multifamily	0	6,327,787	0	14,773,053	11,962,396
Res. Alt. & Adds	1,121,094	1,178,941	6,515,711	3,894,875	2,129,446
Total Residential	$251,190,504	$348,873,070	$464,198,866	$625,542,667	$122,554,497
Nonresidential					
New Commercial	$ 2,083,659	$ 3,909,707	$ 12,434,822	$ 9,826,082	$ 5,874,137
New Other[2]	2,026,753	3,121,771	5,371,134	36,095,977	5,285,119
Alters. & Adds.	1,395,668	486,932	3,433,328	7,482,357	2,194,063
Total Non-Residential	$ 5,506,080	$ 7,518,410	$ 21,239,284	$53,404,416	$ 13,353,319
Total All Building[3]	$256,696,584	$356,391,480	$485,438,150	$678,947,083	$135,907,816

[1] Preliminary, as of May 2006.
[2] Includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, public works and utilities buildings, residential garages, and miscellaneous nonresidential structures.
[3] Sum of Residential and Nonresidential Building Permit Valuations.
Source: Construction Industry Research Board.

Commercial Activity

Taxable retail sales data for the City for the past five years are shown in the table below.

CITY OF LINCOLN
Taxable Retail Sales
(dollars in thousands)

	Retail Outlets		All Outlets	
Year	Permits	Transactions	Permits	Transactions
2000	88	45,219	248	77,479
2001	112	53,549	289	90,846
2002	123	52,363	341	92,995
2003	146	61,386	392	106,532
2004	191	74,046	479	131,654
2005[1]	--	21,019	--	39,572

[1] As of Second Quarter, 2005. Permit figures not yet available.
Source: State of California, Board of Equalization

Assessed Valuation and Tax Collections

Taxes are levied for each fiscal year on taxable real and personal property which is situated in each city as of the preceding December 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed public utilities property and property the taxes on which are a lien on real property sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of the fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 12% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is sold to the State on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquent penalty, plus a redemption penalty of 5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the County Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on March 31 of the fiscal year. A 12% penalty attaches to the delinquent taxes on property on the unsecured roll, and an additional penalty of 5% per month begins to accrue beginning November 1 of the fiscal year. The taxing authority has four ways of collecting unsecured personal property taxes: (a) a civil action against the taxpayer; (b) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (c) filing a certificate of delinquency for record in the County Recorder's office, in order to obtain a lien on certain property of the taxpayer; and (d) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

The following table summarizes assessed valuation in the City for Fiscal Years 2001-02 through 2005-06.

CITY OF LINCOLN
Assessed Valuations
(in thousands)

Fiscal Year	Secured Value	Public Utility	Unsecured Value	Total Assessed Value
2001-02	$1,192,601,436	$744,641	$36,862,098	$1,230,208,175
2002-03	1,631,878,797	607,666	55,561,535	1,688,047,998
2003-04	2,259,901,395	563,543	61,320,113	2,321,785,051
2004-05	3,031,189,192	640,042	82,783,338	3,114,612,572
2005-06	4,289,856,605	623,600	81,117,909	4,371,598,114

Source: California Municipal Statistics, Inc.

Delinquencies

The table below shows the collection history of the City on levies of secured property taxes from Fiscal Year 2000-01 through Fiscal Year 2003-04. The County of Placer collects property taxes for local governments within the County, such as the City. The County participates in the so-called "Teeter Plan," pursuant to which the County distributes the entire amount of each local government's secured tax levy, irrespective of the level of delinquencies. The County's Teeter Plan does not apply to assessments or special taxes and can be discontinued at any time.

CITY OF LINCOLN
Secured Property Tax Charges and Delinquencies
(in thousands)

Fiscal Year	Secured Tax Charges [1]	Total Delinquencies	Percent Delinquent
2000-01	$13,482,986.70	$135,983.30	1.01%
2001-02	16,645,308.50	131,547.70	0.79
2002-03	23,249,097.32	206,461.46	0.89
2003-04	31,165,954.24	217,922.89	0.70

[1] All taxes collected within the City by the County of Placer.
Source: California Municipal Statistics, Inc.

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Direct and Overlapping Debt

The following table shows the direct and overlapping bonded debt and debt ratios for property within the City as of May 1, 2006.

CITY OF LINCOLN
Direct and Overlapping Debt

2005-06 Assessed Valuation:	\$4,371,598,114
Redevelopment Incremental Valuation:	190,571,619
Adjusted Assessed Valuation:	\$4,181,026,495

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 5/1/06	
Western Placer Unified School District	82.296%	\$ 8,988,603	
Nevada Irrigation District	9.903	367,401	
City of Lincoln Community Facilities Districts	100.	110,975,000	
City of Lincoln 1915 Act Bonds	100.	56,880,000	
California Statewide Communities Development Authority Assessment District No. 04-01	22.172	350,388	
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$177,561,392	
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Placer County General Fund Obligations	9.595%	\$ 2,273,056	
Placer County Office of Education Certificates of Participation	9.595	276,816	
Sierra Joint Community College District Certificates of Participation	7.169	792,891	
Western Placer Unified School District Certificates of Participation	82.296	72,439,497	
City of Lincoln General Fund Obligations	**100.**	**10,015,000**	(1)
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$85,797,260	
COMBINED TOTAL DEBT		\$263,358,652	(2)

(1) Excludes lease revenue bonds to be sold.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2005-06 Assessed Valuation:
Total Overlapping Tax and Assessment Debt..................................4.06%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt (\$10,015,000) 0.24%
Combined Total Debt..6.30%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/05: \$0

Source: California Municipal Statistics, Inc.

Largest Taxpayers

The following table shows the largest taxpayers for Fiscal Year 2005-06.

CITY OF LINCOLN
Largest Local Secured Taxpayers
Fiscal Year 2005-06

	Property Owner	Primary Land Use	2005-06 Assessed Valuation	% of Total (1)
1.	Buzz Oates Enterprises	Industrial	$ 89,495,653	2.09%
2.	Dell Webb California Corporation	Residential Development	83,778,492	1.95
3.	Centex Homes	Residential Development	75,072,068	1.75
4.	Sierra Pacific Industries	Industrial	38,128,729	0.89
5.	Pulte Home Corporation	Residential Development	36,725,000	0.86
6.	JTS Communities, Inc.	Residential Development	36,176,957	0.84
7.	D. R. Horton, Inc. Sacramento	Residential Development	30,075,814	0.70
8.	WL Lincoln 257 Associates LLC	Residential Development	21,352,562	0.50
9.	T V Investment Partners Group	Shopping Center	20,246,000	0.47
10.	Auburn Creek Investors	Residential Development	15,375,859	0.36
11.	Richmond American Homes of CA	Apartments	14,583,947	0.34
12.	Shadowbriar Investments, Inc.	Residential Development	13,973,998	0.33
13.	Acacia Credit Fund 9A LLC	Residential Development	13,367,494	0.31
14.	Safeway, Inc.	Shopping Center	12,903,816	0.30
15.	Beazer Homes Holdings Corp.	Residential Development	12,260,816	0.29
16.	Lincoln Crossing Marketplace LLC	Commercial	11,610,650	0.27
17.	Morrison Homes Inc.	Residential Development	10,631,419	0.25
18.	Asset Seven Corporation	Golf Course	9,227,341	0.22
19.	GHC Twelve Bridges LLC	Vacant	9,200,000	0.21
20.	Sterling & Lincoln Parkway Investors LLC	Commercial	9,174,135	0.21
Total			$563,360,750	13.13%

(1) Fiscal Year 2005-06 Local Secured Assessed Valuation: $4,289,856,605
Source: California Municipal Statistics, Inc.

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS

Certain provisions of the Lease, the Site Lease and the Trust Agreement, not previously discussed in this Official Statement, are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full terms of the documents.

CERTAIN DEFINITIONS

The following are definitions of certain of the terms defined in the Lease or the Trust Agreement, to which reference is hereby made. The following definitions are equally applicable to both the singular and plural forms of the terms defined herein. Capitalized terms not otherwise defined herein will have the meaning assigned to such term in the Trust Agreement or, if not defined therein, in the Lease.

"Act" means the Joint Exercise of Powers Act (being Chapter 5 of Division 7 of Title 1 of the Government Code of the State, as amended) and all laws amendatory thereof or supplemental thereto.

"Additional Payments" means all amounts payable to the Authority or the Trustee or any other person from the City as Additional Payments pursuant to the Lease.

"Bond Insurance Policy" means any policy of financial guaranty insurance insuring the scheduled payment when due of the amounts of principal of and interest on the Bonds and issued by a Bond Insurer.

"Bond Insurer" means any insurance company or companies which has or have issued any Bond Insurance Policy insuring payment of the amounts of principal of and interest on the Bonds or any series or portion thereof, including the Series 2006 Bond Insurer.

"Bonds" means the Series 2006 Bonds and all Additional Bonds. The term "Series 2006 Bonds" means the Lincoln Public Financing Authority Lease Revenue Bonds (City Hall Project), Series 2006 authorized by and at any time Outstanding pursuant to the Trust Agreement and executed, issued and delivered in accordance thereto. The term "Additional Bonds" means all bonds of the Authority authorized by and at any time Outstanding pursuant to the Trust Agreement and executed, issued and delivered in accordance thereto. The term "Serial Bonds" means Bonds for which no sinking fund payments are provided. The term "Term Bonds" means Bonds which are payable in part 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.

"Certificate of Completion" means a Certificate of the City certifying that the Project has been completed, stating the date of such completion and stating that all of the Project Costs thereof and incidental expenses have been determined and paid (or that all of such costs and expenses have been paid less specified claims which are subject to dispute and for which a retention in the Acquisition and Construction Fund is to be maintained in the full amount of such claims until such dispute is resolved).

"Certificate of the Authority" means an instrument in writing signed by the Chairperson of the Authority, the Executive Director of the Authority, the designee of either such officer, or by any other officer of the Authority duly authorized by the Authority for that purpose.

"Certificate of the City" means an instrument in writing signed by the Mayor of the City, City Manager of the City, or by either of such officers' duly appointed designee, or by any other officer of the City duly authorized by the City Council of the City for that purpose.

"Code" means the Internal Revenue Code of 1986.

"Debt Service" means, for any Fiscal Year or other period, the sum of (1) the interest accruing during such Fiscal Year or period on all Outstanding Bonds, assuming that all Outstanding Serial Bonds are retired as scheduled and that all Outstanding Term Bonds are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Bonds), (2) that portion of the principal amount of all Outstanding Serial Bonds maturing on the next succeeding principal payment date that would have accrued during such Fiscal Year or period if such principal amount were deemed to accrue daily in equal amounts from the next preceding principal payment date or during the year preceding the first principal payment date, as the case may be, and (3) that portion of the principal amount of all Outstanding Term Bonds required to be redeemed or paid on the next succeeding redemption date (together with the redemption premiums, if any, thereon) that would have accrued during such Fiscal Year or period if such principal amount (and redemption premiums) were deemed to accrue daily in equal amounts from the next preceding redemption date or during the year preceding the first redemption date, as the case may be.

"Defeasance Obligations" means any of the following:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation);

(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; or

(3) Other investments approved in writing by the Bond Insurer.

"Fiscal Year" means the twelve month period terminating on June 30 of each year, or any other annual accounting period hereafter selected and designated by the Authority as its Fiscal Year in accordance with applicable law.

"Fitch" means Fitch Ratings, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors or assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the services of a municipal securities rating agency, then "Fitch" shall be deemed to refer to any other nationally recognized municipal securities rating agency selected by the City.

"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 or the City;

b. does not have a substantial financial interest, direct or indirect, in the operations of the Authority or the City; and

c. is not connected with the Authority as a member, officer or employee of the Authority or the City, but who may be regularly retained to audit the accounting records of and make reports thereon to the Authority or the City.

"Interest Payment Date" means a date on which interest is due on the Bonds, being February 1 and August 1 of each year to which reference is made, commencing on February 1, 2007.

"Leased Property" means the real property described in the Lease, together with all property subsequently added thereto, or any property substituted for all or any portion of the Leased Property in accordance with the Trust Agreement and the Lease.

"Moody's" means Moody's Investors Service, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

"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

(1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(2) Bonds paid or deemed to have been paid within the meaning of the defeasance section of the Trust Agreement; and

(3) Bonds in lieu of or in substitution for which other Bonds will have been executed, issued and delivered by the Authority pursuant to the Trust Agreement.

"Permitted Encumbrances" means (1) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may, pursuant to the Lease, permit to remain unpaid; (2) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the date hereof and which the City certifies in writing will not materially impair the use of the Leased Property; (3) the Site Lease, as it may be amended from time to time; (4) the Lease, as it may be amended from time to time; (5) the Trust Agreement, as it may be amended from time to time; (6) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (7) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions to which the Authority and the City consent in writing; and (8) liens relating to special assessments levied with respect to the Leased Property.

"Permitted Investments" means any of the following obligations if and to the extent that, at the time of making such investment, they are permitted by applicable law:

(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+" or higher by Standard & Poor's 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" or higher by Moody's and "A-1+" or higher by Standard & Poor's 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 higher by Standard & Poor's, 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 Standard & Poor's 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 interest and principal 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 Standard & Poor's;

(9) Investment agreements approved in writing by the Bond Insurer (supported by appropriate opinions of counsel);

(10) The California Asset Management Program pooled investment fund maintained by PFM Asset Management LLC or any successor thereto, (ii) the Local Agency Investment Fund maintained by the California State Treasurer's Office, or (iii) any other state-administered pool investment fund in which the City is statutorily permitted or required to invest, subject to the Series 2006 Bond Insurer's approval; and

(11) 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.

"Project" means the acquisition of certain real property situated in the City at 600 6th Street and the construction of a new city hall facility thereon and any facilities substituted for the Project or any portion thereof at the discretion of the City in compliance with the Tax Certificate.

"Project Costs" means all costs of acquisition and construction of the Project and of expenses incident thereto (or for making reimbursements to the Authority or the City or any other person, firm or corporation for such costs theretofore paid by him or it), including, but not limited to, architectural and engineering fees and expenses, interest during construction, furnishings and equipment, tests and inspection, surveys, land acquisition, insurance premiums, losses during construction not insured against because of deductible amounts, costs of accounting, feasibility, environmental and other reports, inspection costs, permit fees, filing and recording costs, printing costs, reproduction and binding costs.

"Reserve Fund Requirement" means an amount equal to the least of (i) 10% of the initial offering price of the Bonds to the public, (ii) 125% of the average annual Debt Service on all Outstanding Bonds, or (iii) maximum annual Debt Service on all Outstanding Bonds.

"Revenues" means (i) all Base Rental Payments and other payments paid by the City and received by the Authority pursuant to the Lease (but not Additional Payments), and (ii) all interest or other income from any investment of any money in any fund or account (other than the Rebate Fund) established pursuant to the Trust Agreement or the Lease.

"S&P" means Standard & Poor's Ratings Services, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term S&P shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

"Series," whenever used in the Trust Agreement with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange of or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Trust Agreement.

"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 to the Trust Agreement; but only if and to the extent that such Supplemental Trust Agreement is specifically authorized under the Trust Agreement.

"Tax Certificate" means the Tax Certificate delivered by the Authority at the time of the issuance and delivery of a series of Bonds, as the same may be amended or supplemented in accordance with its terms.

"Written Request of the Authority" means an instrument in writing signed by the Chairperson of the Authority, the Executive Director of the Authority, the designee of either such officer, or by any other officer of the Authority duly authorized by the Authority for that purpose.

"Written Request of the City" means an instrument in writing to the Trustee signed by the Mayor of the City, the City Manager of the City , the designee of either such officer, or by any other officer of the City duly authorized by the City Council of the City to the Trustee for that purpose.

FACILITY LEASE

Lease of Leased Property

The Authority leases to the City and the City leases from the Authority the Leased Property, subject, however, to all easements, encumbrances, and restrictions that exist at the time of the commencement of the term of the Lease. The City agrees and covenants pursuant to the Lease during the term of the Lease that, except as provided therein, it will use the Leased Property for public and City purposes so as to afford the public the benefits contemplated by the Lease.

The leasing by the City to the Authority of the Leased Property shall not effect or result in a merger of the City's leasehold estate pursuant to the Lease and its fee estate as lessor under the Site Lease, and the Authority shall continue to have and hold a leasehold estate in said Leased Property pursuant to the Site Lease throughout the term thereof and the term of the Lease. As to said Leased Property the Lease shall be deemed and constitute a sublease.

Term; Occupancy

The term of the Lease shall commence on the earlier of the date of recordation of the Lease in the office of the County Recorder of Placer County, State of California, or on the date of delivery of the Bonds, and shall end on August 1, 2036, unless such term is extended or sooner terminated as provided in the Lease. If on August 1, 2036, the Bonds shall not be fully paid, or if the rental payable under the Lease shall have been abated at any time and for any reason, then the term of the Lease shall be extended until 10 days after all Bonds shall be fully paid, except that the term of the Lease shall in no event be extended beyond August 1, 2046. If prior to August 1, 2046 all Bonds shall be fully paid, or provision therefor made, the term of the Lease shall end 10 days thereafter or 10 days after written notice by the City to the Authority, whichever is earlier.

The City agrees pursuant to the Lease that it will take possession of and occupy the Leased Property at the commencement of the term of the Lease and that the construction or improvement of the Leased Property will not interfere with the City's use and occupancy thereof.

Purpose of Lease

The City covenants that during the term of the Lease, except as therein provided, (a) it will use, or cause the use of, the Leased Property for public purposes and for the purposes for which the Leased Property is customarily used, (b) it will not vacate or abandon the Leased Property or any part thereof, and (c) it will not make any use of the Leased Property which would jeopardize in any way the insurance coverage required to be maintained pursuant to the Lease.

Substitution

(a) The City and the Authority may, with the written consent of the Bond Insurer, substitute real property as part of the Leased Property for purposes of the Site Lease and the Lease, but only after the City shall have filed with the Authority and the Trustee all of the following:

(i) Executed copies of the Site Lease and the Lease or amendments thereto containing the amended description of the Leased Property, including the legal description of the Leased Property as modified if necessary.

(ii) A Certificate of the City with copies of the Site Lease and the Lease, if needed, or amendments thereto containing the amended description of the Leased Property stating that such documents have been duly recorded in the official records of the County Recorder of Placer County.

(iii) A Certificate of the City, accompanied by a written appraisal, from a qualified appraiser, who may but need not be an employee of the City, evidencing that the annual fair rental value of the Leased Property which will constitute the Leased Property after such substitution will be at least equal to 100% of the maximum annual amount of Base Rental Payments becoming due for the remaining term of the Lease.

(iv) A CLTA leasehold owner's policy or policies or a commitment for such policy or policies or an amendment or endorsement to an existing policy or policies resulting in title insurance with respect to the Leased Property after such substitution in an amount at least equal to the amount of such insurance provided with respect to the Leased Property prior to such substitution; each such insurance instrument, when issued, shall name the Trustee as the insured, and shall insure the leasehold estate of the Authority in such substituted property subject only to such exceptions as do not substantially interfere with the City's right to use and occupy such substituted property and as will not result in an abatement of Base Rental Payments payable by the City under the Lease, as evidenced by a Certificate of the City.

(v) A Certificate of the City stating that (i) the City has beneficial use and occupancy of the Leased Property, (ii) that the essentiality to the City of the Leased Property after such substitution is comparable to its essentiality before the substitution, (iii) the remaining useful life of the Leased Property and (iv) the remaining term of the Bonds.

(vi) An Opinion of Counsel (as such term is defined in the Trust Agreement) stating that such amendment or modification (i) is authorized or permitted by laws of the State and the Lease; (ii) complies with the terms of the Lease; (iii) will, upon the execution and delivery thereof, be valid and binding upon the Authority and the City in accordance with its terms; and (iv) will not cause the interest on the Series 2006 Bonds to be included in gross income for federal income tax purposes.

(b) The Authority shall provide written notification of any substitution to Fitch, S&P and Moody's.

Rental Payments

Base Rental Payments. The City agrees pursuant to the Lease to pay to the Authority, as Base Rental Payments for the use and occupancy of the Leased Property (subject to the provisions of the Lease) semi-annual rental payments, all in accordance with the Base Rental Payment Schedule attached to the Lease and made a part thereof. Although payable in unequal semi-annual installments as set forth in the Lease, Base Rental Payments will be calculated on an annual basis, for the twelve-month periods commencing on August 1 and ending on July 31, except that the first Base Rental Payment period will commence on the date of delivery of the Bonds. Each Base Rental Payment will be payable on the fifteenth (15) day preceding its due date. Each annual amount of Base Rental will be for the use of the Leased Property during each such Base Rental Payment period.

If the term of the Lease will have been extended pursuant the terms thereof, Base Rental Payment installments shall continue to be due and payable 15 days preceding February 1 and August 1 in each year, and payable as hereinabove described, continuing to and including the date of termination of the Lease, in an amount equal to the amount of Base Rental payable for the twelve-month period ending July 31, 2036 and payable fifteen days prior to August 1, 2036.

Additional Payments. The City will also pay such amounts (the "Additional Payments") as will be required by the Authority for the payment of all costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of the Lease or any assignment thereof, the Trust Agreement, the Site Lease, its interest in the Leased Property and the lease of the Leased Property to the City, including but not limited to payment of all fees, costs and expenses and all administrative costs of the Authority related to the Leased Property, including, without limiting the generality of the foregoing, salaries and wages of employees, all expenses, compensation and indemnification of the Trustee payable by the Authority under the Trust Agreement, fees of auditors, accountants, attorneys or architects, and all other necessary administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Bonds or of the Trust Agreement or of the Lease; but not including as Additional Payments amounts required to pay the principal of or interest on the Bonds.

Fair Rental Value

Payments of Base Rental Payments for each rental period during the term of the Lease will constitute the total rental for said rental period and will be paid by the City in each rental payment period for and in consideration of the right of use and occupancy of, and continued quiet use and enjoyment of, the Leased Property during each such period for which said rental is to be paid. The parties to the Lease have agreed and determined that such total rental payable for each twelve-month period beginning August 1 represents no more than the fair rental value of the Leased Property for each such period. In making such determination, consideration has been given to the fair market value of the Leased Property, other obligations of the parties under the Lease, the used and purposes which may be served by the Leased Property, the expected revenues to be generated by the Leased Property, and the benefits therefrom which will accrue to the City and the general public.

Payment Provisions

Each installment of rental payable pursuant to the Lease shall be paid in lawful money of the United States of America to or upon the order of the Authority at the corporate trust office of the Trustee in St. Paul, Minnesota, or such other place as the Trustee shall designate. Any such installment of rental accruing under the Lease which shall not be paid when due and payable under the terms of the Lease shall bear interest at the rate of 12% per annum, or such lesser rate of interest as may be permitted by law, from the date when the same is due under the Lease until the same shall be paid. Notwithstanding any dispute between the Authority and the City, the City shall make all rental payments when due without deduction or offset of any kind and shall not withhold any rental payments pending the final resolution of such dispute. Amounts required to be deposited by the City with the Trustee pursuant to the Lease on any date shall be reduced to the extent of amounts on deposit in the Revenue Fund and available therefor.

Appropriations Covenant

The City covenants to take such action as may be necessary to include all such Base Rental Payments and Additional Payments due under the Lease in its annual budgets, and to make necessary annual appropriations for all such Base Rental Payments and Additional Payments. The City will deliver to the Authority and the Trustee copies of the portion of each annual City budget relating to the payment of Base Rental Payments and Additional Payments under the Lease no later than September 30 of each year.

Maintenance and Utilities

During such time as the City is in possession of the Leased Property, all maintenance and repair, both ordinary and extraordinary, of the Leased Property will be the responsibility of the City, which will at all times maintain or otherwise arrange for the maintenance of the Leased Property in first class condition, and the City will pay for or otherwise arrange for the payment of all utility services supplied to the Leased Property, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, ventilation, air conditioning, water and all other utility services, and will pay for or otherwise arrange for payment of the cost of the repair and replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof or any other cause and will pay for or otherwise arrange for the payment of all insurance policies required to be maintained with respect to the Leased Property. In exchange for the rental provided in the Lease, the Authority agrees to provide only the Leased Property.

Changes to the Leased Property

The City shall, at its own expense, have the right to remodel the Leased Property or to make additions, modifications and improvements to the Leased Property. All such additions, modifications and improvements will thereafter comprise part of the Leased Property and be subject to the provisions of the Lease. Such additions, modifications and improvements will not in any way damage the Leased Property or cause it to be used for purposes other than those authorized under the provisions of state and federal law; and the leased Property, upon completion of any additions, modifications and improvements made pursuant to the Lease, shall be of a value which is at least equal to the value of the Leased Property immediately prior to the making of such additions, modifications and improvements.

Installation of City's Equipment

The City and any sublessee may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed other items of equipment or other personal property in or upon the Leased Property. All such items will remain the sole property of such party, in which neither the Authority nor the Trustee shall have any interest, and may be modified or removed by such party at any time provided that such party will repair and restore any and all damage to the Leased Property resulting from the installation, modification or removal of any such items.

Insurance

The City shall procure or cause to be procured and maintain or cause to be maintained, throughout the term of the Lease, insurance against loss or damage to any structures or personal property constituting any part of the Leased Property by fire and lightning, with extended coverage insurance, vandalism and malicious mischief insurance, and sprinkler system leakage insurance and boiler explosion insurance. Said extended coverage insurance shall, to the extent practicably available, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount equal to the lesser of (i) the replacement cost (without deduction for depreciation, except that such insurance may be subject to deductible clauses for any one loss of not to exceed fifty thousand dollars ($50,000)) of all structures constituting any part of the Leased Property, excluding the cost of excavations, of grading and filling, and of the land, and (ii) the amount necessary, in the event of total or partial loss, to enable all the remaining Base Rental Payments to be paid.

As an alternative to providing the insurance described in the preceding paragraph, the City, with the written consent of the Authority, may provide a self-insurance method or plan of protection, but only if (i) the City obtains and provides to the Authority and the Bond Insurer a certificate of an Insurance Consultant to the effect that such insurance method and plan (and the amount contained in the related self-insurance fund) is actuarially sufficient to provide coverages in the scope and amounts contemplated by the preceding paragraph; (ii) the utilization of such self-insurance method or plan will not preclude the obtaining of the rental interruption insurance required by the Lease or cause the cancellation of any such insurance; and (iii) the self insurance fund is held in a separate trust fund by an independent trustee. In the event such a certificate is so obtained and delivered, the self-insurance method or plan described therein may be implemented, but only for a period of twelve months from the date of any such certificate of an Insurance Consultant, and thereafter for each additional twelve-month period which is immediately preceded by delivery to the Authority and the Bond Insurer of a new certificate of an Insurance Consultant. Amounts available for payment from any such self-insurance method or plan shall be deemed insurance proceeds for purposes of the Lease.

In the event of any damage to or destruction of any part of the Leased Property caused by the perils covered by such insurance, except as provided in the Lease, the proceeds of such insurance shall be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Leased Property, and the Authority shall hold said proceeds separate and apart from all other funds, to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Leased Property to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. Said repair, reconstruction or replacement shall be completed within a period of two years following said damage or destruction. The Authority shall permit withdrawals of said proceeds from time to time upon receiving the Written Request of the City, stating that the City has expended moneys or incurred liabilities in an amount equal to the amount therein requested to be paid over to it for the purpose of repair, reconstruction or replacement, and specifying the items for which such moneys were expended, or such liabilities were incurred. Any balance of said proceeds not required for such repair, reconstruction or replacement shall be treated by the Authority as Base Rental Payments and applied in the manner provided in the Trust Agreement. Alternatively, the City, at its option and if the proceeds of such insurance together with any other moneys then available for the purpose are at least sufficient to prepay all remaining Base Rental Payments, may elect, within 60 days of receipt of such proceeds, not to repair, reconstruct or replace the damaged or destroyed portion of the Leased Property and thereupon shall cause said proceeds to be used for the prepayment of its obligations under this Lease.

The Authority and the City shall promptly apply for federal disaster aid or State disaster aid in the event that the Leased Property is damaged or destroyed as a result of an earthquake or other disaster occurring at any time. Any proceeds received as a result of such disaster aid shall be used to repair, reconstruct, restore or replace the damaged or destroyed portions of the Leased Property, or to redeem Outstanding Bonds if such use of such disaster aid is permitted.

Prepayment

The City shall prepay on any date from insurance and eminent domain proceeds, to the extent provided in the Lease, and from proceeds of title insurance obtained in connection with the Leased Property (provided, however, that in the event of partial damage to or destruction of the Leased Property caused by perils covered by insurance, if in the judgment of the Authority the insurance proceeds are sufficient to repair, reconstruct or replace the damaged or destroyed portion of the Leased Property, such proceeds shall be held by the Trustee and used to repair, reconstruct or replace the damaged or destroyed portion of the Leased Property, pursuant to the procedure set forth in the Lease for proceeds of insurance), all or any part (in an integral multiple of $5,000) of Base Rental Payments then unpaid so that the aggregate annual Debt Service on the Bonds which shall be payable after such prepayment date shall be as nearly proportional as practicable to the aggregate annual Debt Service on the Bonds unpaid prior to the prepayment date, at a prepayment amount equal to the principal of and interest on the Bonds to the date of redemption.

The City may prepay, from any source of available funds, all or any portion of Base Rental Payments by depositing with the Trustee moneys or securities as provided in the Trust Agreement sufficient to make such Base Rental Payments when due; provided that the City furnishes the Trustee with an opinion of counsel that such deposit will not cause interest on the Bonds to be includable in gross income for federal income tax purposes. The City agrees pursuant to the Lease that if following such prepayment the Leased Property are damaged or destroyed or taken by eminent domain, it is not entitled to, and by such prepayment waives the right of, abatement of such prepaid Base Rental Payments and shall not be entitled to any reimbursement of such Base Rental Payments.

Before making any prepayment pursuant to the Lease, the City shall, within 5 days following the event creating such right or obligation to prepay, give written notice to the Authority and the Trustee describing such event and specifying the date on which the prepayment will be made, which date shall be not less than 60 days from the date such notice is given.

When (1) there shall have been deposited with the Trustee at or prior to the due dates of the Base Rental Payments or date when the City may exercise its option to purchase the Leased Property or any portion or item thereof, in trust for the benefit of the Holders of the Bonds and irrevocably appropriated and set aside to the payment of the Base Rental Payments or option price, sufficient moneys and Permitted Investments satisfying the requirements of the Trust Agreement, not redeemable prior to maturity, the principal of and interest on which when due will provide money sufficient to pay all principal of and interest on the Bonds to the due date of the Bonds or date when the City may exercise its option to purchase the Leased Property, as the case may be; and (2) an agreement shall have been entered into with the Trustee for the payment of its fees and expenses so long as any of the Bonds shall remain unpaid; then and in that event the right, title and interest of the Authority therein and the obligations of the City thereunder shall thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Authority and the obligation of the City to have such moneys and such Permitted Investments applied to the payment of the Base Rental Payments or option price) and the Authority's interest in and title to the Leased Property or applicable portion or item thereof shall be transferred and conveyed to the City. In such event, the Authority shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the Authority and evidence such discharge and satisfaction, and the Authority shall pay over to the City as an overpayment of Base Rental Payments all such moneys or Permitted Investments held by it pursuant to the Lease other than such moneys and such Permitted Investments as are required for the payment or prepayment of the Base Rental Payments or the option price and the fees and expenses of the Trustee, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the payment of Base Rental Payments or the option price and the fees and expenses of the Trustee, and shall be applied by the Authority to the payment of the Base Rental Payments or the option price and the fees and expenses of the Trustee.

Option to Purchase

The City shall have the option to purchase the Authority's interest in any part of the Leased Property upon payment of an option price consisting of moneys or securities satisfying the requirements of the Trust Agreement (not callable by the issuer thereof prior to maturity) in an amount sufficient (together with the earnings and interest on such securities) to provide funds to pay the aggregate amount for the entire remaining term of the Lease of the part of the total rent under the Lease attributable to such part of the Leased Property (determined by reference to the proportion which the acquisition, design and construction cost of such part of the Leased Property bears to the acquisition, design and construction cost of all of the Leased Property). Any such payment shall be made to the Trustee and shall be treated as rental payments and shall be applied by the Trustee to pay the principal of and interest on the Bonds and to redeem Bonds if such Bonds are subject to redemption pursuant to the terms of the Trust Agreement. Upon the making of such payment to the Trustee, (a) the Base Rental Payments thereafter payable under the Lease shall be reduced by the amount thereof attributable to such part of the Leased Property and theretofore paid pursuant to this paragraph, (b) the rental abatement and option and sale provision of the Lease shall not thereafter be applicable to such part of the Leased Property, (c) the insurance required by the Lease need not be maintained as to such part of the Leased Property, and (d) title to such part of the Leased Property and of the portion of the Leased Property upon which such part of the Leased Property is located shall vest in the City and the term of the Lease shall end as to the portion of the Leased Property upon which such part of the Leased Property is located.

Sale of Personal Property

The City, in its discretion, may request the Authority to sell or exchange any personal property which may at any time constitute a part of the Leased Property, and to release said personal property from the Lease, if (a) in the opinion of the City the property so sold or exchanged is no longer required or useful in connection with the operation of the Leased Property, (b) the consideration to be received from the property is of a value substantially equal to the value of the property to be released, and (c) if the value of any such property will, in the opinion of the Authority, exceed the amount of $50,000, the Authority will have been furnished a certificate of an independent engineer or other qualified independent professional consultant (satisfactory to the Authority) certifying the value thereof and further certifying that such property is no longer required or useful in connection with the operation of the Leased Property. In the event of any such sale, the full amount of the money or consideration received for the personal property so sold and released will be paid to the Authority. Any money so paid to the Authority may, so long as the City is not in default under any of the provisions of the Lease, be used upon the Written Request of the City to purchase personal property, which property shall become a part of the Leased Property leased under the Lease.

Defaults and Remedies

If the City fails to pay any rental payable under the Lease when the same becomes due, time being expressly declared to be of the essence of the Lease, or the City fails to keep, observe or perform any other term, covenant or condition contained in the Lease to be kept or performed by the City for a period of 30 days after notice of the same has been given to the City by the Authority or the Trustee or for such additional time as is reasonably required, in the sole discretion of the Trustee, to correct the same, but not to exceed 60 days without the consent of the Bond Insurer, or upon the happening of any of the events specified in the Lease (any such case above being an "Event of Default"), the City will be deemed to be in default under the Lease and it will be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to the Lease. Upon any such default, the Authority, in addition to all other rights and remedies it may have at law, will have the option to do any of the following, subject to the direction of Bond Insurer insuring at least fifty-one percent (51%) of the principal amount of Bonds then Outstanding:

(1) To terminate the Lease in the manner provided in the Lease on account of default by the City, notwithstanding any re-entry or re-letting of the Leased Property as hereinafter provided for in subparagraph (2) hereof, and to re-enter the Leased Property and remove all persons in possession thereof and all personal property whatsoever situated upon the Leased Property and place such personal property in storage in any warehouse or other suitable place located within the City of Lincoln, California. In the event of such termination, the City agrees pursuant to the Lease to surrender immediately possession of the Leased Property, without let or hindrance, and to pay the Authority all damages recoverable at law

that the Authority may incur by reason of default by the City, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the Leased Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in the Lease. Neither notice to pay rent or to deliver up possession of the Leased Property or the Leased Property given pursuant to law nor any entry or re-entry by the Authority nor any proceeding in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Leased Property nor the appointment of a receiver upon initiative of the Authority to protect the Authority's interest under the Lease shall of itself operate to terminate the Lease, and no termination of the Lease on account of default by the City shall be or become effective by operation of law or acts of the parties thereto, or otherwise, unless and until the Authority shall have given written notice to the City of the election on the part of the Authority to terminate the Lease.

(2) Without terminating the Lease, (i) to collect each installment of rent as it becomes due and enforce any other terms or provision hereof to be kept or performed by the City, regardless of whether or not the City has abandoned the Leased Property, or (ii) to exercise any and all rights of re-entry upon the Leased Property. In the event the Authority does not elect to terminate the Lease in the manner provided for in subparagraph (1) hereof, the City shall remain liable and agrees to keep or perform all covenants and conditions contained in the Lease to be kept or performed by the City and, if the Leased Property is not re-let, to pay the full amount of the rent to the end of the term of the Lease or, in the event that the Leased Property is re-let, to pay any deficiency in rent that results therefrom; and further agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as hereinabove provided for the payment of rent under the Lease (without acceleration), notwithstanding the fact that the Authority may have received in previous years or may receive thereafter in subsequent years rental in excess of the rental specified in the Lease, and notwithstanding any entry or re-entry by the Authority or suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such entry or re-entry or obtaining possession of the Leased Property. Should the Authority elect to enter or re-enter as provided in the Lease, the City irrevocably appoints the Authority as the agent and attorney-in-fact of the City to re-let the Leased Property, or any part thereof, from time to time, either in the Authority's name or otherwise, upon such terms and conditions and for such use and period as the Authority may deem advisable, and to remove all persons in possession thereof and all personal property whatsoever situated upon the Leased Property and to place such personal property in storage in any warehouse or other suitable place located in the City of Lincoln, California, for the account of and at the expense of the City, and the City exempts and agrees to save harmless the Authority from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the Leased Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in the Lease. The City agrees pursuant to the Lease that the terms of the Lease constitute full and sufficient notice of the right of the Authority to re-let the Leased Property and to do all other acts to maintain or preserve the Leased Property as the Authority deems necessary or desirable in the event of such re-entry without effecting a surrender of the Lease, and further agrees that no acts of the Authority in effecting such re-letting shall constitute a surrender or termination of the Lease irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate the Lease shall vest in the Authority to be effected in the sole and exclusive manner provided for in subparagraph (1) hereof. The City further waives the right to any rental obtained by the Authority in excess of the rental specified in the Lease and conveys and releases such excess to the Authority as compensation to the Authority for its services in re-letting the Leased Property or any part thereof.

The City waives any and all claims for damages caused or which may be caused by the Authority in re-entering and taking possession of the Leased Property as provided in the Lease and all claims for damages that may result from the destruction of the Leased Property and all claims for damages to or loss of any property belonging to the City, or any other person, that may be in or upon the Leased Property.

(a) If (1) the City's interest in the Lease or any part thereof is assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of the Authority, as provided for in the Lease, or (2) the City or any assignee shall file any petition or institute any proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby the City asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the City's debts or obligations, or offers to the City's creditors to effect a composition or extension of time to pay the City's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of the City's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character be filed or be instituted or taken against the City, or if a receiver of the business or of the property or assets of the City shall be appointed by any court, except a receiver appointed at the instance or request of the Authority, or if the City shall make a general or any assignment for the benefit of the City's creditors, or if (3) the City shall abandon or vacate the Leased Property, then the City shall be deemed to be in default under the Lease.

(b) The Authority shall in no event be in default in the performance of any of its obligations under the Lease or imposed by any statute or rule of law unless and until the Authority shall have failed to perform such obligations within 30 days or such additional time as is reasonably required to correct any such default after notice by the City to the Authority properly specifying wherein the Authority has failed to perform any such obligation. In the event of default by the Authority, the City shall be entitled to pursue any remedy provided by law.

(c) In addition to the other remedies set forth above, upon the occurrence of an event of default as described above, the Authority, shall be entitled to proceed to protect and enforce the rights vested in the Authority by the Lease or by law. The provisions of the Lease and the duties of the City and of its trustees, officers or employees shall be enforceable by the Authority by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Authority shall have the right to bring the following actions:

(1) Accounting. By action or suit in equity to require the City and its trustees, officers and employees and its assigns to account as the trustee of an express trust.

(2) Injunction. By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Authority.

(3) Mandamus. By mandamus or other suit, action or proceeding at law or in equity to enforce the Authority's rights against the City (and its board, officers and employees) and to compel the City to perform and carry out its duties and obligations under the law and its covenants and agreements with the City as provided in the Lease.

Each and all of the remedies given to the Authority under the Lease or by any law now or hereafter enacted are cumulative and the single or partial exercise of any right, power or privilege under the Lease shall not impair the right of the Authority to other or further exercise thereof or the exercise of any or all other rights, powers or privileges. The term "re-let" or "re-letting" as used in above shall include, but not be limited to, re-letting by means of the operation by the Authority of the Leased Property. If any statute or rule of law validly shall limit the remedies given to the Authority under the

Lease, the Authority nevertheless shall be entitled to whatever remedies are allowable under any statute or rule of law.

In the event the Authority shall prevail in any action brought to enforce any of the terms and provisions of the Lease, the City agrees pursuant to the Lease to pay a reasonable amount as and for attorney's fees incurred by the Authority in attempting to enforce any of the remedies available to the Authority under the Lease, whether or not a lawsuit has been filed and whether or not any lawsuit culminates in a judgment.

SITE LEASE

Leased Property

The City leases to the Authority and the Authority hires from the City, on the terms and conditions set forth in the Site Lease, the real property and improvements thereon situated in the City of Lincoln, State of California, and described in the Site Lease and made a part thereof, together with any additional real property added thereto by any supplement or amendment to the Site Lease, or any real property substituted for all or any portion of the Leased Property in accordance with the Site Lease and the Trust Agreement; subject, however, to any conditions, reservations, and easements of record or known to the City (herein collectively called the "Leased Property").

Purpose

The Authority shall use the Leased Property solely for the purpose of financing the acquisition and construction of the Project thereon and leasing the Leased Property to the City pursuant to the Lease and for such purposes as may be incidental thereto; provided, that in the event of default by the City under the Lease the Authority may exercise the remedies provided in the Lease.

Assignments and Subleases

Unless the City shall be in default under the Lease, the Authority may not assign its rights under the Site Lease or sublet the Leased Property (except pursuant to the Trust Agreement), without the written consent of the City.

Default

In the event the Authority shall be in default in the performance of any obligation on its part to be performed under the terms of the Site Lease, which default continues for 30 days following notice and demand for correction thereof to the Authority, the City may exercise any and all remedies granted by law, except that no merger of the Site Lease and of the Lease shall be deemed to occur as a result thereof; provided, however, that the City shall have no power to terminate the Site Lease by reason of any default on the part of the Authority if such termination would affect or impair any assignment or sublease of all or any part of the Leased Property then in effect between the Authority and any assignee or subtenant of the Authority (other than the City under the Lease). So long as any such assignee or subtenant of the Authority shall duly perform the terms and conditions of the Site Lease and of its then existing sublease (if any), such assignee or subtenant shall be deemed to be and shall become the tenant of the City under the Site Lease and shall be entitled to all of the rights and privileges granted under any such assignment; provided, further, that so long as any Bonds are outstanding and unpaid in accordance with the terms thereof, the rentals or any part thereof payable to the Trustee shall continue to be paid to the Trustee.

TRUST AGREEMENT

The Trust Agreement provides for, among other things, the issuance, execution and delivery of the Bonds and sets forth the terms thereof, the creation of certain of the funds and accounts described in the Lease, certain covenants of the Authority, defines events of default and remedies therefor, and sets forth the rights and responsibilities of the Trustee.

Certain provisions of the Trust Agreement setting forth the terms of the Series 2006 Bonds, the redemption provisions thereof and the use of the proceeds of the Series 2006 Bonds are set forth elsewhere in this Official Statement. See "THE BONDS."

Pledge of Revenues

All Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established under the Trust Agreement (other than amounts on deposit in the Rebate Fund created pursuant to the Trust Agreement) are irrevocably pledged to the payment of the interest and premium, if any, on and principal of the Bonds as provided in the Trust Agreement, and the Revenues will not be used for any other purpose while any of the Bonds remain Outstanding; provided, however, that out of the Revenues and other moneys there may be applied such sums for such purposes as are permitted under the Trust Agreement; provided further that the Bonds shall be payable solely from amounts on deposit in the Capitalized Interest Fund until delivery of the Project. This pledge will constitute a pledge of and charge and lien upon the Revenues and all other moneys on deposit in the funds and accounts established under the Trust Agreement (excluding amounts on deposit in the Rebate Fund created pursuant to the Trust Agreement) for the payment of the interest on and principal of the Bonds in accordance with the terms of the Trust Agreement and the Bonds. The Authority assigns to the Trustee all of the Authority's rights and remedies under the Lease.

The assignment of the Lease to the Trustee is solely in its capacity as Trustee under the Trust Agreement and the duties, powers and liabilities of the Trustee in acting under the Trust Agreement shall be subject to the provisions thereof. The Trustee shall have no responsibility for the representations, covenants or warranties of the Authority under the Lease.

Creation of Funds and Accounts

In order to carry out and effectuate the pledge, assignment, charge and lien contained in the Trust Agreement, the Trustee agrees to maintain in trust for Holders so long as any Bonds will be Outstanding under the Trust Agreement the following Funds and Accounts. All Revenues and all other amounts pledged and assigned under the Trust Agreement shall be accounted for through and held in trust in the Revenue Fund, and the Authority shall have no beneficial right or interest in any of the Revenues except only as provided in the Trust Agreement.

Revenue Fund. All money in the Revenue Fund will be set aside by the Trustee in the following respective special funds within the Revenue Fund in the following order of priority:

> Interest Account. On or before each Interest Payment Date, the Trustee will set aside from the Revenue 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 Bonds on such Interest Payment Date. No deposit need be made if the amount contained therein is at least equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such date. All money in the Interest Account will be used and withdrawn by the Trustee solely for the

purpose of paying the interest on the Bonds as it will become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

Principal Account. On each August 1, commencing August 1, 2009, the Trustee will set aside from the Revenue 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 August 1 into the respective sinking fund accounts for all Outstanding Term Bonds and the principal amount of all Outstanding Bonds maturing on such August 1. All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as it will 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 Trustee only to purchase or to redeem or to pay Term Bonds for which such sinking fund account was created.

Reserve Fund. All money in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of replenishing the Interest Account or the Principal Account, in that order, in the event of any deficiency at any time in either of such accounts, except that so long as the Authority is not in default under the Trust Agreement, any cash amounts in the Reserve Fund in excess of the amount required by the Trust Agreement to be on deposit therein shall be withdrawn from the Reserve Fund and deposited in the Acquisition and Construction Fund prior to the delivery of a Certificate of Completion, and thereafter in the Revenue Fund on or before each Interest Payment Date. The Authority may satisfy the Reserve Fund Requirement at any time by the deposit with the Trustee for the credit of the Reserve Fund of a surety bond, an insurance policy or letter of credit, or any combination thereof, meeting the requirements of the Trust Agreement, subject to the written consent of the Bond Insurer.

Capitalized Interest Fund

All money in the Capitalized Interest Fund shall be used and withdrawn by the Trustee, on or before each Interest Payment Date, to deposit such amounts in the Interest Account in the amounts needed to pay the interest coming due and payable on such Interest Payment Date on the Bonds until the completion of the Project. All interest earnings on amounts on deposit in the Capitalized Interest Fund shall be deposited therein and used to pay interest on the Bonds. Upon completion of the Project, any amounts remaining in the Capitalized Interest Fund shall be deposited to the Reserve Fund to the extent necessary to increase the amount therein to the Reserve Fund Requirement and any excess shall be transferred to the Authority to be used to finance the acquisition, construction, installation or equipping of public capital improvements, subject to the Tax Certificate.

Application of Insurance Proceeds

In the event of any damage to or destruction of any part of the Leased Property covered by insurance, the Authority, except as provide in the Trust Agreement, will cause the proceeds of such insurance to be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Leased Property, and the Trustee will hold said proceeds in a fund established by the Trustee for such purpose separate and apart from all other funds, to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Leased Property to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. The Trustee shall invest said proceeds in Permitted Investments pursuant to the Written Request of the City, as agent for the Authority under the Lease, and withdrawals of said proceeds will be made from time to time upon the filing with the Trustee of a Written Request of the City, stating that the City has expended moneys or incurred liabilities in an amount equal to the amount therein stated for the purpose of the repair, reconstruction or replacement of the Leased Property, and specifying the items for which such moneys were expended, or such liabilities were incurred, in reasonable detail. The City shall file a Written Request with the Trustee that sufficient funds from insurance proceeds or from any funds legally available to the City, or from any combination thereof, are available in the event it elects to repair, reconstruct or replace the Leased Property. Any balance of such proceeds not required for such repair, reconstruction or replacement and the proceeds of use and occupancy insurance shall be paid to the Trustee as Base Rental Payments and applied in the manner provided by the Trust Agreement. Alternatively, the City, at its option, if the proceeds of such insurance together with any other moneys then available for such purpose are sufficient to prepay all, in case of damage or destruction in whole of the Leased Property, or that portion, in the case of partial damage or destruction of the Leased Property, of the Base Rental Payments and all other amounts relating to the damaged or destroyed portion of the Leased Property, may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Leased Property and thereupon will cause said proceeds to be used for the redemption of Outstanding Bonds pursuant to the applicable provisions of the Trust Agreement and the corresponding provisions of any Supplemental Trust Agreement. The City will not apply the proceeds of insurance as set forth in the Trust Agreement to redeem the Bonds in part due to damage or destruction of a portion of the Leased Property unless the Trustee receives a Certificate of the Authority that the Base Rental Payments on the undamaged portion of the Leased Property will be sufficient to pay the initially-scheduled principal and interest on the Bonds remaining unpaid after such redemption.

Investments

Subject to certain provisions of the Trust Agreement, all money held by the Trustee in any of the accounts or funds established pursuant thereto will be invested in Permitted Investments at the Written Request of the Authority. Investments (except investment agreements) in Trust Agreement funds and accounts shall be valued at the market value thereof, exclusive of accrued interest, at least semiannually. Investments purchased with funds on deposit in the Revenue Fund shall mature not later than the payment date immediately succeeding the investment. Investments purchased with funds on deposit in the Acquisition and Construction Fund shall mature not later than the dates upon which such funds shall need to be expended for such construction (or shall be invested in repurchase agreements or investment agreements described in the definition of Permitted Investments). Investments (except investment agreements or repurchase agreements) purchased with funds on deposit in the Reserve Fund shall have a term to maturity not greater than five years.

Subject to the Trust Agreement, all interest or profits received prior to the completion of the Project (i) on amounts in the Acquisition and Construction Fund shall be deposited in the Acquisition and Construction Fund, and (ii) on amounts in the Reserve Fund and Interest Account shall be deposited in the Acquisition and Construction Fund, and all interest or profits received subsequent to the completion of the Project on any money so invested shall be deposited first in the Reserve Fund, to the extent necessary to make amounts on deposit in the Reserve Fund equal to the Reserve Fund Requirement, and then in the Revenue Fund. The Trustee shall not be liable for any losses on such investments.

Additional Bonds

The Authority may at any time issue Additional Bonds, with the consent of the Bond Insurer, pursuant to a Supplemental Trust Agreement, payable from the Revenues as provided in the Trust Agreement and secured by a pledge of and charge and lien upon the Revenues as provided in the Trust Agreement equal to the pledge, charge and lien securing the Outstanding Bonds theretofore issued under the Trust Agreement, but only subject to the following specific conditions, which are made conditions precedent to the issuance of any such Additional Bonds:

(a) The Authority will be in compliance with all agreements and covenants contained in the Trust Agreement and no Event of Default shall have occurred and be continuing.

(b) The Supplemental Trust Agreement will require that the proceeds of the sale of such Additional Bonds will be applied to the completion of the Leased Property or for the refunding of Outstanding Bonds, including the payment of costs and expenses of and incident to the authorization and sale of such Additional Bonds. The Supplemental Trust Agreement may also provide that a portion of such proceeds shall be applied to the payment of the interest due or to become due on said Additional Bonds during the estimated period of any construction and for a period of not to exceed 12 months thereafter.

(c) The Supplemental Trust Agreement will provide, if necessary, that from such proceeds or other sources an amount will be deposited in the Reserve Fund so that following such deposit there will be on deposit in the Reserve Fund an amount at least equal to the Reserve Fund Requirement.

(d) The aggregate principal amount of Bonds issued and at any time Outstanding under the Trust Agreement will not exceed any limit imposed by law, by the Trust Agreement or by any Supplemental Trust Agreement.

(e) The Lease will have been amended, if necessary, so that the Base Rental Payments payable by the City thereunder in each Fiscal Year will at least equal Debt Service, including Debt Service on the Additional Bonds, in each Fiscal Year.

Whenever the Authority and the City shall determine to execute and deliver any Additional Bonds, the Authority and the Trustee shall enter into a Supplemental Trust Agreement providing for the issuance of such Additional Bonds, specifying the maximum principal amount of such Additional Bonds and prescribing the terms and conditions of such Additional Bonds. The Supplemental Trust Agreement shall prescribe the form or forms of such Additional Bonds and shall provide for the distinctive designation, denominations, method of numbering, dates, interest rates, provisions for redemption (if desired) and places of payment of principal and interest.

Before such Additional Bonds shall be issued, the City and the Authority shall file or cause to be filed the following documents with the Trustee:

(a) An Opinion of Counsel setting forth (1) that such Counsel has examined the Supplemental Trust Agreement and the amendment to the Lease that the execution and delivery of the Additional Bonds have been and duly authorized by the City and the Authority; and (2) that said amendment to the Lease, when duly executed by the City and the Authority, will be a valid and binding obligation of the City and the Authority.

(b) A Certificate of the City that the requirements of certain provisions of the Trust Agreement have been met.

(c) A certified copy of a resolution of the City authorizing the execution of the amendments to the Lease.

(d) A certified copy of a resolution of the Authority authorizing the execution of the Lease.

(e) An executed counterpart or duly authenticated copy of any amendment to the Lease.

(f) A Certificate of the City stating that the insurance required by the Lease is in effect.

Upon the delivery to the Trustee of the foregoing instruments and upon the Trustee's receipt of Certificates of the City and of the Authority stating that all applicable provisions of the Trust Agreement have been complied with (so as to permit the execution and delivery of the Additional Bonds in accordance with the Supplemental Trust Agreement then delivered to the Trustee), the Trustee shall execute and deliver said Additional Bonds, in the aggregate principal amount specified in such Supplemental Trust Agreement, to, or upon the Written Request of, the Authority.

Covenants of Authority

The Authority covenants it will not make any pledge of or place any charge or lien upon the Revenues except as provided in the Trust Agreement, and will not issue any bonds, notes or obligations payable from the Revenues or secured by a pledge of or charge or lien upon the Revenues except as provided in the Trust Agreement.

The Authority will acquire or cause to be acquired the Project with all practicable dispatch and such acquisition will be made in an expeditious manner and in conformity with the law so as to complete the same as soon as possible.

Defaults and Remedies

Events of Default. Events which constitute an "event of default" under the Trust Agreement include:

(a) a default made by the Authority in the due and punctual payment of the interest on any Bond when and as the same becomes due and payable;

(b) a default made by the Authority in the due and punctual payment of the principal of or redemption premium, if any, on any Bond when and as the same becomes due and payable, whether at maturity as therein expressed or by proceedings for redemption;

(c) a default made by the Authority in the performance of any of the other agreements or covenants required in the Trust Agreement to be performed by the Authority, and such default continues for a period of 30 days after the Authority has been given notice in writing of such default by the Trustee;

(d) if the Authority files 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 approves a petition filed with or without the consent of the Authority 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 assumes custody or control of the Authority or of the whole or any substantial part of its property; or

(e) if an Event of Default has occurred under the Lease.

Acceleration of Bonds. In each and every case during the continuance of an Event of Default the Trustee may, and upon the written request of the Holders of not less than 51% in aggregate principal amount of the Bonds then Outstanding (with the unanimous written consent of the Bond Insurer), or if not less than 51% in aggregate principal amount of the Bonds then Outstanding are secured by a Bond Insurance Policy, at the unanimous written direction of the Bond Insurer, the Trustee shall, by notice in writing to the Authority, declare the principal of all Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same will become due and payable, anything contained in the Trust Agreement or in the Bonds to the contrary notwithstanding. The Trustee will promptly notify all Holders by first class mail of any such event of default which is continuing.

This provision, however, is subject to the condition that if at any time after the principal of the Bonds then Outstanding will have been so declared due and payable and before any judgment or decree for the payment of the money due will have been obtained or entered the Authority will deposit with the Trustee a sum sufficient to pay all matured interest on all the Bonds and all principal of the Bonds matured prior to such declaration, with interest at the rate borne by such Bonds on such overdue interest and principal, and the reasonable fees and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of interest on and principal of the Bonds due and payable solely by reason of such declaration) will have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate will have been made therefor, then and in every such case the Holders of not less than 51% in aggregate principal amount of Bonds then Outstanding (with the written consent of the Bond Insurer), or Bond Insurer insuring not less than 51% in aggregate principal amount of the Bonds then Outstanding, by written notice to the Authority and to the Trustee, may on behalf of the Holders of all the Bonds then Outstanding rescind and annul such declaration and its consequences; but no such rescission and annulment will extend to or will affect any subsequent default or will impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration. All moneys in the accounts and funds held pursuant to the Trust Agreement upon the date of the declaration of acceleration by the Trustee as provided in the Trust Agreement and all Revenues (other than Revenues on deposit in the Rebate Fund) thereafter received by the Authority under the Trust Agreement will be transmitted to the Trustee and will be applied by the Trustee in the following order--

First, to the payment of the reasonable fees, costs and expenses of the Trustee in providing for the declaration of such event of default, including reasonable compensation to their accountants and counsel together with interest on any amounts advanced as provided in the Trust Agreement and to the payment of the reasonable costs and expenses of the Holders, if any, in carrying out the provisions of the Trust Agreement, including reasonable compensation to their accountants and counsel; and

Second, upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid or upon the surrender thereof if fully paid, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with (to the extent permitted by law) interest on the overdue interest and principal at the rate borne by such Bonds, and in case such money will be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and (to the extent permitted by law) interest on overdue interest and principal without preference or priority among such interest, principal and interest on overdue interest and principal ratably to the aggregate of such interest, principal and interest on overdue interest and principal.

Limitation on Holders' Right to Sue. No Holder of any Bond issued under the Trust Agreement will have the right to institute any suit, action or proceeding at law or equity, for any remedy under or upon the Trust Agreement, unless (a) such Holder will have previously given to the Trustee written notice of the occurrence of an event of default as defined in the Trust Agreement; (b) the Holders of at least a majority in aggregate principal amount of all the Bonds then Outstanding will have made written request upon the Trustee to exercise the powers granted in the Lease or to institute such suit, action or proceeding in its own name and the Bond Insurer insuring such majority of Bonds, if any, will have consented to such request; (c) said Holders will have tendered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee will have refused or omitted to comply with such request for a period of 60 days after such request will have been received by, and said tender of indemnity will have been made to, the Trustee.

Bond Insurance. The Bond Insurer shall be deemed to be the Holder of all Bonds then Outstanding for purposes of the Trust Agreement, including without limitation for purposes of granting any consents or approving amendments and exercising all remedies following the occurrence of an Event of Default. Notwithstanding any other provision of the Trust Agreement, any provision of the Trust Agreement requiring the consent of, the giving of notice to, or control of proceedings by the Bond Insurer shall be in effect for so long as, and only during such time as (1) the Bonds are Outstanding and (2) no default shall have occurred and be continuing by the Bond Insurer with respect to the payment provisions under the Bond Insurance Policy.

Amendment of Documents

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 will become binding when the written consents of the Bond Insurer and 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 will (1) extend the maturity of or reduce the interest rate on or amount of interest on or principal of or redemption premium, if any, on any Bond without the express written consent of the Holder of such Bond, or (2) permit the creation by the Authority of any pledge of or charge or lien upon the Revenues as provided in the Trust Agreement superior to or on a parity with the pledge, charge and lien created by the Trust Agreement for the benefit of the Bonds, or (3) reduce the percentage of Bonds required for the written consent to any such amendment, or (4) modify any rights or obligations of the Trustee, the Authority, or the City without their prior written assent thereto, respectively.

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 will become binding upon adoption without the consent of any Holders, and 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, or to surrender any right or power reserved in the Trust Agreement to or conferred in the Trust Agreement 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 or in regard to questions arising under the Trust Agreement which the Authority may deem desirable or necessary and not inconsistent with the Trust Agreement;

(c) to provide for the issuance of any Additional Bonds and to provide the terms of such Additional Bonds, subject to the conditions and upon compliance with the procedure set forth in the Trust Agreement (which will be deemed not to adversely affect Holders); or

(d) to add to the agreements and covenants required in the Trust Agreement, such agreements and covenants as may be necessary to qualify the Trust Agreement under the Trust Indenture Act of 1939.

Site Lease and Lease. The Authority will not supplement, amend, modify or terminate any of the terms of the Site Lease or Lease, or consent to any such supplement, amendment, modification or termination, without the written consent of the Trustee. The Trustee will give such written consent only if (a) such supplement, amendment, modification or termination will not materially adversely affect the interests of the Holders or result in any material impairment of the security given for the payment of the Bonds (provided that such supplement, amendment or modification will not be deemed to have such adverse effect or to cause such material impairment solely by reason of providing for the payment of Additional Bonds as required by the Trust Agreement), or (b) the Trustee first obtains the written consent of the Bond Insurer and the Holders of a majority in principal amount of the Bonds then Outstanding to such supplement, amendment, modification or termination; provided, that no such supplement, amendment, modification or termination will reduce the amount of Base Rental Payments to be made to the Authority or the Trustee by the City pursuant to the Lease, or extend the time for making such payments, or permit the creation of any lien prior to or on a parity with the lien created by the Lease (except as expressly provided in the Lease), in each case without the written consent of the Bond Insurer and all of the Holders of the Bonds then Outstanding.

Discharge of Trust Agreement

If the Authority will pay or cause to be paid or there will otherwise be paid to the Holders of all Outstanding Bonds the interest thereon and principal thereof and redemption premiums, if any, thereon at the times and in the manner stipulated in the Trust Agreement and therein, and all amounts due and owing to the Trustee have been paid in full, then the Holders of such Bonds will cease to be entitled to the pledge of and charge and lien upon the Revenues as provided in the Trust Agreement, and all agreements, covenants and other obligations of the Authority to the Holders of such Bonds under the Trust Agreement will thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee will execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, the Trustee will pay over or deliver to the Authority all money or securities held by it pursuant to the Trust Agreement which are not required for the payment of the interest on and principal of and redemption premiums, if any, on such Bonds.

Any Outstanding Bonds will 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 the Trust Agreement (1) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Authority will have given to the Trustee in form satisfactory to it irrevocable instructions to provide notice in accordance with the Trust Agreement or in the corresponding section of a Supplemental Trust Agreement, (2) there will have been deposited with the Trustee either (A) money in an amount which will be sufficient or (B) Defeasance Obligations which are not subject to redemption prior to maturity (including any such Defeasance Obligations issued or held in book-entry form on the books of 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 addressed to the Bond Insurer, 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, (3) in the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority will 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 the Trust Agreement 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, and (4) a legal opinion addressed to the applicable Bond Insurer to the effect that such Bonds are deemed to have been paid within the meaning and with the effect expressed in the Trust Agreement.

The Trustee

U.S. Bank National Association, will serve as the initial 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 in the Trust Agreement and for the purpose of paying the interest on and principal of and redemption premiums, if any, on the Bonds presented for payment in St. Paul, Minnesota, or such other place as designated by the Trustee, with the rights and obligations provided in the Trust Agreement. 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, and upon the written direction of the Bond Insurer shall, 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 approved in writing by the Bond Insurer and shall be a banking corporation or trust company in good standing located in or incorporated under the laws of the State, having a combined capital (exclusive of borrowed capital) and surplus of at least seventy-five million dollars ($75,000,000) and subject to supervision or examination by federal or state authority. If such banking corporation 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 the Trust Agreement the combined capital and surplus of such banking corporation or trust company will 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 the Bond Insurer and by mailing by first class mail to the Holders notice of such resignation. Upon receiving such notice of resignation, the Authority will promptly appoint a successor Trustee by an instrument in writing. Any removal or resignation of a Trustee and appointment of a successor Trustee will become effective only upon the acceptance of appointment by the successor Trustee and the approval of such successor Trustee by the Bond Insurer. If, within 30 days after notice of the removal or resignation of the Trustee no successor Trustee will have been appointed and will 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.

Payment Procedure Pursuant to the Series 2006 Bond Insurance Policy

As long as the Series 2006 Bond Insurance Policy shall be in full force and effect, the Authority and the Trustee agree to comply with the following provisions.

(a) At least one (1) Business Day prior to each Interest Payment Date, the Trustee will determine whether there will be sufficient money in the accounts and funds established pursuant to the Trust Agreement to pay the interest on or principal of the Bonds on such Interest Payment Date. If the Trustee determines that there will be insufficient money in such accounts and funds for such purpose, the Trustee shall so notify the Series 2006 Bond Insurer. Such notice shall specify the amount of the anticipated deficiency, the Bonds to which such deficiency is applicable and whether such Bonds will be deficient as to interest or principal, or both. If the Trustee has not so notified the Series 2006 Bond Insurer at least one (1) Business Day prior to an Interest Payment Date, the Series 2006 Bond Insurer will make payments of interest or principal due on the Bonds on or before the first (1st) Business Day next following the date on which the Series 2006 Bond Insurer shall have received notice of nonpayment from the Trustee.

(b) The Trustee shall, after giving notice to the Series 2006 Bond Insurer as provided in subsection (a) above, make available to the Series 2006 Bond Insurer, and at the Series 2006 Bond Insurer's direction, to The Bank of New York, in New York, New, York, as insurance trustee for the Series 2006 Bond Insurer or any successor insurance trustee (the "Insurance Trustee"), the registration books of the Authority maintained by the Trustee and all records relating to the accounts and funds maintained by the Trustee under the Trust Agreement.

(c) After giving any notice to the Series 2006 Bond Insurer pursuant to subsection (a) above, the Trustee shall provide the Series 2006 Bond Insurer and the Insurance Trustee with a list of Holders of Bonds entitled to receive interest or principal payments from the Series 2006 Bond Insurer under the terms of the Series 2006 Bond Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the Holders of Bonds entitled to receive full or partial interest payments from the Series 2006 Bond Insurer and (ii) to pay principal upon Bonds surrendered to the Insurance Trustee by the Holders of Bonds entitled to receive full or partial principal payments from the Series 2006 Bond Insurer.

(d) The Trustee shall, at the time it provides notice to the Series 2006 Bond Insurer pursuant to subsection (a) above, notify the Holders of Bonds entitled to receive the payment of interest or principal thereon from the Series 2006 Bond Insurer (i) as to the fact of such entitlement, (ii) that the Series 2006 Bond Insurer will remit to them all or a part of the interest payments next coming due upon proof of Holder entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the Holder's right to payment, (iii) that should they be entitled to receive full payment of principal from the Series 2006 Bond Insurer, they must surrender their Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Bonds to be registered in the name of the Series 2006 Bond Insurer) for payment to the Insurance Trustee, and not the Trustee, and (iv) that should they be entitled to receive partial payment of principal from the Series 2006 Bond Insurer, they must surrender their Bonds for payment thereon first to the Trustee, who shall note on such Bonds the portion of the principal paid by the Trustee, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(e) In the event that the Trustee has actual notice that any payment of interest on or principal of any Bond which has become due for payment and which is made to a Holder by or on behalf of the Authority has been deemed a preferential transfer and theretofore recovered from such Holder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time the Series 2006 Bond Insurer is notified in the manner set forth in subsection (a) above, notify all Holders of Bonds that in the event that any Holder's payment is so recovered, such Holder will be entitled to payment from the Series 2006 Bond Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish to the Series 2006 Bond Insurer its records evidencing the payments of interest on and principal of the Bonds which have been made by the Trustee and subsequently recovered from Holders and the dates on which such payments were made.

(f) In addition to those rights granted the Series 2006 Bond Insurer hereunder, the Series 2006 Bond Insurer shall, to the extent it makes payment of interest on or principal of the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Series 2006 Bond Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Series 2006 Bond Insurer's rights as subrogee on the registration books of the Authority maintained by the Trustee upon receipt from the Series 2006 Bond Insurer of proof of the payment of interest thereon to the Holders of the Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Series 2006 Bond Insurer's rights as subrogee on the registration books of the Authority maintained by the Trustee upon surrender of the Bonds by the Holders thereof together with proof of the payment of principal thereof.

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APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

________, 2006

Lincoln Public Financing Authority
Lincoln, California

Re: Lincoln Public Financing Authority Lease Revenue Bonds (City Hall Project), Series 2006
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Lincoln Public Financing Authority (the "Authority") in connection with issuance of $14,550,000 aggregate principal amount of Lincoln Public Financing Authority Lease Revenue Bonds (City Hall Project), Series 2006 (the "Bonds"), issued pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code and a Trust Agreement, dated as of July 1, 2006 (the "Trust Agreement"), between the Authority and U.S. Bank National Association, as trustee. 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, the Facility Lease, the Site Lease, the Tax Certificate, opinions of counsel to the Authority, the City and the Trustee, certificates of the Authority, the City, 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, the Facility Lease, the Site Lease, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, 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 or the interest thereon 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 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 Authority and the City.

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, the Facility Lease, the Site Lease and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Trust Agreement, the Facility Lease, the Site Lease and the Tax Certificate 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 exercise of powers authorities and cities 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 real or personal property described in or subject to the lien of the Site Lease, the Facility Lease or the Trust Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. 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 Authority.

2. The Trust Agreement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Trust Agreement creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Trust Agreement (other than amounts on deposit in the Rebate Fund), subject to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement.

3. The Site Lease and the Facility Lease have been duly executed and delivered by, and constitute the valid and binding obligations of, the City and the Authority.

4. The Bonds are not a debt, liability or obligation of the City or of any of the public agencies that are parties to the joint powers agreement creating the Authority. Neither the faith and credit nor the taxing powers of the City, the State of California or any political subdivision thereof is pledged to the payment of the principal of, or redemption premium, if any, or interest on, the Bonds.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest on the Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding 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 E

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the CITY OF LINCOLN, California (the "City"), and U.S. BANK NATIONAL ASSOCIATION, as trustee (the "Trustee") and as dissemination agent (the "Dissemination Agent") in connection with the issuance by the Lincoln Public Financing Authority (the "Authority") of its $14,550,000 Lease Revenue Bonds (City Hall Project), Series 2006 (the "Bonds"). The Bonds are being issued pursuant to a Trust Agreement, dated as of July 1, 2006, between the Authority and the Trustee (the "Trust Agreement"). Pursuant to the Facility Lease, dated as of July 1, 2006 (the "Facility Lease"), the City has covenanted to comply with its obligations hereunder and to assume all obligations for Continuing Disclosure with respect to the Bonds. The City, the Trustee and the Dissemination Agent covenant and agree as follows:

Section 1. Purpose of this Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City, the Trustee and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters 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 Agreement 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 City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning the ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Central Post Office" means the DisclosureUSA website maintained by the Municipal Advisory Council of Texas or any successor thereto, or any other organization or method approved by the staff or members of the Securities and Exchange Commission (the "SEC") as an intermediary through which issuers may, in compliance with the Rule, make filings required by this Disclosure Certificate.

"Disclosure Representative" shall mean the Director of Finance & Administrative Services of the City or his or her designee, or such other officer or employee as the City shall designate in writing to the Trustee from time to time.

"Dissemination Agent" shall mean the Trustee, or any successor Dissemination Agent which may be designated in writing by the City and which has filed with the Trustee a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories approved by the SEC as of the date of this Agreement are set forth at the following website: http://www.sec.gov/info/municipal/nrmsir.htm.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and the State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the SEC. As of the date of this Disclosure Agreement, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the City's Fiscal Year (presently June 30), commencing with the report for the Fiscal Year 2005-06, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City 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 City's Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the City shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent); provided, however, that the City may distribute the Annual Report itself after providing written notice to the Trustee and the Dissemination Agent. If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the first sentence of this subsection (b).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository, the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached as Exhibit A.

(d) 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) to the extent the City has provided the Annual Report to the Dissemination Agent, file a report with the City and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The City's Annual Report shall contain or include by reference the following:

1. The City's audited financial statements for the prior Fiscal Year, which audited financial statements shall be 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 City'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.

2. To the extent not presented in the audited financial statements, tabular or numerical information for the Fiscal Year covered by the report of the types contained in the Official Statement relating to the Bonds in the following tables, as the case may be:

(a) An update to Table 1, "City of Lincoln Historical Summary of Revenues, Expenditures and Fund Balances, General Fund and Development Services Fund";

(b) An update to Table 2, "City of Lincoln Certain Development Impact Fee Revenues – Historical";

(c) An update to the table in Appendix B entitled "City of Lincoln Building Permits, New Residential"; and

(d) An update to the table in Appendix B entitled "City of Lincoln Building Permit Valuations."

Any or all of the items listed above may be included by specific reference to other documents, including the City's Comprehensive Annual Financial Report, official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the SEC. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City 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 City 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;
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;

11. release, substitution or sale of property securing repayment of the Bonds.

(b) The Trustee shall, promptly upon obtaining actual knowledge at its office as specified in Section 12 hereof of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the City promptly notify the Trustee in writing whether or not to report the event pursuant to subsection (f); provided that, failure by the Trustee to so notify the Disclosure Representative and make such request shall not relieve the City of its duty to report Listed Events as required by this Section 5. Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the City has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly notify the Trustee in writing. Such notice shall instruct the Trustee to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the City determines that the Listed Event would not be material under applicable federal securities laws, the City shall so notify the Trustee in writing and instruct the Trustee not to report the occurrence.

(f) If the Trustee has been instructed by the City to report the occurrence of a Listed Event, the Trustee shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository. 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.

(g) The Trustee may conclusively rely on an opinion of counsel that the City's instructions to the Trustee under this Section 5 comply with the requirements of the Rule.

Section 6. Termination of Reporting Obligation. Each party's obligations under this Disclosure Agreement shall terminate (a) upon the legal defeasance, prior redemption or payment in full of all of the Bonds or (b) if, in the opinion of nationally recognized bond counsel, the City ceases to be an "obligated person" (within the meaning of the Rule) with respect to the Bonds or the Bonds otherwise cease to be subject to the requirements of the Rule. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 7. Dissemination Agent; Use of Central Post Office.

(a) The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, 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 City pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The initial Dissemination Agent shall be U.S. Bank National Association.

(b) The City reserves the right to make any filing with a Repository which is required by this Disclosure Certificate by submitting such filing information to the Central Post Office.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City, the Trustee and the Dissemination Agent may amend this Disclosure Agreement, (and the Trustee and the Dissemination Agent shall agree to any amendment so requested by the City provided such amendment does not impose any greater duties, nor risk of liability, on the Trustee or the Dissemination Agent, as the case may be), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information; Notices to Ambac. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement 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 Agreement. If the City 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 Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event. The City shall provide, or cause the Dissemination Agent to provide, copies of notices filed pursuant hereto to Ambac Assurance Corporation at Ambac Assurance Corporation, One State Street Plaza, New York, New York 10004, Attention: Surveillance Department.

Section 10. Default. In the event of a failure of the City, the Trustee or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City, the Trustee or the Dissemination Agent to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the City, the Trustee or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City, to the extent permitted by law, agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which they 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 or the Trustee's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the City:	City of Lincoln 640 Fifth Street Lincoln, California 95648 Attention: Director of Finance & Administrative Services Telephone: (916) 645-3314 Fax: (916) 645-9502
To the Trustee:	U.S. Bank National Association 1 California Street, Suite 2100 San Francisco, California 94111 Attention: Corporate Trust Fax: (415) 273-4591
To the Dissemination Agent	U.S. Bank National Association 1 California Street, Suite 2100 San Francisco, California 94111 Attention: Corporate Trust Fax: (415) 273-4591

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: ________, 2006

CITY OF LINCOLN

By________________________________
City Manager

U.S. BANK NATIONAL ASSOCIATION, as Trustee and Dissemination Agent

By________________________________
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated	Director of Finance & Administrative Services
Person:	City of Lincoln, California
Name of Issue:	Lincoln Public Financing Authority Lease Revenue Bonds (City Hall Project), Series 2006
Date of Issuance:	_________, 2006

NOTICE IS HEREBY GIVEN that the City of Lincoln, California, has not provided an Annual Report with respect to the above-named Bonds as required by Section 8.09 of the Facility Lease, dated as of July 1, 2006, between the Lincoln Public Financing Authority and the City. The City anticipates that the Annual Report will be filed by ____________.

Dated:______________

CITY OF LINCOLN

By______________________________________
Title_____________________________________

APPENDIX F

FORM OF BOND 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.

President

AMBAC ASSURANCE CORPORATION
CORPORATE
SEAL
WISCONSIN

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.

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:

SPECIMEN

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

President

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

Anne G. Gill

Secretary

Authorized Representative

Form No.: 2B-0004 (7/97)