NEW ISSUES - BOOK-ENTRY ONLY

Taxable (Federal)
Tax-Exempt (State of California)

	Moody's	S&P
FSA Insured Ratings:	**Aaa**	**AAA**
Underlying Ratings:	**A2**	**A**
(See "RATINGS" herein)		

In the opinion of Jones Hall, A Professional Law Corporation, Bond Counsel, interest on the Series 2007 Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, but is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other federal or state tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2007 Bonds. See "TAX MATTERS."

$125,310,000
CITY OF STOCKTON
2007 TAXABLE PENSION OBLIGATION BONDS

consisting of:

$96,985,000
CITY OF STOCKTON
2007 TAXABLE PENSION OBLIGATION BONDS, SERIES A

$28,325,000
CITY OF STOCKTON
2007 TAXABLE PENSION OBLIGATION BONDS, SERIES B

Dated: Date of Delivery **Due: September 1, as shown on inside cover page**

The City of Stockton (the "City") is issuing $125,310,000 aggregate principal amount of City of Stockton 2007 Taxable Pension Obligation Bonds, consisting of $96,985,000 principal amount of 2007 Taxable Pension Obligation Bonds, Series A (the "Series A Bonds") and $28,325,000 principal amount of 2007 Taxable Pension Obligation Bonds, Series B (the "Series B Bonds," and together with the Series A Bonds, the "Series 2007 Bonds") pursuant to the provisions of Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the "Bond Law") and an Indenture of Trust dated as of April 1, 2007 (the "Indenture"), by and between the City and Wells Fargo Bank, National Association, as trustee (the "Trustee") to: (i) refund a portion of the obligation of the City to the California Public Employees' Retirement System ("PERS") evidenced by its contract (the "PERS Contract"), and (ii) pay certain costs associated with the issuance of the Series 2007 Bonds.

The Series 2007 Bonds will be issued to refinance the obligation of the City to make payments to PERS for retirement benefits accruing to its employees and retirees. The obligation of the City to make payments with respect to the Series 2007 Bonds is an absolute and unconditional obligation of the City imposed upon the City by law. Payment of the principal of and interest on the Series 2007 Bonds is not limited to any special source of funds and is payable from any legally available moneys or funds of the City. The City is not empowered or obligated to levy or pledge taxes to make payments with respect to the Series 2007 Bonds. See "PLAN OF FINANCE" and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2007 BONDS."

The Series 2007 Bonds will bear interest at the rates per annum set forth on the inside cover page, payable on March 1 and September 1, commencing September 1, 2007. See "THE SERIES 2007 BONDS." The Series 2007 Bonds are being issued in fully registered form, and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC") in the United States. DTC will act as securities depository for the Series 2007 Bonds. Individual purchases will be made in book-entry form only in denominations of $5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their beneficial ownership interest in the Series 2007 Bonds purchased. See APPENDIX G—"DTC AND THE BOOK-ENTRY ONLY SYSTEM."

The Series 2007 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See "THE SERIES 2007 BONDS–Redemption Provisions."

The scheduled payment of principal of and interest on the Series 2007 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2007 Bonds by FINANCIAL SECURITY ASSURANCE INC. See "MUNICIPAL BOND INSURANCE."

FSA.

THE SERIES 2007 BONDS DO 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 SERIES 2007 BONDS NOR THE OBLIGATION OF THE CITY TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2007 BONDS CONSTITUTES AN INDEBTEDNESS OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

This cover page contains information for general reference only. It is *not* intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

Maturity Schedule
(See inside cover)

The Series 2007 Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to their validity by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriter by its counsel, Quint & Thimmig LLP, San Francisco, California, for the City by the City Attorney and by Lofton & Jennings, San Francisco, California, Disclosure Counsel. It is anticipated that the Series 2007 Bonds, in book-entry only form, will be available for delivery through the DTC book-entry only system in New York, New York in the United States, and through the Euroclear System and Clearstream, Luxembourg in Europe on or about April 5, 2007.

LEHMAN BROTHERS

Dated: March 26, 2007

MATURITY SCHEDULE

$96,985,000
City of Stockton 2007 Taxable Pension Obligation Bonds, Series A

$12,200,000 5.140% Series A Term Bond[(1)] Due September 1, 2017–Yield: 5.140%–Price: 100%–
CUSIP No[†]: 861361AA1–ISIN No.[†]: US861361AA14

$26,230,000 5.365% Series A Term Bond[(1)] Due September 1, 2026–Yield: 5.365%–Price: 100%–
CUSIP No[†]: 861361AB9–ISIN No.[†]: US86136AB96

$58,555,000 5.455% Series A Term Bond[(1)] Due September 1, 2037–Yield: 5.455%–Price: 100%–
CUSIP No[†]: 861361AC7–ISIN No.[†]: US861361AC79

$28,325,000
City of Stockton 2007 Taxable Pension Obligation Bonds, Series B

$8,780,000 5.675% Series B Term Bond[(2)] Due September 1, 2026–Yield: 5.675%–Price: 100%–
CUSIP No[†]: 861361AD5–ISIN No.[†]: US861361AD52

$19,545,000 5.795% Series B Term Bond[(2)] Due September 1, 2037–Yield: 5.795%–Price: 100%–
CUSIP No[†]: 861361AE3–ISIN No.[†]: US861361AE36

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† Copyright, American Bankers Association. CUSIP data herein is provided by Standard and Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is *not* intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP and ISIN numbers are provided for reference only. Neither the City nor the Underwriter takes any responsibility for the accuracy of such numbers.

(1) Callable at make-whole redemption price. See "THE SERIES 2007 BONDS–Redemption Provisions–*Optional Redemption at Make-Whole Redemption Price*."

(2) Callable on or after March 1, 2017 at par. See "THE SERIES 2007 BONDS–Redemption Provisions–*Mandatory Sinking Fund Redemption of Series A Term Bonds*."

CITY OF STOCKTON

CITY COUNCIL

Edward J. Chavez, *Mayor*
Leslie Baranco Martin, *Vice Mayor, District 3*
Steve J. Bestolarides, *Councilmember, District 1*
Dan J. Chapman, *Councilmember, District 2*
Clem Lee, *Councilmember, District*
Susan Talamantes Eggman, *Councilmember, District 5*
Rebecca G. Nabors *Councilmember, District 6*

CITY STAFF

J. Gordon Palmer, *City Manager*
Mark Moses, *Director of Administrative Services/Chief Financial Officer*
Jim Malberg, *Program Manager III*
Richard E. ("Ren") Nosky, Jr., *City Attorney*
Katherine Gong Meissner, *City Clerk*

SPECIAL SERVICES

BOND COUNSEL
Jones Hall, A Professional Law Corporation
San Francisco, California

DISCLOSURE COUNSEL
Lofton & Jennings
San Francisco, California

PRICING ADVISOR
First Southwest Company
Santa Monica, California

TRUSTEE
Wells Fargo Bank, National Association
San Francisco, California

ACTUARIAL CONSULTANT
Bartel Associates, LLC
San Mateo, California

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 Series 2007 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the City or the Underwriter.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2007 Bonds. Statements contained in this Official Statement which involve estimates, projections, 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 facts.

Certain of the information set forth herein has been obtained from official sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter. The information and expressions of opinion 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 City since the date hereof. This Official Statement is submitted with respect to the sale of the Series 2007 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

In connection with the offering of the Series 2007 Bonds, 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 may offer and sell the Series 2007 Bonds to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

Certain statements in this Official Statement, which may be identified by the use of such terms as "plan," "project," "expect," "estimate," "budget" or other similar words, constitute forward-looking statements. Such forward-looking statements refer to the achievement of certain results or other expectation or performance which involve known and unknown risks, uncertainties and other factors. These risks, uncertainties and other factors may cause actual results, performance or achievements to be materially different from any projected results, performance or achievements described or implied by such forward-looking statements. The City does not plan to issue updates or revisions to such forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based, occur, or if actual results, performance or achievements are materially different from any results, performance or achievements described or implied by such forward-looking statements.

The Series 2007 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption from the registration requirements contained in such Act.

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 a 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.

Other than with respect to information concerning Financial Security Assurance Inc. (the "Bond Insurer") contained under the caption "MUNICIPAL BOND INSURANCE" and APPENDIX H–"SPECIMEN MUNICIPAL BOND INSURANCE POLICY" none of the information in this Official Statement has been supplied or verified by the Bond Insurer and the Bond Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series 2007 Bonds; or (iii) the tax exempt status of the interest on the Series 2007 Bonds.

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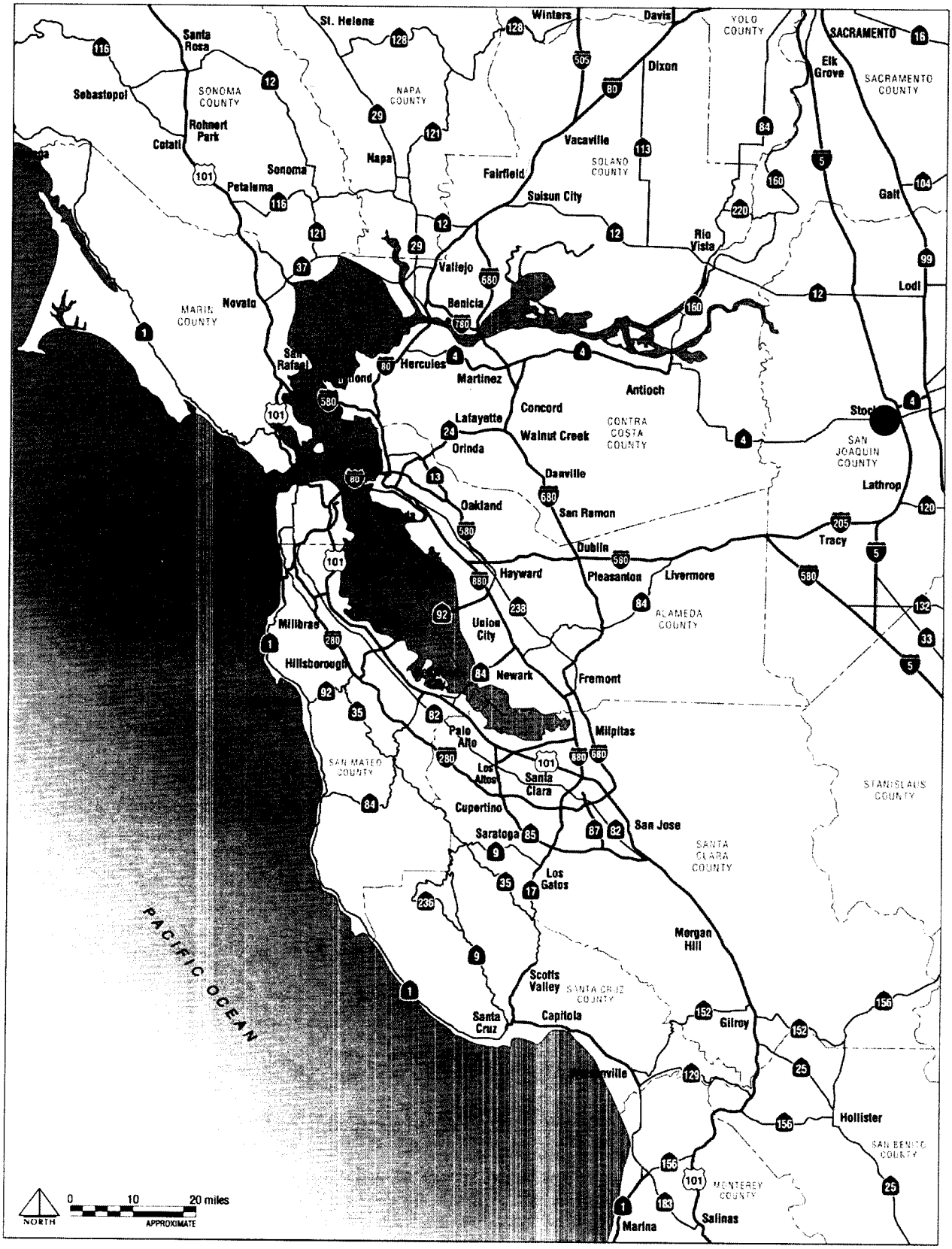
REGIONAL MAP
City of Stockton
San Joaquin County, California



OFFICIAL STATEMENT

$125,310,000
CITY OF STOCKTON
2007 TAXABLE PENSION OBLIGATION BONDS

consisting of:

$96,985,000
CITY OF STOCKTON
2007 TAXABLE PENSION OBLIGATION BONDS, SERIES A

$28,325,000
CITY OF STOCKTON
2007 TAXABLE PENSION OBLIGATION BONDS, SERIES B

INTRODUCTION

This Introduction is subject in all respects to the more complete information contained elsewhere in this Official Statement, and the offering of the Series 2007 Bonds to potential investors is made only by means of the entire Official Statement. Terms used in this Introduction and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement.

General

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to set forth certain information concerning the issuance and sale by the City of Stockton (the "City") of $125,310,000 aggregate principal amount of City of Stockton 2007 Taxable Pension Obligation Bonds, consisting of $96,985,000 principal amount of 2007 Taxable Pension Obligation Bonds, Series A (the "Series A Bonds") and $28,325,000 principal amount of 2007 Taxable Pension Obligation Bonds, Series B (the "Series B Bonds," and together with the Series A Bonds, the "Series 2007 Bonds"). The Series 2007 Bonds are being issued pursuant to Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the "Bond Law") and an Indenture of Trust, dated as of April 1, 2007 (the "Indenture"), by and between the City and Wells Fargo Bank, National Association, as trustee (the "Trustee").

Pursuant to its contract (the "PERS Contract") with the Board of Administration of the California Public Employees' Retirement System ("PERS" or the "Retirement System") and Section 20000 *et seq.* of the California Government Code (the "PERS Retirement Law"), the City is obligated to make payments to PERS arising as a result of retirement benefits accruing to its members of PERS. This obligation of the City includes, among others, the requirement to amortize the unfunded accrued actuarial liability (a "UAAL") with respect to such retirement benefits.

The Series 2007 Bonds will be issued pursuant to the Indenture for the purpose of: (i) refunding a portion of the obligation of the City to PERS evidenced by the PERS Contract, and (ii) paying certain costs associated with the issuance of the Series 2007 Bonds. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS."

Security and Sources of Payment for the Series 2007 Bonds

The obligation of the City to pay the principal of and interest on the Series 2007 Bonds when due is an absolute and unconditional obligation of the City imposed by law, and payment of principal of and interest on the Series 2007 Bonds is not limited to any special source of funds. Pursuant to the Indenture, the City is obligated to deposit with the Trustee for payment of debt service on the Series 2007 Bonds for the current Fiscal Year no later than August 15 of each year commencing August 15, 2007. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2007 BONDS."

THE SERIES 2007 BONDS DO 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 SERIES 2007 BONDS NOR THE OBLIGATION OF THE CITY TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2007 BONDS CONSTITUTES AN INDEBTEDNESS OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Municipal Bond Insurance

The scheduled payment of principal of and interest on the Series 2007 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2007 Bonds by Financial Security Assurance Inc. (the "Bond Insurer"). See "MUNICIPAL BOND INSURANCE" and APPENDIX H–"SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

Validation

The authorization by the City of the issuance of the Series 2007 Bonds as obligations imposed by law, and as to the validity and conformity of the Series 2007 Bonds with all applicable provisions of law, were validated by a judgment of the Superior Court of the State of California in and for the County of San Joaquin (the "County") entered on January 3, 2007. The time period for the filing of appeals with respect to the judgment has expired. No appeals were filed and therefore, the judgment is final. See "VALIDATION PROCEEDINGS."

Continuing Disclosure

The City has agreed to provide, or cause to be provided, in accordance with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"), certain annual financial information and operating data, including the audited financial statements of the City. See "CONTINUING DISCLOSURE" and APPENDIX F–"FORM OF CONTINUING DISCLOSURE CERTIFICATE."

This City has never failed to comply in any material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of the occurrence of material events.

Summaries Not Definitive

Brief descriptions of the Series 2007 Bonds, the City, PERS, the PERS Contract and the Indenture are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Series 2007 Bonds and the Indenture are qualified in their entirety by reference to the actual documents, or with respect to the Series 2007 Bonds, the form thereof included in the Indenture, copies of all of which are available for inspection at the offices of the Director of Administrative Services/Chief Financial Officer, City Hall, 425 North El Dorado Street, Stockton, California 95202 and will be available upon request and payment of duplication costs from the Trustee at 333 Market Street, San Francisco, California 94105; Attention: Corporate Trust Services.

PLAN OF FINANCE

The Series 2007 Bonds are being issued to: (i) refund a portion of the obligation of the City to PERS evidenced by the PERS Contract and (ii) pay certain costs associated with the issuance of the Series 2007 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS."

A portion of the proceeds of the Series 2007 Bonds will be used to provide funds to allow the City to refund a portion of its current UAAL with respect to retirement benefits accruing to its members of PERS as evidenced by the PERS Contract. The City's obligations under the PERS Contract are, and the City's obligations with respect to the Series 2007 Bonds upon issuance, including the obligation to make all payments of interest and principal when due, are obligations of the City imposed by law and are absolute and unconditional, without any right of set-off or counterclaim and will not be limited as to payment to any special source of funds of the City. **The Series 2007 Bonds do not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation. Neither the Series 2007 Bonds nor the obligation of the City to make payments on the Series 2007 Bonds constitute an indebtedness of the City, the State, or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.** See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

An independent actuary, Bartel Associates, LLC (the "Actuarial Consultant") will certify that as of delivery of the Series 2007 Bonds, the UAAL is at least equal to the principal amount of the Series 2007 Bonds.

The PERS Contract is an absolute and unconditional obligation of the City, and is not limited as to payment as to any source of funds of the City. Upon the refunding of the PERS Contract with the proceeds of the Series 2007 Bonds, the obligation of the City with respect to Series 2007 Bonds will be an absolute and unconditional obligation of the City.

For information concerning PERS and the Retirement System, see APPENDIX C–"CERTAIN INFORMATION REGARDING THE CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM."

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Series 2007 Bonds are set forth below:

SOURCES OF FUNDS:	
Par Amount of Series 2007 Bonds	$125,310,000
TOTAL SOURCES	$125,310,000
USES OF FUNDS:	
Refunding of PERS Contract	$123,675,000
Costs of Issuance†	1,635,000
TOTAL USES	$125,310,000

† Includes Underwriter's discount, fees of Bond Counsel and Disclosure Counsel, fees of the Pricing Advisor, the Actuarial Consultant, the Trustee, the bond insurance premium, rating agencies fees, printing costs and other miscellaneous costs and expenses.

DEBT SERVICE SCHEDULE[†]

The following table sets forth the annual debt service schedule for the Series 2007 Bonds.

	Series 2007A Bonds			Series 2007B Bonds			Series 2007 Bonds		
Date	Principal Amount	Interest	Total	Principal Amount	Interest	Total	Principal Amount	Interest	Total
September 1, 2007	$250,000	$2,120,445.09	$2,370,445.09	--	$661,419.65	$661,419.65	$250,000	$2,781,864.74	$3,031,864.74
March 1, 2008	--	2,607,822.38	2,607,822.38	--	815,448.87	815,448.87	--	3,423,271.25	3,423,271.25
September 1, 2008	20,000	2,607,822.38	2,627,822.38	--	815,448.87	815,448.87	20,000	3,423,271.25	3,443,271.25
March 1, 2009	--	2,607,308.38	2,607,308.38	--	815,448.87	815,448.87	--	3,422,757.25	3,422,757.25
September 1, 2009	130,000	2,607,308.38	2,737,308.38	--	815,448.87	815,448.87	130,000	3,422,757.25	3,552,757.25
March 1, 2010	--	2,603,967.38	2,603,967.38	--	815,448.87	815,448.87	--	3,419,416.25	3,419,416.25
September 1, 2010	250,000	2,603,967.38	2,853,967.38	--	815,448.87	815,448.87	250,000	3,419,416.25	3,669,416.25
March 1, 2011	--	2,597,542.38	2,597,542.38	--	815,448.87	815,448.87	--	3,412,991.25	3,412,991.25
September 1, 2011	380,000	2,597,542.38	2,977,542.38	--	815,448.87	815,448.87	380,000	3,412,991.25	3,792,991.25
March 1, 2012	--	2,587,776.38	2,587,776.38	--	815,448.87	815,448.87	--	3,403,225.25	3,403,225.25
September 1, 2012	930,000	2,587,776.38	3,517,776.38	--	815,448.87	815,448.87	930,000	3,403,225.25	4,333,225.25
March 1, 2013	--	2,563,875.38	2,563,875.38	--	815,448.87	815,448.87	--	3,379,324.25	3,379,324.25
September 1, 2013	1,580,000	2,563,875.38	4,143,875.38	--	815,448.87	815,448.87	1,580,000	3,379,324.25	4,959,324.25
March 1, 2014	--	2,523,269.38	2,523,269.38	--	815,448.87	815,448.87	--	3,338,718.25	3,338,718.25
September 1, 2014	1,800,000	2,523,269.38	4,323,269.38	--	815,448.87	815,448.87	1,800,000	3,338,718.25	5,138,718.25
March 1, 2015	--	2,477,009.38	2,477,009.38	--	815,448.87	815,448.87	--	3,292,458.25	3,292,458.25
September 1, 2015	2,035,000	2,477,009.38	4,512,009.38	--	815,448.87	815,448.87	2,035,000	3,292,458.25	5,327,458.25
March 1, 2016	--	2,424,709.88	2,424,709.88	--	815,448.87	815,448.87	--	3,240,158.75	3,240,158.75
September 1, 2016	2,280,000	2,424,709.88	4,704,709.88	--	815,448.87	815,448.87	2,280,000	3,240,158.75	5,520,158.75
March 1, 2017	--	2,366,113.88	2,366,113.88	--	815,448.87	815,448.87	--	3,181,562.75	3,181,562.75
September 1, 2017	2,545,000	2,366,113.88	4,911,113.88	--	815,448.87	815,448.87	2,545,000	3,181,562.75	5,726,562.75
March 1, 2018	--	2,300,707.38	2,300,707.38	--	815,448.87	815,448.87	--	3,116,156.25	3,116,156.25
September 1, 2018	2,115,000	2,300,707.38	4,415,707.38	$715,000	815,448.87	1,530,448.87	2,830,000	3,116,156.25	5,946,156.25
March 1, 2019	--	2,243,972.50	2,243,972.50	--	795,160.75	795,160.75	--	3,039,133.25	3,039,133.25
September 1, 2019	2,345,000	2,243,972.50	4,588,972.50	790,000	795,160.75	1,585,160.75	3,135,000	3,039,133.25	6,174,133.25
March 1, 2020	--	2,181,067.88	2,181,067.88	--	772,744.50	772,744.50	--	2,953,812.38	2,953,812.38
September 1, 2020	2,595,000	2,181,067.88	4,776,067.88	865,000	772,744.50	1,637,744.50	3,460,000	2,953,812.38	6,413,812.38
March 1, 2021	--	2,111,457.00	2,111,457.00	--	748,200.13	748,200.13	--	2,859,657.13	2,859,657.13
September 1, 2021	2,850,000	2,111,457.00	4,961,457.00	950,000	748,200.13	1,698,200.13	3,800,000	2,859,657.13	6,659,657.13
March 1, 2022	--	2,035,005.75	2,035,005.75	--	721,243.88	721,243.88	--	2,756,249.63	2,756,249.63
September 1, 2022	3,125,000	2,035,005.75	5,160,005.75	1,045,000	721,243.88	1,766,243.88	4,170,000	2,756,249.63	6,926,249.63
March 1, 2023	--	1,951,177.63	1,951,177.63	--	691,592.00	691,592.00	--	2,642,769.63	2,642,769.63
September 1, 2023	3,420,000	1,951,177.63	5,371,177.63	1,140,000	691,592.00	1,831,592.00	4,560,000	2,642,769.63	7,202,769.63

[†] Columns may not total due to rounding.

	Series 2007A Bonds			Series 2007B Bonds			Series 2007 Bonds		
Date	Principal Amount	Interest	Total	Principal Amount	Interest	Total	Principal Amount	Interest	Total
March 1, 2024	–	$1,859,436.13	$1,859,436.13	–	$659,244.50	$659,244.50	–	$2,518,680.63	$2,518,680.63
September 1, 2024	$3,725,000	1,859,436.13	5,584,436.13	$1,245,000	659,244.50	1,904,244.50	$4,970,000	2,518,680.63	7,488,680.63
March 1, 2025	–	1,759,513.00	1,759,513.00	–	623,917.63	623,917.63	–	2,383,430.63	2,383,430.63
September 1, 2025	2,845,000	1,759,513.00	4,604,513.00	950,000	623,917.63	1,573,917.63	3,795,000	2,383,430.63	6,178,430.63
March 1, 2026	–	1,683,195.88	1,683,195.88	–	596,961.37	596,961.37	–	2,280,157.25	2,280,157.25
September 1, 2026	3,210,000	1,683,195.88	4,893,195.88	1,080,000	596,961.37	1,676,961.37	4,290,000	2,280,157.25	6,570,157.25
March 1, 2027	–	1,597,087.63	1,597,087.63	–	566,316.37	566,316.37	–	2,163,404.00	2,163,404.00
September 1, 2027	3,485,000	1,597,087.63	5,082,087.63	1,165,000	566,316.37	1,731,316.37	4,650,000	2,163,404.00	6,813,404.00
March 1, 2028	–	1,502,034.25	1,502,034.25	–	532,560.50	532,560.50	–	2,034,594.75	2,034,594.75
September 1, 2028	3,780,000	1,502,034.25	5,282,034.25	1,260,000	532,560.50	1,792,560.50	5,040,000	2,034,594.75	7,074,594.75
March 1, 2029	–	1,398,934.75	1,398,934.75	–	496,052.00	496,052.00	–	1,894,986.75	1,894,986.75
September 1, 2029	4,080,000	1,398,934.75	5,478,934.75	1,365,000	496,052.00	1,861,052.00	5,445,000	1,894,986.75	7,339,986.75
March 1, 2030	–	1,287,652.75	1,287,652.75	–	456,501.13	456,501.13	–	1,744,153.88	1,744,153.88
September 1, 2030	4,405,000	1,287,652.75	5,692,652.75	1,470,000	456,501.13	1,926,501.13	5,875,000	1,744,153.88	7,619,153.88
March 1, 2031	–	1,167,506.38	1,167,506.38	–	413,907.87	413,907.87	–	1,581,414.25	1,581,414.25
September 1, 2031	4,750,000	1,167,506.38	5,917,506.38	1,585,000	413,907.87	1,998,907.87	6,335,000	1,581,414.25	7,916,414.25
March 1, 2032	–	1,037,950.13	1,037,950.13	–	367,982.50	367,982.50	–	1,405,932.63	1,405,932.63
September 1, 2032	5,115,000	1,037,950.13	6,152,950.13	1,705,000	367,982.50	2,072,982.50	6,820,000	1,405,932.63	8,225,932.63
March 1, 2033	–	898,438.50	898,438.50	–	318,580.13	318,580.13	–	1,217,018.63	1,217,018.63
September 1, 2033	5,495,000	898,438.50	6,393,438.50	1,840,000	318,580.13	2,158,580.13	7,335,000	1,217,018.63	8,552,018.63
March 1, 2034	–	748,562.38	748,562.38	–	265,266.12	265,266.12	–	1,013,828.50	1,013,828.50
September 1, 2034	5,910,000	748,562.38	6,658,562.38	1,970,000	265,266.12	2,235,266.12	7,880,000	1,013,828.50	8,893,828.50
March 1, 2035	–	587,367.13	587,367.13	–	208,185.37	208,185.37	–	795,552.50	795,552.50
September 1, 2035	6,340,000	587,367.13	6,927,367.13	2,115,000	208,185.37	2,323,185.37	8,455,000	795,552.50	9,250,552.50
March 1, 2036	–	414,443.63	414,443.63	–	146,903.25	146,903.25	–	561,346.88	561,346.88
September 1, 2036	6,795,000	414,443.63	7,209,443.63	2,270,000	146,903.25	2,416,903.25	9,065,000	561,346.88	9,626,346.88
March 1, 2037	–	229,110.00	229,110.00	–	81,130.00	81,130.00	–	310,240.00	310,240.00
September 1, 2037	8,400,000	229,110.00	8,629,110.00	2,800,000	81,130.00	2,881,130.00	11,200,000	310,240.00	11,510,240.00
TOTAL	$96,985,000	$110,828,476.05	$207,813,476.05	$28,325,000	$37,526,194.79	$65,851,194.79	$125,310,000	$148,354,670.84	$273,664,670.84

[†] Columns may not total due to rounding.

THE SERIES 2007 BONDS

General

The Series 2007 Bonds will be issued in fully registered form, dated as of the date of delivery without coupons, and, when issued will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), as registered owner of all Series 2007 Bonds. Ownership interests in the Series 2007 Bonds may be purchased in book-entry form only in denominations of $5,000 or any integral multiple thereof ("Authorized Denominations"). Purchasers will not receive certificates representing their interests in the Series 2007 Bonds purchased. Payments of principal of the interest on the Series 2007 Bonds, as applicable will be paid by the Trustee to DTC, which is obligated in turn to remit payments to its DTC Participants for subsequent disbursement to the beneficial owners of the Series 2007 Bonds. See APPENDIX G–"DTC AND THE BOOK-ENTRY ONLY SYSTEM." Ownership may be changed only upon the registration books maintained by the Trustee as provided in each 2006 Indenture.

The Series 2007 Bonds will be mature on September 1 in the years and in the respective principal amounts and bear interest at the rates per annum as shown on the inside cover of this Official Statement. Interest on the Series 2007 Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months and is payable on March 1 and September 1, commencing September 1, 2007 (each an "Interest Payment Date").

Redemption Provisions

Optional Redemption at Make-Whole Redemption Price. All of the Series 2007 Bonds are subject to optional redemption prior to their maturity at the option of the City, in whole or in part (and if in part, on a *pro rata* basis among the Beneficial Owners) on any date, at a redemption price equal to the greater of:

- 100% of the principal amount of the Series 2007 Bonds to be redeemed; or

- the sum of the present values of the remaining scheduled payments of principal and interest on the Series 2007 Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-days months) at the Treasury Note Rate (defined below) plus 12.5 basis points;

plus in each case, accrued and unpaid interest on the Series 2007 Bonds being redeemed to the date fixed for redemption. For purposes of this optional redemption provision, the following terms have the following respective meanings:

"*Comparable Treasury Issue*" means the United States Treasury security or securities selected by Lehman Brothers Inc. (or any successor Broker-Dealer) which has an actual or interpolated maturity comparable to the remaining average life of the Series 2007 Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of such Series 2007 Bonds.

"*Comparable Treasury Price*" means with respect to any redemption date, (i) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Deal Quotations, or (ii) if the City obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"*Reference Treasury Dealer*" means Lehman Brothers Inc. (or any successor Broker-Dealer) and three other firms, specified by the City from time to time, that are primary U.S. Government securities dealers in the City of New York (each a "Primary Treasury Dealer"); *provided, however,* that if any of them ceases to be a Primary Treasury Dealer, the City will substitute another Primary Treasury Dealer.

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

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

Optional Redemption of Series B Bonds at Par. The Series B Bonds are subject to optional redemption prior to their maturity at the option of the City, in whole or in part, and if in part, on a *pro rata* basis among the Beneficial Owners, on any date on or after September 1, 2017, at a redemption price equal to 100% of the principal amount thereof to be redeemed plus accrued interest thereon to the redemption date, without premium.

Mandatory Sinking Fund Redemption of Series A Term Bonds. The Series A Bonds maturing on September 1, 2017, September 1, 2026 and September 1, 2037 (the "Series A Term Bonds") are subject to mandatory sinking fund redemption in whole, or in part on a *pro rata* basis among the Beneficial Owners of the Series A Term Bonds, at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium, plus accrued interest to the date of redemption, in the aggregate respective principal amounts as set forth below:

Series A Term Bonds Maturing September 1, 2017

Sinking Fund Redemption Date (September 1)	**Principal Amount**
2007	$250,000
2008	20,000
2009	130,000
2010	250,000
2011	380,000
2012	930,000
2013	1,580,000
2014	1,800,000
2015	2,035,000
2016	2,280,000
2017†	2,545,000

† Maturity.

Series A Term Bonds Maturing September 1, 2026

Sinking Fund Redemption Date (September 1)	Principal Amount
2018	$2,115,000
2019	2,345,000
2020	2,595,000
2021	2,850,000
2022	3,125,000
2023	3,420,000
2024	3,725,000
2025	2,845,000
2026[†]	3,210,000

Series A Term Bonds Maturing September 1, 2037

Sinking Fund Redemption Date (September 1)	Principal Amount
2027	$3,485,000
2028	3,780,000
2029	4,080,000
2030	4,405,000
2031	4,750,000
2032	5,115,000
2033	5,495,000
2034	5,910,000
2035	6,340,000
2036	6,795,000
2037[††]	8,400,000

[†] Maturity.

[††] Final Maturity.

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Mandatory Sinking Fund Redemption of Series B Term Bonds. The Series B Bonds maturing on September 1, 2026 and September 1, 2037 (the "Series B Term Bonds") are subject to mandatory sinking fund redemption in whole, or in part on a *pro rata* basis among the Beneficial Owners of the Series B Term Bonds, at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium, plus accrued interest to the date of redemption, in the aggregate respective principal amounts as set forth below:

Series B Term Bonds Maturing September 1, 2026

Sinking Fund Redemption Date (September 1)	**Principal Amount**
2018	$715,000
2019	790,000
2020	865,000
2021	950,000
2022	1,045,000
2023	1,140,000
2024	1,245,000
2025	950,000
2026†	1,080,000

Series B Term Bonds Maturing September 1, 2037

Sinking Fund Redemption Date (September 1)	**Principal Amount**
2027	$1,165,000
2028	1,260,000
2029	1,365,000
2030	1,470,000
2031	1,585,000
2032	1,705,000
2033	1,840,000
2034	1,970,000
2035	2,115,000
2036	2,270,000
2037††	2,800,000

† Maturity.

†† Final Maturity.

Redemption Procedures

Notice of Redemption. The Trustee is required to give notice of redemption by first class mail, at least 30 but not more than 60 days prior to the date fixed for redemption, to the Owners of any Series 2007 Bonds, or portions thereof, designated for redemption, to the Bond Insurer, the Securities Depositories and to one or more Information Services. Neither failure to receive any such notice so mailed nor any defect therein will affect the validity of the proceedings for the redemption of such Series 2007 Bonds or the cessation of the accrual of interest thereon.

So long as the Series 2007 Bonds are in book-entry only form through the facilities of DTC, notice of redemption will be provided to Cede & Co., as the registered owner of the Series 2007 Bonds, and not directly to the Beneficial Owners.

Right to Rescind Notice of Redemption. Any notice of optional redemption of the Series 2007 Bonds may be cancelled and annulled by the City if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Series 2007 Bonds then called for redemption. Any such cancellation or annulment will not constitute an Event of Default under the Indenture and the neither the City nor the Trustee shall have any liability to the Owners or any other party related to or arising from such rescission of redemption.

Selection of Series 2007 Bonds for Redemption. If less than all of the Series 2007 Bonds, the Trustee will select the Series 2007 Bonds to be redeemed *pro rata* in any manner which the Trustee in its sole discretion deems appropriate. For purposes of such selection, all Series 2007 Bonds will be deemed to be comprised of separate Series 2007 Bonds of minimum Authorized Denominations which may be separately redeemed.

Effect of Redemption. From and after the date fixed for redemption, if notice of redemption has been duly mailed and funds available for the payment of the principal of and interest (and premium, if any) on the Series 2007 Bonds so called for redemption have been duly provided, such Series 2007 Bonds so called shall cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price, and no interest shall accrue thereon from and after the redemption date specified in such notice. Unless otherwise directed in writing by the City, the Trustee shall cancel and destroy all Series 2007 Bonds redeemed under this section.

Purchase in Lieu of Redemption. In lieu of redemption of a series of Series 2007 Bonds as provided in the Indenture, upon receipt by the Trustee of a Request of the City prior to the selection of Series 2007 Bonds for redemption, the Trustee will apply the amounts held for redemption to the purchase such series of Series 2007 Bonds at public or private sale as and when and at such prices (including brokerage, accrued interest and other charges) as the City may in its discretion direct, but not to exceed the redemption price which would be payable if such Series 2007 Bonds were redeemed. The Trustee will treat any Series 2007 Bonds purchased in lieu of redemption as if such Series 2007 Bonds were redeemed for all purposes of the Indenture. The City may not purchase the Series 2007 Bonds either outright or in lieu of redemption for purposes other than retiring the Series 2007 Bonds.

Additional Bonds

The City may from time to time issue additional bonds to defease, retire or refund all or any portion of the Series 2007 Bonds or to refund any other evidences of indebtedness of the City arising pursuant to the PERS Retirement Law, which such additional bonds may be issued on a parity with the Series 2007 Bonds without the consent of any Owner.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2007 BONDS

General

The Series 2007 Bonds are not subject to the debt limitations of the California Constitution, and the City is obligated to satisfy its obligations under the Series 2007 Bonds from any money lawfully available in any fund of the City. The Series 2007 Bonds are not limited as to payment to any special funds of the City. ***The assets of PERS are not available for payment of the Series 2007 Bonds and the Series 2007 Bonds do not constitute an obligation of PERS.***

The Indenture provides that on or before July 1 of each year commencing July 1, 2007, the Trustee will determine the amount which the City is obligated to deposit with the Trustee for payment of scheduled principal of and interest on the Series 2007 Bonds during the current Fiscal Year, including the principal of the Series A Term Bonds or the Series B Term Bonds (collectively, the "Term Bonds") which are subject to mandatory sinking fund redemption in such Fiscal Year, and notify the City in writing of the amount so determined. The City agrees and covenants in the Indenture that not later than August 15 following receipt of such written notice from the Trustee it will transfer the amount set forth in such written notice in a separate fund (the "Debt Service Fund").

Debt Service Fund

The Debt Service Fund will be held by the Trustee and so long as any Series 2007 Bonds are Outstanding, the amounts on deposit therein will be used to pay principal of, premium, if any, and interest on the Series 2007 Bonds, including the principal amount of Term Bonds upon Mandatory Sinking Fund Redemption thereof. Any amounts remaining on deposit in the Debt Service Fund on March 2 of each year following the payment of all required payments on the Series 2007 Bonds will be retained therein and applied as a credit towards the next payment required to be made by the City with respect to debt service on the Series 2007 Bonds.

Not later than the fifth Business Day immediately preceding each Interest Payment Date, the Trustee will determine if the amounts held in the Debt Service Fund will be sufficient to pay the amounts coming due and payable in such date. If the Trustee determines that the amounts held in the Debt Service Fund will be insufficient to make such payment, then the Trustee is required to immediately notify the City and the City is required to pay the amount of such insufficiency to the Trustee from any source of legally available funds of the City, and such payment is required to be made no later than three Business Days prior to the Interest Payment Date.

Rate Stabilization Fund

Pursuant to the Indenture, the Trustee will establish a special fund (the "Rate Stabilization Fund"). From time to time, the City may make deposits into the Rate Stabilization Fund, from any source of legally available funds, in amounts as the City may determine. At the Request of the City filed with the Trustee, the Trustee will disburse amounts in the Rate Stabilization Fund for any one or more of the following:

(i) for the purpose of paying any amount due with respect to the Series 2007 Bonds by transferring such amount to the Debt Service Fund;

(ii) for the purpose of paying the redemption price of any Series 2007 Bonds upon optional redemption thereof pursuant to the Indenture; or

(iii) for the purpose of providing for the payment of the PERS Obligations, by transferring such amounts to PERS in accordance with a Request of the City.

Amounts on deposit in the Rate Stabilization Fund are not pledged to and do not secure the Series 2007 Bonds. All interest earnings on deposits in the Rate Stabilization Fund will be retained therein.

THE SERIES 2007 BONDS DO 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 SERIES 2007 BONDS NOR THE OBLIGATION OF THE CITY TO PAY THE PRINCIPAL OR

REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2007 BONDS CONSTITUTES AN INDEBTEDNESS OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

MUNICIPAL BOND INSURANCE

The following information has been provided by Financial Security Assurance Inc. (the "Bond Insurer") for use in this Official Statement. Reference is made to APPENDIX H for a specimen of the municipal bond insurance policy of the Bond Insurer. Neither the City nor the Underwriter makes any representation as to the accuracy or completeness of this information or as to the absence of material adverse changes in this information subsequent to the date hereof.

Municipal Bond Insurance Policy

Concurrently with the issuance of the Series 2007 Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Series 2007 Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Series 2007 Bonds when due as set forth in the form of the Policy included as APPENDIX H to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2006, Financial Security's combined policyholders' surplus and contingency reserves were approximately $2,581,107,000 and its total net unearned premium reserve was approximately $1,992,163,000 in accordance with statutory accounting principles. At September 30, 2006, Financial Security's consolidated shareholder's equity was approximately $3,058,987,000 and its total net unearned premium reserve was approximately $1,590,538,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Series 2007 Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Series 2007 Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Series 2007 Bonds or the advisability of investing in the Series 2007 Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the City the information presented under this caption for inclusion in the Official Statement.

CERTAIN RISK FACTORS

This section provides a general overview of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in evaluating an investment in the Series 2007 Bonds. This section is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the Series 2007 Bonds, and the order in which this information is presented does not necessarily reflect the relative importance of various risks. Potential investors in the Series 2007 Bonds are advised to consider the following factors, among others, and to review this entire Official Statement to obtain information essential to the making of an informed investment decision. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the marketability of the Series 2007 Bonds. There can be no assurance that other risk factors not discussed herein will not become material in the future.

Limitation of Remedies

The rights of the owners of the Series 2007 Bonds are subject to the limitations on legal remedies against cities in the State of California, including applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally, now or hereafter in effect, and to the application of general principles of equity, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or in law. Bankruptcy proceedings, if initiated, could subject the owners of the Series 2007 Bonds to judicial discretion and interpretation of their rights in bankruptcy proceedings or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

Revenue Sources to Pay the Series 2007 Bonds

The City receives a significant portion of its funding from subventions by the State. For Fiscal Year 2006-07 approximately 45% of the City's General Fund Budget (consisting of sales tax and property tax) consisted of payments collected by the State and passed through to local governments or collected by the County and allocated to local governments by State law. Although the County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan") pursuant to which the County advances 100% of the tax levy to the participating tax entity rather than the actual tax collections, if the delinquency rate exceeds 3% in any Fiscal Year, the County could discontinue such plan. See APPENDIX A–GENERAL ECONOMIC, DEMOGRAPHIC AND FINANCIAL INFORMATION RELATING TO THE CITY OF STOCKTON–FINANCIAL INFORMATION–Property Taxes–*Ad Valorem Property Taxes*–Teeter Plan."

Pension Benefit Liability

Many factors influence the amount of the City's pension benefit liability, including, without limitation, inflationary factors, changes in statutory provisions of the PERS Retirement Law, changes in the levels of benefit provided or in the contribution rates of the City, increases or decreases in the number

of covered employees, changes in actuarial assumptions or methods, and differences between the actual and anticipated investment experience of PERS. Any of these factors could give rise to additional liability of the City to PERS as a result of which the City would be obligated to make additional payments to PERS over the amortization schedule for full funding of the City's obligation to PERS. See "PLAN OF FINANCE" and APPENDIX C–"CERTAIN INFORMATION REGARDING THE CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM."

Changes in Law

There can be no assurance that the State Legislature will not at some future time enact legislation that will amend or create laws resulting in a reduction of moneys securing or available to pay the Series 2007 Bonds. Similarly, the State electorate could adopt initiatives or the State Legislature could adopt legislation with the approval of the electorate amending the State Constitution which could have the effect of reducing moneys securing or available to pay the Series 2007 Bonds.

Natural Disasters

The occurrence of any natural disaster in the City, including, without limitation, earthquake or flood (discussed below), could have an adverse material impact on the economy within the City, its General Fund and the revenues available for the payment of the Series 2007 Bonds.

Earthquake. There are several active geological faults in the State that have potential to cause serious earthquakes that could result in damage within the City, buildings, roads, bridges, and other property. While the City is not located in any existing special study zone delineated by the State Division of Mines and Geology as an area of known active faults, it is possible that new geological faults could be discovered in the area and that an earthquake occurring on such faults could result in damage of varying degrees of seriousness to property and infrastructure in the City.

Risk of Flooding. In accordance with the National Flood Insurance Reform Act (the "NFIRA") requiring, among other things, that the Federal Emergency Management Agency ("FEMA") assess its flood hazard map inventory at least once every five years. In 1995, the U.S. Army Corps of Engineers (the "Corps of Engineers") informed the City that updated flood insurance rate maps would be prepared. In the absence of the construction of flood improvements, FEMA indicated that all of metropolitan Stockton would be located within the boundaries of a 100-year floodplain. A 100-year floodplain is an area expected to be inundated during a flood event of the magnitude for which there is a 1% (or 1-in-100) probability of occurrence in any year.

In response, the City, the County, and the San Joaquin County Flood Control and Water Conservation District formed the San Joaquin Area Flood Control Agency ("SJAFCA"), a Joint Powers Authority created in May 1995. SJAFCA officials convinced representatives of FEMA to delay issuing the maps until SJAFCA constructed a Flood Protection Restoration Project (the "FPRP") which also took into account full-buildout within the areas in accordance with then-existing general plans. The FPRP was completed in 1998 and consisted of flood wall and levee improvements along 40 miles of existing channel levees, 12 miles of new levees, widening of existing floodway with set-back levees and set-back benching, modifications to 24 bridges and the addition of two major detention basins. As a result, the updated flood insurance rate maps issued on April 2, 2002, permits development within all of metropolitan Stockton and surrounding areas without further restriction due to potential flood risk. The City makes no representation that construction of the FPRP will guaranty that FEMA will not in the future issue revised flood insurance rate maps that would again place all or some of the City within the boundaries of a 100-year floodplain

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Described below are certain measures which have impacted or may in the future impact the General Fund Budget of the City.

Article XIII A of the California Constitution

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property 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 newly constructed, or when 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 a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any *ad valorem* tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and 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.

Legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of assessed value and all general tax rates reflect the $1 per $100 of taxable value. Tax rates for voter approved bonded indebtedness and pension liability are also applied to 100% of assessed value.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be assessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster and certain improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the City.

Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

Article XIII B of the California Constitution

On November 6, 1979, California voters approved Proposition 4, the Gann Initiative, which added Article XIII B to the California Constitution. In June 1990, Article XIII B was amended by the voters through their approval of Proposition 111. Article XIII B of the California Constitution limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The "base year" for establishing such appropriation limit is fiscal year 1978-79. Increases in appropriations by a governmental entity are also permitted (1) if financial responsibility for providing services is transferred to the governmental entity, or (2) for emergencies so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the

Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the Federal government, appropriations for qualified outlay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to any entity of government from (1) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (2) the investment of tax revenues and (3) certain State subventions received by local governments. As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received by the City over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years.

As amended in June 1990, the appropriations limit for the City in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the City's option, either (1) the percentage change in California per capita personal income, or (2) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college ("K-14") districts.

Article XIII B permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and Constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four years.

The City's appropriations limit for Fiscal Year 2005-06 was $202,785,000, and the amount shown in the budget as the appropriations subject to limitation is $126,669,000. The City's appropriations limit for Fiscal Year 2006-07 is $214,154,000, and the amount shown in the budget as the appropriations subject to limitation is $146,774,000.

Proposition 218

General. On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the California Constitution, which contain a number of provisions affecting the ability of cities and counties to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIII C 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. The voter approval requirements of Proposition 218 reduce the flexibility of the City Council 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 requirements. In addition, Article XIII D contains new provisions relating to how local agencies may levy and maintain "assessments" for municipal

services and programs. "Assessment" is defined to mean any levy or charge upon real property for a special benefit conferred upon the real property. This definition applies to landscape and maintenance assessments for open space areas, street medians, street lights and parks.

Article XIII D also contains several provisions affecting "fees" and "charges," defined for purposes of Article XIII D to mean "any levy other than an *ad valorem* tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." All new and existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the property in question, or (iv) 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. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services, or fees for electrical and gas service, which are not treated as "property related" for purposes of Article XIII D, no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area.

In addition to the provisions described above, Article XIII C removed many of the limitations on the initiative power in matters of reducing or repealing any local tax, assessment, fee or charge. 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. "Assessment," "fee" and "charge" are not defined in Article XIII C, and it is not clear whether the definitions of these terms in Article XIII D (which are generally property related as described above) would be applied to Article XIII C. If the Article XIII D definitions are not held to apply to Article XIII C, the initiative power could potentially apply to revenue sources which currently constitute a substantial portion of general fund revenues. No assurance can be given that the voters of the City will not, in the future, approve initiatives which repeal, reduce or prohibit the future imposition or increase of local taxes, assessments, fees or charges.

In addition, Proposition 218 added several requirements making it generally more difficult for counties and other local agencies to levy and maintain assessments for municipal services and programs.

Finally, Proposition 218 requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general government purposes of the City require a majority vote and taxes for specific purposes only require a two-thirds vote. The voter approval requirements reduce the flexibility of the City Council to deal with fiscal problems by raising revenue and no assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

911 Fee Allegation. The City has been sued by Cleo Nichol Robinson, Dale C. Fritchen and Pacific Bell Telephone Company, dba SBC California, Kari Andal, Jim Diserio, Larry Solari, AT&T Wireless Services of California, LLC, Sacramento Valley Limited Partnership, and Cingular Wireless alleging that the City's Emergency Communication System Access Fee (the "911 Fee") charged to all subscribers to telephone service in the incorporated area of the City to finance the acquisition and construction of equipment, software and facilities necessary to provide an adequate and reliable 911 communication system is in violation of the provisions of Proposition 218. The City first began charging

the 911 Fee in Fiscal Year 2005-06. The amount of the 911 Fee collected by the City in Fiscal Year 2005-06, 2006-07 and the amount estimated to be collected for Fiscal Year 2007-08 represents less than 2.7% of General Fund revenues in each respective Fiscal Year. The City does not believe that the eventual outcome of this issue will have a material adverse effect on the General Fund revenues of the City or its ability to make timely payments with respect to the Series 2007 Bonds.

Proposition 1A

The California Constitution and existing statutes give the legislature authority over property taxes, sales taxes and the vehicle license fee (the "VLF"). The legislature has authority to change tax rates, the items subject to taxation and the distribution of tax revenues among local governments, schools, and community college districts. The State has used this authority for many purposes, including increasing funding for local services, reducing State costs, reducing taxation, addressing concerns regarding funding for particular local governments, and restructuring local finance.

The California Constitution generally requires the State to reimburse the local governments when the State "mandates" a new local program or higher level of service. Due to the ongoing financial difficulties of the State, it has not provided in recent years reimbursements for many mandated costs. In other cases, the State has "suspended" mandates, eliminating both responsibility of the local governments for complying with the mandate and the need for State reimbursements.

On November 3, 2004, the voters of the State approved Proposition 1A that amended the California Constitution to, among other things, reduce the State Legislature's authority over local government revenue sources by placing restrictions on the State's access to local government's property, sales and vehicle license fee revenues.

Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to a county for any fiscal year under the laws in effect as of November 3, 2004. The measure also specifies that any change in how property tax revenues are shared among local governments within a county must be approved by two-thirds of both houses of the Legislature (instead of by majority vote). Finally, the measure prohibits the State from reducing the property tax revenues provided to a county as replacement for the local sales tax revenues redirected to the State and pledged to pay debt service on State deficit-related bonds approved by voters in March 2004.

If the State reduces the VLF rate below its current level of 0.65% of the vehicle value, Proposition 1A requires the State to provide local governments with equal replacement revenues. Proposition 1A provides two significant exceptions to the above restrictions regarding sales and property taxes. *First,* beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues if: the Governor proclaims that the shift is needed due to a severe State financial hardship, the legislature approves the shift with a two-thirds vote of both houses and certain other conditions are met. The State must repay local governments for their property tax losses, with interest, within three years. *Second,* Proposition 1A allows the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Proposition 1A amends the California Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. Beginning in Fiscal Year 2005-06, if the State does not provide funding for the activity that has been determined to be mandated, the requirement on cities, counties or special districts to abide by the mandate would be suspended. In addition, Proposition 1A expands the definition of what constitutes a mandate to encompass State action that transfers to cities, counties and special districts financial responsibility for a required program for which the State previously had

complete or partial financial responsibility. This provision does not apply to mandates relating to schools or community colleges, or to those mandates relating to employee rights.

Proposition 1A restricts the State's authority to reallocate local tax revenues to address concerns regarding funding for specific local governments or to restructure local government finance. For example, the State could not enact measures that changed how local sales tax revenues are allocated to cities and counties. In addition, measures that reallocated property taxes among local governments in a county would require approval by two-thirds of the members of each house of the legislature (rather than a majority vote). As a result, Proposition 1A could result in fewer changes to local government revenues than otherwise would have been the case.

Future Initiatives

Article XIII A, Article XIII B, Proposition 218 and Proposition 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, which may place further limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations which may affect the City's revenues or its ability to expend its revenues.

THE CITY

The City is a municipal corporation and charter city incorporated in 1850. The City is the county seat of San Joaquin County and is located in California San Joaquin Valley, 78 miles east of the San Francisco Bay Area, 337 miles north of Los Angeles and 40 miles south of Sacramento. The County is bounded by Sacramento County on the north and by Stanislaus County on the south. For information with respect to the City, including a summary of City debt and certain economic and demographic information, see APPENDIX A–"GENERAL ECONOMIC, DEMOGRAPHIC AND FINANCIAL INFORMATION RELATING TO THE CITY OF STOCKTON."

CITY FINANCIAL INFORMATION

For financial information relating to the City see APPENDIX A–"GENERAL ECONOMIC, DEMOGRAPHIC AND FINANCIAL INFORMATION RELATING TO THE CITY OF STOCKTON–FINANCIAL INFORMATION" and APPENDIX B–"COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2006." Each Appendix contains important information concerning the City and should be read in their entirety.

THE RETIREMENT SYSTEM

For information regarding PERS and the Retirement System, including funding policies, status and progress, see APPENDIX C–"CERTAIN INFORMATION REGARDING THE CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM."

TAX MATTERS

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, as Bond Counsel to the City, interest on the Bonds is exempt from California personal income taxes. **The interest payable on the Bonds is not excluded from gross income for federal income tax purposes.**

At the time of issuance of the Bonds, Bond Counsel expects to deliver a separate opinion for the Bonds in the form set forth in APPENDIX E.

Owners of the Bonds should be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above. Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds.

To ensure compliance with the requirements imposed by the Internal Revenue Service, purchasers and Owners of the Series 2007 Bonds should be aware that any federal income tax advice contained in this Official Statement (including the Appendices) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code, or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed herein.

ERISA CONSIDERATIONS

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

The Underwriter, as a result of its own activities or because of the activities of an affiliate, may be considered Parties in Interest, with respect to certain plans. Prohibited transactions may arise under Section 406 of ERISA and Section 4975 of the Code if Series 2007 Bonds are acquired by a Plan with respect to which the Underwriter or any of its affiliates are Parties in Interest. Certain exemptions from the prohibited transaction rules could be applicable, however, depending in part upon the type of Plan fiduciary making the decision to acquire a Series 2007 Bond and the circumstances under which such decision is made. Included among these exemptions are those transactions regarding securities purchased during the existence of an underwriting, investments by insurance company pooled separate accounts, investments by insurance company general accounts, investments by bank collective investment funds, transactions effected by "qualified professional asset managers," and transactions affected by certain "in-house asset managers." Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions. In order to ensure that no prohibited transaction under ERISA or Section 4975 of the Code will take place in connection with the acquisition of a Series 2007 Bond by or on behalf of a Plan, each prospective purchaser of a Series 2007 Bond that is a Plan or is acquiring on behalf of a Plan will be required to represent that either (i) no prohibited transactions under ERISA or

Section 4975 of the Code will occur in connection with the acquisition of such Series 2007 Bond or (ii) the acquisition of such Series 2007 Bond is subject to a statutory or administrative exemption.

Any Plan fiduciary who proposes to cause a Plan to purchase Series 2007 Bonds should (i) consult with its counsel with respect to the potential applicability of ERISA and the Code to such investments and whether any exemption would be applicable and (ii) determine on its own whether all conditions have been satisfied. Moreover, each Plan fiduciary should determine whether, under the general fiduciary standards of investment prudence and diversification, an investment in the Series 2007 Bonds is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan's investment portfolio.

VALIDATION PROCEEDINGS

On October 18, 2006, the City, acting pursuant to the provisions of Sections 860 *et seq.* of the California Code of Civil Procedure, filed a complaint in the Superior Court of the State of California for the County of San Joaquin seeking judicial validation of the transactions relating to the issuance of the Debentures, the Original Bonds, additional series of bonds and certain other matters (*The City of Stockton vs. All Persons Interested, etc.*, Case No. CV030753). On January 3, 2007, the court entered a default judgment to the effect, among other things, that the PERS Contract, the Series 2007 Bonds and additional series of bonds are valid and binding obligations of the City under the Constitution and laws of the State. Pursuant to Section 870 of the California Code of Civil Procedure and Rule 2(a) of the California Rules of Court, the period during which a notice of appeal to this judgment could be timely filed expired, no challenge to the judgment was filed, and at that time the judgment became binding and conclusive in accordance with California law. In issuing its approving opinion, Jones Hall, A Professional Law Corporation, has relied, among other things, upon the above-described validation of proceedings.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, issuance, sale and delivery by the City of the Series 2007 Bonds are subject to the approval of Jones Hall, A Professional Law Corporation, Bond Counsel. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriter by its counsel, Quint & Thimmig LLP, San Francisco, California, for the City by the City Attorney and by Lofton & Jennings, San Francisco, California, Disclosure Counsel. The fees of Bond Counsel, Underwriter's Counsel and Disclosure Counsel are contingent upon the sale of the Series 2007 Bonds.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the Owners and Beneficial Owners of the Series 2007 Bonds to provide annually while any Series 2007 Bonds are outstanding, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State of California as a state repository for purposes of Rule 15c2-12(b)(5) (the "Rule") adopted by the Securities and Exchange Commission (each, a "Repository") certain annual financial information and operating data, including its Comprehensive Audited Financial Report by not later than 270 days after the end of each Fiscal Year (the "Annual Report") commencing with the report for Fiscal Year 2006-07. The specific nature of the information to be contained in the Annual Report or the notices of material events is contained in APPENDIX G–"FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with the Rule.

This City has never failed to comply in any material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of the occurrence of material events.

NO MATERIAL LITIGATION

To the best knowledge of the City there is no action, suit or proceeding known to be pending or threatened restraining or enjoining the execution or delivery of the Series 2007 Bonds or the Indenture or any other document relating to the Series 2007 Bonds, or in any way contesting or affecting the validity of the foregoing.

There are a number of lawsuits and claims pending against the City. Included in these are a number of property damage, personal injury and wrongful death actions seeking damages in excess of the City's insurance limits. In the opinion of the City Attorney, such suits and claims as are presently pending will not have a material adverse affect on the ability of the City to make debt service payments on the Series 2007 Bonds.

RATINGS

Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Services, a Division of The McGraw Hill Companies ("S&P") have assigned underlying ratings of "Aaa" and "AAA," respectively, to the Series 2007 Bonds with the understanding that upon delivery of the Series 2007 Bonds, the Policy will be issued by the Bond Insurer. See "MUNICIPAL BOND INSURANCE" and APPENDIX H–"SPECIMEN MUNICIPAL BOND INSURANCE POLICY. Moody's and S&P have assigned ratings of "A2" and "A," respectively, to the Series 2007 Bonds based solely on the estimation of Moody's and S&P of the ability of the City to make payments on the Series 2007 Bonds when due on a stand-alone basis. Such ratings reflect only the views of Moody's and S&P, and do not constitute a recommendation to buy, sell or hold the Series 2007 Bonds. Explanation of the significance of such ratings may be obtained only from the respective organizations at: Moody's Investors Service, 99 Church Street, New York, New York 10007-2701, telephone number (212) 553-0300; and Standard and Poor's Ratings Services, 55 Water Street, New York, New York 10041, telephone number (212) 208-1767. There is no assurance that either such rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the respective rating agencies, if in the judgment of either such rating agency circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of and/or the ability to trade the Series 2007 Bonds.

UNDERWRITING

The Series 2007 Bonds are being purchased by Lehman Brothers Inc., as Underwriter. The Underwriter has agreed, subject to certain conditions, to purchase such Series 2007 Bonds at the purchase price of $124,483,560.59 (representing the aggregate principal amount of the Series 2007 Bonds of $125,310,000.00, less an Underwriter's discount of $826,439.41). The Bond Purchase Agreement, dated March 26, 2007 relating to the Series 2007 Bonds (the "Purchase Agreement") provides that the Underwriter will purchase all of the Series 2007 Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriter may offer and sell the Series 2007 Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time to time by the Underwriter.

PRICING ADVISOR

First Southwest Company, Santa Monica, California has been retained as Pricing Advisor to the City in connection with the issuance of the Series 2007 Bonds. The Pricing Advisor's fee for services rendered with respect to the sale of the Series 2007 Bonds is contingent upon the issuance and delivery of the Series 2007 Bonds. First Southwest Company, in its capacity as Pricing Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Series 2007 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

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MISCELLANEOUS

Included herein are brief summaries of certain documents and reports, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or owners of any of the Series 2007 Bonds.

The execution and delivery of this Official Statement has been duly authorized by the City Council of the City.

CITY OF STOCKTON

By: /s/ Mark Moses
Director of Administrative Services/
Chief Financial Officer

APPENDIX A

GENERAL ECONOMIC, DEMOGRAPHIC AND FINANCIAL INFORMATION RELATING TO THE CITY OF STOCKTON

Overview

The City is a charter city incorporated in 1850. The City is the county seat of San Joaquin County and is located in California's San Joaquin Valley, 78 miles east of the San Francisco Bay Area, 345 miles north of Los Angeles and 45 miles south of Sacramento. The County of San Joaquin covers approximately 1,400 square miles. The County is bounded by Sacramento County on the north and by Stanislaus County on the south. The City is a municipal corporation and a chartered city, duly organized and existing under the constitution and laws of the State.

The City is one of the fastest growing areas in California. Since the County has large and growing services, retail trade and manufacturing employment sectors. Agriculture and agricultural related industries, such as food processing, are also major employers in the County.

Governing Body

The City operates under a Council/Manager form of government, with a seven-member City Council (current members were elected by district voting) for staggered four-year terms. Under this form of government, policy making and legislative authority is entrusted to the City Council. The Mayor and representatives from six districts by City-wide election for staggered four-year terms, with a two-term limit. The City Council is also the governing board of the Redevelopment Agency.

The City Manager is responsible for carrying out policies and ordinances of the City Council for appointing heads of departments and overseeing the operation of the City. The City Manager, the City Attorney, the City Auditor and the City Clerk are appointed by the City Council.

The current members of the City Council and key administrative personnel of the City are listed in Table A-1 and Table A-2, respectively:

TABLE A-1
CITY OF STOCKTON
City Counsel Members

Name	Office	Term Expires	Occupation
Edward J. Chavez	Mayor	12/31/08	Retired
Leslie Baranco Martin	Vice Mayor, *District 3*	12/31/10	Attorney
Steve J. Bestolarides	Councilmember, *District 1*	12/31/08	Businessman
Dan J. Chapman	Councilmember, *District 2*	12/31/10	Businessman
Clem Lee	Councilmember, *District 4*	12/31/08	Educator
Susan Talamantes Eggman	Councilmember *District 5*	12/31/10	Associate Professor
Rebecca G. Nabors	Councilmember, *District 6*	12/31/08	Retired

TABLE A-2
CITY OF Stockton
Key Administrative Personnel

Member	Position
J. Gordon Palmer, Jr.	City Manager
Richard (Ren) E. Nosky, Jr.	City Attorney
Mark Moses	Director of Administrative Services/Chief Financial Officer
Katherine Gong Meissner	City Clerk
F. Michael Taylor	City Auditor

The City provides a full range of municipal services. As provided in the City Charter, these services include public safety (police, fire, paramedics, water rescue and building inspection), sanitation (solid waste disposal, wastewater and stormwater utilities), water utility, community development, library, parks and recreation and general administrative services. Budgeted City full-time employees number 1,670 for Fiscal Year 2006-07, all of which are full-time permanent employees. Of the full-time employees, 648 are assigned to the Police Department and 307 to the Fire Department. Fire protection service is provided by the City, which has 13 stations within its borders.

Population

Population information is set forth in Table A-3.

TABLE A-3
CITY OF STOCKTON, COUNTY OF SAN JOAQUIN AND STATE OF CALIFORNIA
POPULATION
(As of January 1)

Year	City of Stockton	County of San Joaquin	State of California
2000	246,400	568,300	34,207,000
2002	253,800	596,000	35,037,000
2003	261,300	613,500	35,591,000
2004	271,712	636,466	36,271,091
2005	280,249	655,319	36,728,196
2006†	286,041	668,265	37,172,015

† Most recent data available.
Source: California State Department of Finance, Demographic Research Unit.

Labor Force and Employment

The main sources of revenue in the City are derived from property tax, sales tax and utility user tax.

Table A-4 table represents the labor patterns in the City, the County, the State, and the United States from 2001 through 2005.

Table A-4
CITY OF STOCKTON, SAN JOAQUIN COUNTY,
STATE OF CALIFORNIA AND UNITED STATES
CIVILIAN LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT
2001 through 2005†

Year and Area	Labor Force	Employment	Unemployment	Unemployment Rate
2001				
City	110,200	100,400	9,800	8.9%
County	266,200	246,500	19,700	7.4
State	17,150,100	16,217,500	932,600	5.4
United States	141,815,000	135,073,000	6,742,000	4.8
2002				
City	114,200	102,200	12,000	10.5
County	275,300	251,100	24,200	8.8
State	17,326,900	16,165,100	1,161,800	6.7
United States	144,863,000	136,485,000	8,378,000	5.8
2003				
City	116,700	104,000	12,700	10.9
County	280,800	255,300	25,500	9.1
State	17,414,000	16,223,500	1,190,500	6.8
United States	146,510,000	137,736,000	8,774,000	6.0
2004				
City	117,400	105,300	12,100	10.3
County	283,000	258,600	24,400	8.6
State	17,552,300	16,459,900	1,092,400	6.2
United States	147,401,000	139,252,000	8,149,000	5.5
2005†				
City	118,400	107,500	10,900	9.2
County	285,900	264,000	21,900	7.6
State	17,695,600	16,746,900	948,700	5.4
United States	149,320,000	141,730,000	7,591,000	5.1

† Most recent annual data available.
Sources: *California State Employment Development Department and U.S. Department of Labor, Bureau of Labor Statistics.*

Employment and Industry

Approximately 3,000 acres in the City are zoned for light and heavy industry. Included in this acreage are 15 industrial parks with all on/site improvements. Six industrial parks are rail served.

The largest employers in the City as of Fiscal Year 2005-06 are set forth in Table A-5.

Table A-5
CITY OF STOCKTON
Largest Employers Fiscal Year 2005-06†

Company	Product/Service	Employees
San Joaquin County	County Government	6,674
Stockton Unified School District	Public Education	4,100
St. Joseph's Regional Health System	Health Care	2,800
City of Stockton	City Government	1,590
Dameron Hospital	Health Care	1,200
Pacific Gas & Electric	Utility	880
Kaiser Permanente	Health Care	760
Washington Mutual	Banking	1,000
University of the Pacific	Private College	974
California Department of Transportation	State Highways	750
Diamond of California	Food Processing	500 - 1,100
San Joaquin Delta College	Public Education	650

† Most recent data available.

Source: City of Stockton Economic Development Department.

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The unemployment rate in the County for calendar year 2005 was 7.7% down from an average of 8.6% for calendar year 2004. Civilian employment data for the County is set forth in Table A-6.

Table A-6
COUNTY OF SAN JOAQUIN
Civilian Labor Force, Employment and Unemployment, Unemployment by Industry
(Annual Averages)

	2000	2001	2002	2003	2004	2005[1]
Civilian Labor Force[2]	256,000	263,200	272,400	278,200	281,800	285,900
Employment	238,000	243,400	248,300	252,800	257,400	264,000
Unemployment	18,000	19,800	24,100	25,400	24,400	21,900
Unemployment Rate	7.0%	7.5%	8.9%	9.1%	8.6%	7.6%
Wage and Salary Employment						
Total All Industries[3]	202,600	206,800	210,000	213,600	216,500	220,400
Agriculture	16,700	15,700	15,900	16,600	16,000	14,900
Nonagriculture	185,800	191,100	194,000	197,300	200,500	205,500
Goods Producing	36,500	35,900	34,500	35,000	36,200	37,200
Manufacturing	24,700	22,500	20,800	20,400	20,700	20,700
Transportation, Public Utilities	41,700	43,600	44,800	46,500	47,300	49,000
Information	3,000	3,300	3,100	2,900	2,800	2,500
Financial Activities	8,500	8,900	9,400	9,900	9,600	9,800
Professional and Business Service	16,800	16,900	16,800	17,000	17,600	18,300
Other Services	5,900	6,100	6,300	6,300	6,300	6,400
Government	37,000	38,800	40,100	39,500	39,400	39,600

(1) Most recent annual data available.
(2) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(3) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, and household domestic workers on strike.
Source: State of California Employment Development Department.

Personal Income

Total personal income is defined by the Bureau of Economic Analysis, an agency of the U.S. Department of Commerce as income received from all sources, including income received from participation in production as well as from government and business transfer payments. It represents the sum of compensation of received by employees , supplements to wages and salaries, proprietors' income with inventory valuation adjustment and capital consumption adjustment (the "CCAdj"), rental income of persons with the CCAdj, personal income receipts on assets, and personal current transfer receipts, less contributions for government social insurance. Per capita income is calculated as the personal income divided by the resident population based upon the Census Bureau's annual midyear population estimates.

Table A-7 summarizes the total personal income and per capita income for the Stockton Metropolitan Statistical Area (an "MSA"), the State and the United States for the calendar years 2001 through 2005. The principal city for the Stockton MSA is the City.

Table A-7
STOCKTON METROPOLITAN AREA,
STATE OF CALIFORNIA AND UNITED STATES
TOTAL PERSONAL INCOME

Year and Area	Total Personal Income (millions of dollars)	Per Capita Personal Income
2005		
Stockton MSA	$17,387	$26,181
State	1,332,919	36,890
United States	10,224,761	34,495
2004		
Stockton MSA	16,573	25,527
State	1,262,306	35,219
United States	9,705,504	33,050
2003		
Stockton MSA	15,543	24,620
State	1,184,265	33,400
United States	9,157,257	31,484
2002		
Stockton MSA	14,789	24,150
State	1,147,716	32,803
United States	8,872,871	30,810
2001		
Stockton MSA	14,281	24,086
State	1,135,304	32,702
United States	8,716,992	30,472

Source: *U.S. Department of Commerce, Bureau of Economic Analysis.*

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Construction Activity

Building activity for the past five years for which data is available in the City is shown in Table A-8.

Table A-8
CITY OF STOCKTON
Total Building Permit Valuations
(in thousands)

	2001	2002	2003	2004	2005†
Permit Valuation					
New Single Family	$239,673.0	$408,514.3	$525,340.1	$585,834.6	$532,975.4
New Multiple Family	4,574.6	25,299.5	10,480.8	6,735.1	6,857.5
Residential Alterations/Additions	8,860.6	10,352.6	12,225.9	14,781.1	20,192.0
TOTAL RESIDENTIAL	$53,108.2	$444,166.3	$548,046.8	$607,350.9	$560,024.9
New Commercial	$20,775.0	$33,853.8	$62,661.3	$59,935.1	$100,896.4
New Industrial	40,458.5	15,808.1	31,087.6	25,704.5	7,124.3
New Other	16,703.5	37,331.0	38,844.0	28,639.5	28,396.9
Commercial Alternations/Additions	39,293.5	54,558.7	73,315.8	42,698.3	40,874.2
TOTAL NONRESIDENTIAL	$117,230.5	$141,551.5	$205,908.8	$156,977.4	$177,291.9
New Dwelling Units					
Single Family	1,579	2,564	3,082	3,138	2,312
Multiple Family	112	396	177	136	83
TOTAL	1,691	2,960	3,259	3,274	2,395

† Most recent annual data available.
Source: Construction Industry Research Board, Building Permit Summary.

Transportation

The City is located on Interstate 5, the West Coast's major route from Canada to Mexico. The City's crosstown freeway connects Interstate 5 with State Route 99, the State's other principal north-south freeway, and State Route 99, California's other principal north-south highway. The City also benefits from direct highway connections to the San Francisco Bay Area via Interstate 580, and to the Reno-Lake Tahoe area via Interstate 80. Thirty-five major transcontinental truck lines and nearly 200 contract carriers serve the City and provide overnight delivery to Los Angeles, San Francisco and Reno. The City is also served by Greyhound and the San Joaquin Regional Transit District.

The City is served by the rail services of Santa Fe, Southern Pacific, and Union Pacific systems in addition to three short line railroads: Central California Traction Company, Tidewater Southern, and Stockton Terminal and Eastern Railroad. Passenger service is provided by Amtrak.

The Stockton Metropolitan Airport, located on 1,449 acres on the southern boundary of the City, is a general aviation facility offering both passenger and freight transport services. It has six air carrier gates adjoining a 44,355 square foot terminal building.

The Port of Stockton is the largest inland deep water port in the State. It is located on the Stockton deepwater ship channel and encompasses a 2,000 acre operating area. The Port has berthing space for 17 vessels, 1.1 million square feet of dockside transit sheds and shipside rail trackage, and 7.7 million square feet of warehousing, and is 75 nautical miles east of the Golden Gate Bridge.

Railroad service is provided to the City by Burlington Northern, Santa Fe and the Union Pacific railroads. Daily passenger service by Amtrak is available to San Francisco, Los Angeles and Sacramento.

Education and Recreation

Education. Within the City, there are five post-secondary institutions, San Joaquin Delta Community College, California State University Stanislaus-Stockton (extension), University of the Pacific, Humphrey's College and School of Law and National University (private).

Within the City there are four unified school districts providing kindergarten through grade 12 education: the Stockton Unified School District, the Lodi Unified School District, the Lincoln Unified School District and the Manteca Unified School District. In Fiscal Year 2005-06 according to State Department of Education data, 38,936 (preliminary) students attended classes in the Stockton Unified School District. There are five high schools, four middle schools, 36 elementary schools (kindergarten through grade 6), one kindergarten through grade 12 school, one alternative school, two community day schools, two special education schools, one continuation school and three charter schools in the Stockton Unified School District. Preschool and adult education classes are also offered by the Stockton Unified School District. In Fiscal Year 2005-06, 15,158 students attended classes in the Lodi Unified School District (three high schools, one continuation school, three middle and/or junior high schools, 12 elementary (kindergarten through grade 6) schools and one alternative school); 8,769 attended classes in the Lincoln Unified School District (one high school, one continuation high school, one middle school, seven kindergarten through grade 8 schools and two kindergarten through grade six schools); and 5,351 students attended classes in Manteca Unified School District (one high school and three kindergarten through grade eight schools).

There are also more than 20 private schools located within the City offering elementary and secondary education.

There is also one central, three branch City libraries and two mobile library units holding more than one million books in the collection. There are also seven County library branches located within the City.

Recreation. The City is situated along the San Joaquin Delta waterway which connects to the San Francisco Bay and the Sacramento and San Joaquin Rivers and is also located in close proximity to Lake Tahoe and Yosemite National Park. There are approximately 619 acres of parkland located within the City.

The Stockton Children's Museum is located in downtown Stockton and offers educational experiences based upon hands-on, play-based exhibits that enhance a child's understanding of how the world works. The Museum features more than a dozen different child-sized environments that recreate the ambience of a small city where merchants, bankers and doctors might mingle among the grocery shoppers, fast food customers and canning crew.

The 5,000 seat Stockton Ballpark that opened in April 2005 is the home of the Stockton Ports single A minor league team for the Oakland Athletics features four luxury suites, lawn seating, a family recreation area and a barbeque area with umbrella seating behind the outfield.

The City Centre Cinema Complex in downtown Stockton offers a 16-screen movie theater, restaurants and retail shopping.

The 220,000 square foot, 10,000 seat Stockton Arena that opened in December 2005 is the home of the California Cougars Major Indoor League Soccer Team, the Stockton Thunder Minor League Hockey Team and the Stockton Lightning Arena Football Team. A seven-level, 236,100 square foot, 592-space Event Center parking structure, located adjacent to the Stockton Arena includes 16,997 square feet of office/retail space opened in April 2005.

The 2,042-seat Bob Hope Theater opened in 2005 in the historic former Fox Theater that was constructed in 1930. This performing arts center hosts national and local theatrical, musical, comedy and dance productions.

The Gary & Janice Podesto IMPACT Teen Center opened in March 2005 in downtown Stockton. This Teen Center features four bowling lanes, a half-court basketball area, stage, meeting rooms, game rooms, classrooms, a computer lab, snack bar, and a climbing wall.

The City also has a Skate Park and Ice Arena and offers various other sports and recreational opportunities through the Park and Recreation Department.

CITY FINANCIAL INFORMATION

City Financial Data

The City's financial statements are audited annually by an independent auditor. The City's general fund and other governmental fund types use the modified accrual basis of accounting. All of the City's other funds, including proprietary fund types and fiduciary fund types use the accrual basis of accounting. See also APPENDIX B--"CITY OF STOCKTON COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2006."

City Budget

The Fiscal Year of the City begins on the first day of July of each year and ends on the thirtieth day of June of the following year.

The City Charter requires that the City Manager submit a budget for the ensuing Fiscal Year to the City Council at least 30 days prior to the beginning of such Fiscal Year, or just earlier date as specified by the City Council. The City Council is required to adopt the budget at a public hearing and may make such amendments to the proposed budget as it deems desirable. The budget may be amended by vote of the City Council at any time during the Fiscal Year.

All appropriations approved by the City Council lapse at the end of the Fiscal Year to the extent they have not been expended or encumbered.

In the event the City Council fails to adopt the budget by the beginning of the Fiscal Year, the various amounts contained in the proposed budget shall be deemed appropriated until the final budget is adopted.

The City has enacted its budget in a timely manner in each of the last three Fiscal Years.

Investment Policy

The investment of funds of the City (except pension and retirement funds), including those held under the Indenture and in the Enterprise Funds, are made in accordance with the City's Investment Policy, as amended in 2005 (the "Investment Policy") and Section 53600 *et seq.* of the California Government Code. The Investment Policy is subject to revision at any time and is reviewed at least annually to ensure compliance with the stated objectives of safety, liquidity, yield, and current laws and financial trends. All amounts held under the Indenture are invested at the direction of the City in Investment Securities, as defined in the Indenture, and are subject to certain limitations contained therein. See APPENDIX D–"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE–Investment of Funds."

The objective of the Investment Policy is to assist the City in accurately monitoring and forecasting expenditures and revenues to enable the City to invest funds to the fullest extent possible while obtaining the highest yield, provided such investments satisfy the criteria established for safety and liquidity.

All funds of the City (except retirement funds) and investment activities are governed by the Investment Policy, which sets forth the following primary objectives, in order of priority:

(a) *Safety.* The safety of principal is the foremost objective of the investment program. The investments of the City are to be undertaken in a manner which seeks to ensure preservation of the capital in the overall of the portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

(b) *Liquidity.* Requires that the investment portfolio of the City remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated.

(c) *Yield.* Requires that the investment portfolio be designed with the objective of attaining a market rate or return throughout budgetary and economic cycles, taking into account the investment risk constraints of the City and the cash flow characteristics of the portfolio.

The City strives to maintain the level of investment of all funds as near 100% as possible, through daily and projected cash flow determinations. The basic premise underlying the City's investment philosophy is, and continues to be, to insure that funds remain safe and available as needed.

Copies of the Investment Policy may be obtained by contacting the Director of Administrative Services/Chief Financial Officer, City Hall, 425 North El Dorado Street, Stockton, California 95202.

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Current Investments

As of January 31, 2007, the investment portfolio of the City Had a weighted average maturity of 163 days and a current market yield of 4.284%. The assets of the investment portfolio are shown in Table A-9:

Table A-9
Investment Portfolio of the City
(As of January 31, 2007)
($ in thousands)

			Book Value	
Type of Security	Par Value	Market Value	Amount	Percent[1]
Federal Agency Issues - Coupon	$153,750,000.00	$153,076,640.02	$153,945,208.75	61.57%
Local Agency Investment Fund (LAIF)	38,015,567.18	37,994,446.76	38,015,567.18	15.20
Money Market Accounts - Government	19,448,942.66	19,448,942.66	19,448,942.66	7.78
Commercial Paper Disc. - Amortizing	5,000,000.00	4,975,614.44	4,975,614.44	1.99
Federal Agency Disc. - Amortizing	34,000,000.00	33,134,000.85	33,154,557.78	13.26
Secure C D	500,000.00	500,000.00	500,000.00	0.20
Total	$250,714,509.84	$249,129,644.73	$250,039,890.82	100.0%

(1) Percentages do not total 100% due to independent rounding.

(2) Includes investments in medium term, corporate notes, secured certificates of deposit and mutual funds.

Source: City of Stockton.

Principal Sources of General Fund Revenues

Sales taxes are the single largest revenue source to the General Fund representing approximately 21% of Fiscal Year 2005-06 revenues; followed by utility users taxes representing approximately 19%; and property tax revenues representing approximately 18%. These three sources represented an aggregate of approximately 61% of General Fund revenues in Fiscal Year 2005-06 and represent an aggregate of approximately 57% of the General Fund Revenues of the Fiscal Year 2006-07 Adopted Budget. For a discussion of potential State Budget impacts on General Fund Revenues, see "–State Budgets." For a discussion of sales tax revenues and property taxes, see "–Sales Tax" and "–Ad Valorem Property Taxation."

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General Fund Balance Sheet and Revenues and Expenditures

Table A-10 summarizes the general fund balance sheet of the City as of June 30 for the last five Fiscal Years and the projected balance for the Fiscal Year ending June 30, 2007. The City's Fiscal Year ends on June 30. Table A-11 summarizes revenues and expenditures for the General Fund for Fiscal Years 2002-03 through 2005-06.

Table A-10
City of Stockton
General Fund Balance Sheet
(For Years Ended June 30 of 2002 through 2006)
($ in thousands)

	2002	2003	2004	2005	2006
ASSETS					
Assets:					
Cash and investments	$7,221	$8,035	$6,278	$2,796	$8,966
Cash and investment with fiscal agents	0	1,074	1,042	1,059	1,096
Receivables:					
Interest	346	204	168	69	104
Taxes and special assessments	41	41	9	9	9
Accounts and other receivables	13,331	12,641	11,599	14,335	16,989
Allowance for uncollectibles	(2,854)	(3,478)	(2,469)	(4,179)	(5,326)
Due from other funds	468	697	2,200	9,743	6,975
Due from other governments (less allowance for uncollectibles)	3,444	8,646	7,396	8,420	12,007
Due from other agencies	0	392	260	364	371
Inventory of supplies	240	230	163	1,072	158
Advances to other funds	1,283	3,039	3,56	3,498	4,083
TOTAL ASSETS	**$23,520**	**$31,521**	**$30,207**	**$37,186**	**$45,432**
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$1,798	$1,917	$2,299	$1,308	$1,575
Accrued payroll and benefits	3,360	3,614	3,535	3,133	3,451
Due to other agencies	242	179	48	108	235
Deposits and Other Liabilities	78	31	203	203	241
Deferred Revenue	2,973	7,760	6,725	8,970	8,462
TOTAL LIABILITIES	**$8,451**	**$13,501**	**$12,360**	**$13,722**	**$13,964**
Fund Balances					
Reserved	$6,427	$6,255	$6,117	$5,618	$8,352
Unreserved:					
Designated	8,642	11,765	11,730	17,846	23,116
TOTAL FUND BALANCES	**$15,064**	**$18,020**	**$17,847**	**$23,464**	**$31,468**
TOTAL LIABILITIES AND FUND BALANCES	**$23,520**	**$31,521**	**$30,207**	**$37,186**	**$45,432**

Table A-11 summarizes the revenues and expenses of the City's General Fund for the last five Fiscal Years.

Table A-11
City of Stockton
General Fund
Comparable Statement of Revenues, Expenditures and Changes in Fund Balance
(For Years Ended June 30 of 2001 through 2006)
($ in thousands)

	2002	2003	2004	2005	2006
REVENUES					
Taxes					
Property	$18,992	$21,091	$24,349	$26,676	$32,418
Utility	31,462	32,157	33,322	34,908	34,313
Sales and Use	32,489	33,250	36,723	40,639	37,725
Other	14,959	16,716	17,214	22,881	25,666
Licenses and Permits	5,493	431	517	337	346
Federal Grants and Subsidies	121	0	0	0	0
Other Governmental	16,006	16,831	13,384	16,196	18,857
Charges for Services	17,103	10,210	11,005	10,545	10,821
Fines and Forfeitures	1,549	1,461	1,905	3,214	3,900
Use of Money and Property	60	629	607	791	537
Investment Income:					
Interest Income	0	0	734	1,503	586
Net increase (decrease) in fair value of investments	1,461	807	(686)	38	65
Refunds and Reimbursements	2,309	2,645	2,569	5,254	4,020
Miscellaneous	5,432	7,004	5,179	4,860	4,784
TOTAL REVENUES	**$147,977**	**$143,232**	**$146,822**	**$167,392**	**$183,312**
EXPENDITURES					
Current:					
General Government	$15,066	$12,241	$12,345	$13,444	$14,110
Public Safety	100,770	104,145	110,387	121,460	131,689
Public Works	13,347	10,582	11,464	13,426	13,334
Parks and Recreation	12,295	7,167	7,298	7,676	8,027
Capital Outlay	33	102	34	101	6
Debt Service - Costs of Issuance	0	287	41	0	0
TOTAL EXPENDITURES	**$141,511**	**$134,524**	**$141,569**	**$156,107**	**$167,166**
EXCESS OF REVENUES OVER EXPENDITURES	$6,466	$8,708	$5,253	$11,285	$16,146
Other Financing Sources (Uses)					
Transfers In	$4,651	$8,374	$7,482	$10,633	$10,848
Transfers Out	(18,851)	(27,348)	(12,913)	(16,303)	(18,992)
Sales of Fixed Assets	0	15	5	2	–
Proceeds of Long-Term Debt	0	13,300	0	0	2
Discounts on Debt Issuances	0	(98)	0	0	–
TOTAL OTHER FINANCING SOURCES (USES)	**($14,200)**	**($5,757)**	**($5,426)**	**($5,668)**	**($8,142)**
NET CHANGE IN FUND BALANCES	($7,734)	$2,951	($173)	$5,617	$8,004
FUND BALANCES, BEGINNING OF YEAR	$22,970	$15,069	$18,020	$17,847	23,464
Prior Period Adjustment	13	0	0	0	0
FUND BALANCES (DEFICIT), END OF YEAR	$15,069	$18,020	$17,847	$23,464	$31,468

Financial Statements

All governmental funds are accounted for using the modified accrual basis of accounting. The City's revenues are recognized when they become measurable and available as net current assets.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The exception to this general rule is principal and interest on general long-term debt, which is recognized when due. Some debts and obligations may be payable from self-supporting enterprises or revenue sources other than property taxation. Special assessment bonds are not included in the tabulation; lease revenue obligations payable from the General Fund or equivalent sources are included.

All proprietary funds are accounted for using the accrual basis for accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Receivables are recorded and determined at the time of consumption, and unbilled receivables are not recorded. See APPENDIX B–"CITY OF STOCKTON COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2006."

The audited financial statements for the City, which includes the General Fund, are attached as APPENDIX B. The audited combined financial statements of the City are also available upon request directed to the City Clerk's Office, City Clerk of the City of Stockton, City Hall, 425 North El Dorado Street, California 95202 and may also be viewed online or downloaded at http://www.stocktongov.com/adminservices/reports/financial reports.cfm.

State Budgets

Currently, approximately 45% (consisting of the sales tax and property tax) of the City's Fiscal Year 2006-07 General Fund Budget consists of payments collected by the State and passed-through to local governments or collected by the County and allocated to local governments by State law. The financial condition of the State has an impact on the level of these revenues. In past years the State has reduced revenues to cities and counties to help solve the State's budget problems.

The level of intergovernmental revenues that the City will receive from the State in Fiscal Year 2006-07 and in subsequent fiscal years will be affected by the financial condition of the State.

The following information concerning the State's 2005-06 and 2006-07 Fiscal Year budgets and the 2007-08 Governor's Budget has been obtained from publicly available information on the State Department of Finance, the State Treasurer and the California Legislative Analyst Office websites. The estimates and projections provided below are based upon various assumptions as updated in the 2004-05 Governor's Budget, which may be affected by numerous factors, including future economic conditions in the State and the nation, and there can be no assurance that the estimates will be achieved. For further information and discussion of factors underlying the State's projections, see the aforementioned websites. The City believes such information to be reliable, however, the City takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information.

Fiscal Year 2005-06 Budget

The 2005-06 Budget Act (the "State 2005 Budget Act") was adopted by the Legislature on July 7, 2005, along with a number of implementing measures, and signed by Governor Schwarzenegger on July 11, 2005 after using his line item veto authority to reduce appropriations by $190 million.

The State 2005 Budget Act reflected an improving State fiscal picture brought about by better-than-expected growth in General Fund revenues. The State 2005 Budget Act funded the Proposition 42 transfer of general fund sales taxes to transportation special funds, and included significant increases in both K-12 and higher education. The State 2005 Budget Act did not use any of the remaining $3.7 billion in deficit-financing bonds authorized by Proposition 57 in March 2004, and it fully prepaid the $1.2 billion VLF "gap" loan in July that was due to required be paid to local governments in Fiscal Year 2006-07.

At the same time, State 2005 Budget Act included approximately $6 billion in savings and related budget solutions in order to maintain budgetary balance. About one-half of the solutions were from holding Fiscal Year 2004-05 Proposition 98 funding at the level anticipated in the State 2004 Budget Act. Another $450 million was from reductions in social services programs, mostly from the suspension of cost-of-living adjustments for California Work Opportunity and Responsibility to Kids and Supplemental Security Income/State Supplementary Program grants. The State 2005 Budget Act also included $525 million in one-time revenues from the refinancing of a previous tobacco-settlement backed bond. It included a $428 million loan from Merrill Lynch to fund the *Paterno* lawsuit settlement (relating to flood-related damage that occurred in 1986). Finally, it retained $380 million in transportation-related sales tax proceeds (Public Transportation Account "spillover" funds) in the General Fund.

After taking into account the higher revenues and other offsetting factors (including higher Proposition 98 funding requirements under current law) the resulting operating shortfall for Fiscal Year 2005-06 was $4.0 billion.

Fiscal Year 2006-07

The 2006-07 Budget Act was adopted by the Legislature on June 27, 2006 and signed by the Governor on June 30, 2006 (the "State 2006 Budget Act"). The State 2006 Budget Act assumes Fiscal Year 2006-07 revenues of $94.4 billion and expenditures of $101.3 billion, resulting in an operating short-fall of $7 billion, which partly reflects the prepayment of $2.8 billion in budgetary debt obligations, leaving the State General Fund with a year-end reserve of $2 billion, compared to the $9 billion year-end reserve in Fiscal Year 2005-06.

The State 2006 Budget Act, among other things, (i) allocates new revenues to K-12 and community college education, increases funding for higher education, and prepays approximately $2.8 billion in budgetary debt, which is roughly consistent with the Governor's budget revision released on May 13, 2006; (ii) makes partial repayments of debt; (ii) funds a budget stabilization account; (iv) makes augmentations to health, resources, corrections and local governments (including increases in funding for county block grants for California Work Opportunity and Responsibility Kids, Child Welfare Services, and foster care; additional funding for local law enforcement and local flood control; and largely one-time funding to hospitals to increase patient capacity to meet public health emergencies, such as an avian flu pandemic); and (v) makes the first payment of a proposed settlement in the amount of $2.9 billion, which will be paid over six years commencing in Fiscal Year 2007-08, related to a lawsuit involving school funding.

The State 2006 Budget Act does not include any ERAF transfers from redevelopment agencies.

The City cannot predict whether the State Legislature will enact future legislation requiring additional or increased future shifts of tax increment revenues to the Sate and/or to schools, whether through an arrangement similar to ERAF or by other arrangements, and, if so, the effect on future General Fund revenues.

2007-08 Fiscal Year Governor's Budget

The 2007-08 Governor's Budget (the "2007 Governor's Budget"), released on January 10, 2007, estimates that the State net operating deficit for Fiscal Year 2007-08 will be eliminated by using $840 million of funds available form prior years. The 2007 Governor's Budget is balanced by using a large part of the Fiscal Year 2006-07 ending fund balance. After taking into consideration the adjustments of $1.688 billion for the repayment or prepayment of prior obligations, including $1.6 billion to prepay the economic recovery bonds, the effective net operating deficit for Fiscal Year 2007-08 is proposed to be zero.

The 2007-08 Governor's Budget projects to end Fiscal Year 2007-08 with a $2.1 billion total reserve, including $1.5 billion in the Budget Stabilization Account pursuant to Proposition 58 (enacted in 2004). State General Fund revenues and transfers for Fiscal Year 2007-08 are projected at $102.3 billion, an increase of $7.3 billion compared with revised estimates for Fiscal Year 2006-07.

State General Fund expenditures for Fiscal Year 2007-08 are projected at $103.1 billion, an increase of $1.0 billion, or less than 1.0%, compared to expenditures for Fiscal Year 2006-07. No ERAF transfers from redevelopment agencies are included in the 2007 Governor's Budget.

The City cannot predict the final outcome of State budget negotiations, the impact that such budgets will have on its finances and operations or the actions to be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures.

Sales Tax

A sales tax is imposed on retail sale or consumption of personal property. Sales tax revenues are determined by the total taxable transactions within a jurisdiction and distributed by the State Board of Equalization to the jurisdiction where the sale took place. Sales taxes collected from merchants with no permanent place of business (*i.e.*, manufacturers, construction contractors, etc.) are accumulated to a Countywide or State-wide (out-of-state businesses) pool and distributed to cities and counties in proportion to their collections from all sales taxpayers.

In 1955, the State Legislature enacted the Bradley Burns Act which established a statewide rate for sales tax, allowed counties to enact sales taxes, capped cities' taxes at 1% and provided for collection by the State Board of Equalization. The City's 1% sales tax has historically been an important local revenue source.

The value and volume of these taxable transactions are in turn dependent on economic and other factors which will influence the City. Such factors include the level of inflation affecting the price of goods and services subject to the sales tax, the rate of population growth in the general area, the characteristics of retail developments, including the relative size of market service areas, the sensitivity of the types of businesses within the City to changes in the economy, and competing retail establishments outside the City. A deterioration of economic and other factors influencing taxable sales generated in the City, would reduce the level of taxable sales generated in the City, thereby reducing sales tax revenues. Table A-12 shows historical retail sales for certain businesses in the City.

Table A-12
City of Stockton
Taxable Retail Sales Data for Calendar Years 2001 to 2005†
($ in 000's)

	2001	2002	2003	2004	2005†
RETAIL STORES					
Apparel Stores	$80,731	$81,698	$86,994	$105,950	$117,760
General Merchandise	436,862	446,011	450,383	490,497	537,946
Food Stores	144,326	145,928	158,262	171,071	180,598
Eating & Drinking Places	209,115	222,423	233,674	248,648	266,869
Home Furnishings and Appliances	78,762	83,996	83,672	96,848	104,559
Building Materials and Farm Implements	272,726	284,981	381,828	525,053	538,219
Auto Dealers and Auto Supplies	577,595	588,751	594,426	622,387	662,421
Service Stations	140,306	134,529	151,314	161,981	184,740
Other Retail Stores	324,239	341,495	370,721	406,687	454,893
TOTAL RETAIL STORES	2,264,662	2,329,812	2,511,274	2,829,122	3,048,005
All Other Outlets	546,748	523,815	566,255	637,707	692,632
TOTAL ALL OUTLETS	$2,811,410	$2,853,627	$3,077,529	$3,466,829	$3,740,637
Percentage Change	–	1.50%	7.85%	12.65%	7.90%

† Most recent detailed annual data available.
Source: State Board of Equalization.

In August 2003, the State adopted legislation which cut the sales tax revenue to cities by half and redirected those revenues to repay State bonds issued to fund the State deficit (Triple Flip) (AB 7X, Revenue and Taxation Code §§7203, 6051.5). The legislation includes a requirement to repay the lost sales tax revenue with subsequent payments from local property taxes taken to establish the Education Revenue Augmentation Fund (the "ERAF").

The Triple Flip statute provides that the cities will later receive an additional amount of property tax equal to the reduction in sales tax revenues. The sales tax reduction will be 0.25% of the 1% the City now receives pursuant to the language included in the voter approved Proposition 57, which authorized the issuance of State deficit bonds.

Utility Users Tax

Pursuant to Ordinance 2570C.S., effective November 1, 1974, as amended, the City imposes a tax on all telecommunication, electric, gas, water and video service delivered to users within the City (collectively, the "Utility Users Tax"). The Utility Users Tax is imposed at rates established by the Ordinance. The rate for Fiscal Year 2006-07 and thereafter is set at 6%. Table A-13 sets forth the Utility Users Tax received by the City for the last five Fiscal Years and the estimated amount for Fiscal Year 2006-07.

Table A-13
City of Stockton
Utility Users Taxes
Fiscal Years 2001-02 through 2005-06 and Estimated for Fiscal Year 2006-07
($ in thousands)

Fiscal Year	Utility Users In Lieu Fee
2001-02	$31,462
2002-03	32,157
2003-04	33,322
2004-05	34,908
2005-06	34,313
2006-07†	28,500

† Estimated.
Source: City of Stockton.

Property Taxes

Ad Valorem Property Taxes

Tax Levies, Collections and Delinquencies. Property Taxes are levied by the County for each fiscal year on taxable real and personal property which is situated in the County. Property taxes collected in advance are recorded as deferred revenue and recognized as revenue in the year they become available. The County levies, bills and collects property taxes for the City. Property taxes paid to the City by the County within 60 days after the end of the Fiscal Year are "available" and are, therefore, recognized as revenue.

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."

Secured and unsecured property taxes are levied based on the assessed value as of January 1, the lien date, of the preceding Fiscal Year. Secured property tax is levied on October 1 and due in two installments, on November 1 and February 1. Collection dates are December 10 and April 10 which are also the delinquent dates. At that time, delinquent accounts are assessed a penalty of 10%. Accounts that remain unpaid on June 30 are charged an additional 1.5 % per month. Such property may thereafter be redeemed by payment of a penalty of 1.5% per month to the time of redemption, plus costs and a redemption fee. 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 Treasurer.

Unsecured property tax is levied on July 1 and due on July 31, and has a collection date of August 31 which is also the delinquent date. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1.5% attaches to them on the first day of each month until paid. The taxing authority has four ways of collecting delinquent unsecured personal property taxes: (1) bringing a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Clerk and County Recorder's

office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property, improvements, or possessory interests belonging or assessed to the assessee.

Teeter Plan. The City is located within a county that is following the "Teeter Plan" (defined below) with respect to property tax collection and disbursement procedures. Under this plan, a county can implement an alternate procedure for the distribution of certain property tax levies on the secured roll pursuant to Chapter 3, Part 8, Division 1 of the Revenue and Taxation Code of the State of California (comprising Section 4701 through 4717, inclusive), commonly referred to as the "Teeter Plan."

Generally, the Teeter Plan provides for a tax distribution procedure by which secured roll taxes and assessments are distributed to taxing agencies within a county included in the Teeter Plan on the basis of the tax levy, rather than on the basis of actual tax collections. The County then receives all future delinquent tax payments, penalties and interest, and a complex tax redemption distribution system for all taxing agencies is avoided. In connection with the Teeter Plan, a county can advance to the participating taxing agencies an amount equal to 95% of the total then-prior years' delinquent secured property taxing and 100% of the total then-prior years' delinquent secured assessments, including the associated penalties and interest, and 100% of the then-current year's secured roll levy.

The Board of Supervisors of the County may discontinue the procedures under the Teeter Plan altogether, or with respect to any tax or assessment levying agency in the County, if the rate of secured tax and assessment delinquency in that agency in any year exceed 3% of the total of all taxes and assessment levied on the secured rolls for that agency.

Thus, so long as the County maintains its policy of collecting taxes pursuant to said procedures and the City meets the Teeter Plan requirements, the City will receive 100% of the annual installments levied without regard to actual collections in the City. There is no assurance, however, that the County Board of Supervisors will maintain its policy of apportioning taxes pursuant to the aforementioned procedures.

Assessed Valuation

All property is assessed using full cash value as defined by Article XIIIA of the State Constitution. State law provides exemptions from ad valorem property taxation for certain classes of property such as churches, colleges, nonprofit hospitals and charitable institutions.

Future assessed valuation growth allowed under Article XIIIA (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The availability of revenue from growth in tax bases to such entities may be affected by the establishment of redevelopment agencies which, under certain circumstances, may be entitled to revenues resulting from the increase in certain property values.

The passage of Assembly Bill 454 in 1987 changed the manner in which unitary and operating nonunitary property is assessed by the State Board of Equalization. The legislation deleted the formula for the allocation of assessed value attributed to such property and imposed a State-mandated local program requiring the assignment of the assessment value of all unitary and operating non-unitary property in each county of each State assessee other than a regulated railway company. The legislation established formulas for the computation of applicable county-wide rates for such property and for the allocation of property tax revenues attributable to such property among taxing jurisdictions in the county beginning in Fiscal Year 1988-89. This legislation requires each County to issue each State assessee, other than a regulated railway company, a single tax bill for all unitary and operating nonunitary property.

Table A-14 shows assessed valuations in the City since Fiscal Year 2001-02.

Table A-14
City of Stockton
Assessed Full Cash Value of all Taxable Property
Fiscal Years 2001-02 to 2005-06
($ in Thousands)

Fiscal Year	Land	Improvements	Personal Property	Gross Assessed Value	*Less* Exemptions	Net Assessed Value
2001-02	$2,756,278	$7,579,417	$713,936	$11,049,631	($952,815)	$10,096,816
2002-03	3,132,565	8,350,637	734,773	12,217,975	(1,003,662)	11,214,313
2003-04	3,532,906	9,220,951	780,193	13,534,050	(1,061,968)	12,472,082
2004-05	4,104,660	10,509,572	816,308	15,430,540	(1,111,509)	14,319,031
2005-06[1]	4,811,339	12,251,910	960,438	18,003,687	(1,185,310)[2]	16,818,377

(1) Most recent data available.
(2) Exemptions include homeowners ($268,961) and other ($916,349).
Source: San Joaquin County Assessor's Office.

Table A-15 shows a history of the City's secured tax levies and delinquencies.

Table A-15
City of Stockton
Secured Property Tax Levies and Collections
Fiscal Years 2001-02 through 2005-06
($ Amounts in Thousands)

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected[1]	Total Tax Collections	Percent of Total Collections to Levy
2001-02	$18,056	$18,056	100.00%	$18,056	100.00%
2002-03	20,176	20,176	100.00	20,176	100.00
2003-04	23,498	23,498	100.00	23,498	100.00
2004-05	26,685	26,685	100.00	26,685	100.00
2005-06[2]	30,661	30,661	100.00	30,661	100.00

(1) Pursuant to an agreement with San Joaquin County, the County provides the City with 100% of the amount owed to the City for secured properties regardless of collection status. In exchange the County is entitled to 100% of revenues collected for interest and penalties. This agreement is commonly referred to as the Teeter Plan.
(2) Most recent data available.
Source: San Joaquin County Auditor/Controller's Office.

Principal Taxpayers

Table A-16 sets forth the principal secured property taxpayers in the City of Stockton as of June 30, 2006.

Table A-16
City of Stockton
Principal Secured Property Taxpayers
(As of June 30, 2006)
($ in thousands)

Taxpayer	Nature of Business	2005-06 Assessed Valuation	Percentage of Assessed Valuations
Corn Products Inc.	Food Processing	$68,680	0.407%
Diamond Walnut Growers Inc.	Manufacturing	55,535	0.329
Simpson Manufacturing Co., Inc.	Manufacturing	46,466	0.276
Levine Investments Ltd /PFP/Pacific Campus	Warehouse	42,624	0.253
Unilever Supply Chain, Inc./Unilever Bestfoods	Food Products Manufacturer	39,134	0.232
Pavilions Apartments LP	Apartment Rentals	38,470	0.228
POSDEF Power Company	Wholesale Steam	33,820	0.201
TRU Properties - Toys R US	Warehouse	33,364	0.198
Stockton Logistics LLC	Warehouse	31,344	0.186
Inland Western Stockton Airport Way LLC/Cost Plus Inc.	Warehouse	31,322	0.186
SUBTOTAL		420,859	2.469
Other Secured Taxpayers	Various	17,591,410	104.377
Exemptions		($1,152,092)	(6.833)
TOTAL		**$16,860,177**	**100.000%**

Sources: San Joaquin County Auditor/Controller's Office and San Joaquin County Assessor's Office.

Motor Vehicle License Fees

Vehicle license fees are assessed in the amount of 2% of a vehicle's depreciation market value for the privilege of operating a vehicle on California's public highways. A program to offset (or reduce) a portion of the vehicle license fees ("VLF") paid by vehicle owners was established by Chapter 322, Statutes of 1998. Beginning January 1, 1999, a permanent offset of 25% of the VLF paid by vehicle owners became operative. Various pieces of legislation increased the amount of the offset in subsequent years to the existing statutory level of 67.5% of 2% (resulting in the current effective rate of 0.65%). This level of offset was estimated to provide tax relief of $3.95 billion in the Fiscal Year 2003-04. Beginning in Fiscal Year 2004-05, the State-local agencies agreement will permanently reduce the VLF rate to 0.65% and eliminate the General Fund offset program.

In connection with the offset of the VLF, the Legislature authorized appropriations from the State General Fund to "backfill" the offset so that the local governments, which receive all of the vehicle license fee revenues, would not experience any loss of revenues. The legislation that established the VLF offset program also provided that if there were insufficient General Fund moneys to fully "backfill" the VLF offset, the percentage offset would be reduced proportionately (i.e., the license fee payable by drivers would be increased) to assure that local governments would not be disadvantaged. In June 2003, the Director of Finance under the Davis Administration ordered the suspension of VLF offsets due to a determination that insufficient General Fund moneys would be available for this purpose, and, beginning in October 2003, VLF paid by vehicle owners were restored to the 1998 level. However, the offset

suspension was rescinded by Governor Schwarzenegger on November 17, 2003, and offset payments to local governments resumed. Local governments received "backfill" payments totaling $3.80 billion in Fiscal Year 2002-03. "Backfill" payments totaling $2.65 billion were expected to be paid to local governments in Fiscal Year 2003-04. The State-local agreement also provided for the repayment in August 2006 of approximately $1.2 billion that was not received by local governments during the time period between the suspension of the offsets and the implementation of higher fees. This repayment obligation was codified by Proposition 1A, which was approved by the voters in the November 2004 General Election and was repaid early by the State in August 2005. The State 200405 Budget Act and related legislation (adopted by the Legislature on July 29, 2004 and signed by the Governor on July 31, 2004) dramatically changed the State-local fiscal relationship. Pursuant to Proposition 1A, the VLF was reduced from 2% to 0.65% of the value of the vehicle. In order to protect local governments, the reduction in VLF revenue to cities and counties from this rate change was to be replaced by an increase in the amount of property tax they receive.

Under Proposition 1A, for Fiscal Years 2004-05 and 2005-06 *only*, the replacement property taxes that cities and counties receive would be reduced by $700 million. In future years, local governments would receive the full value of the VLF revenue that they would have received under current law. Also for these two Fiscal Years, Proposition 1A would require redevelopment agencies to shift $250 million in property tax revenue they would otherwise receive to schools, and special districts would shift $350 million to schools. For a more detailed description of Proposition 1A, see "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS–Proposition 1A." In March 2005, the City was a participant in the California Statewide Communities Development Authority ("CSCDA") VLF Securitization Program, pursuant to which the City sold its VLF receivable to CSCDA in exchange for an aggregate payment in the amount of $4,352,425 in Fiscal Year 2004-05.

Table A-17 sets forth the Motor Vehicle in Lieu Fees received by the City for the last five Fiscal Years and the estimated amount to be received in Fiscal Year 2005-06.

Table A-17
City of Stockton
Motor Vehicle in Lieu Fees
Fiscal Years 2001-02 through 2004-05 and Estimated for Fiscal Year 2006-07

Fiscal Year	Motor Vehicle In Lieu Fee
2001-02	$13,846,763
2002-03	15,007,620
2003-04	11,633,212[1]
2004-05	14,548,034[2]
2005-06	18,173,205
2006-07	19,970,000[3]

(1) The State 2003 Budget Act included a one-time deferral of three months of VLF backfill payments to local governments, resulting in a deferral of $4,430,143 in VLF payments for Fiscal Year 2003-04.
(2) Reflects receipt of $2,539,000 received as a result of the CSCDA VLF Securitization Program.
(3) Adopted Budget.
Source: City of Stockton.

Risk Management

The City maintains three internal service funds to account for and finance it uninsured risk of loss related to general liability, workers' compensation and health benefits insurance. Under the City's risk management program, the City retains risk for up to $1 million for each general liability claim, $750,000 for each workers' compensation claim and $210,000 for each medical plan member under the health benefits program. The City also manages risk by participating in two joint powers authorities organized for the purpose of pooling self-insured losses and by purchasing commercial insurance for claims in excess of the coverage provided by the funds and for all other risks of loss for health benefit claims. The workers' compensation and health benefits programs are administered by third party administrators. The general liability program is self-administered by the City.

General Liability Insurance

In 1986, the City joined with other municipalities and regional municipal joint powers authorities to form the California Joint Powers Risk Management Authority (the "CJPRMA"), a public entity risk pool currently operating as a general liability risk management and insurance program for 22 member entities. CJPRMA provides general liability excess insurance coverage for claims over the City self-insured retention level of $1 million. The City's self-insured retention is currently set at $1 million. Losses above the City's self-insured retention are pooled up to $5 million per occurrence, with reinsurance in place above the $5 million up to $40 million. Specific coverage includes comprehensive and general automotive liability, personal injury, contractual liability, errors and omissions and certain other coverage.

The CJPRMA governing board is comprised of a representative from each member entity. All members have a single vote for policy and charter changes. An executive committee of seven is elected to handle administration. Members are assessed annual contributions based on actuarially determined rates. CJPRMA retroactively adjusts premium deposits for any excess or deficiency in deposits related to paid claims and reserves. Financial statements for CJPRMA for the fiscal year ended June 30, 2006 can be obtained from CJPRMA at 2333 San Ramon Valley Boulevard, Suite 250, San Ramon, California 94583-4456.

Workers' Compensation Insurance

The second joint exercise of powers agency is the California Public Entity Insurance Authority (CPEIA), a sister joint powers authority of the Excess Insurance Authority. CPEIA provides excess workers compensation coverage. CPEIA currently operates an Excess Workers Compensation Program for 90 member entities. The City's self-insured retention is currently set at $750,000 per occurrence. Losses above the self-insured retention levels are pooled up to $5 million per occurrence. Reinsurance is in place in layers above the $5 million up to $50 million with an additional $100 million in limits, for a combined total of $150 million per occurrence.

CPEIA is a sister joint powers authority of the Excess Insurance Authority (the "EIA") which established the EWC Program in 1979. The CPEIA is governed by a board of directors comprised of nine elected CPEIA members and two members of the EIA Executive Committee. Board members and officers are elected by majority vote of member entities. The Board is responsible for conducting all business of the CPEIA with the assistance of designated members of the EIA staff, as well as any committees that the Board deems appropriate to create. Members are assessed annual contributions based on actuarially determined rates. CPEIA retroactively adjusts premium deposits for any excess or deficiency in deposits related to paid claims and reserves. Financial statements for CPEIA for the fiscal year ended June 30, 2006 can be obtained from CPEIA at 3017 Gold Canal Drive, Rancho Cordova, California 95670.

Property Protection

The City also participates in the All Risks Property Protection Program purchased through CJPRMA that is primarily underwritten by a casualty insurance company. This program provides coverage in the amount of $300 million per occurrence, subject to a $25,000 deductible, premiums, which are negotiated each year, are based on property values and are not subject to retroactive adjustments.

Labor Relations

Under the terms of the Meyers-Milias-Brown Act (State Government Code Section 3500 *et seq.*), the City is required to meet and confer with its employees on all matters concerning wage, hours and working conditions.

City employees are represented in seven bargaining units by seven labor organizations. The agreements with these labor organizations generally have a four year term commencing January 1, and provides for a minimum costs of living adjustment of 2.5% and not greater than 6%, based on 80% of the consumer price index. The following is a list of the bargaining units, recognized employee organizations, number of active employees and the expiration dates of current agreements as of June 30, 2006.

Employee Organization	Bargaining Unit	Active Employees	Expiration Date
Stockton Public Officers' Association	Police Officers	345	12/31/2010
Stockton City Employees' Association	Miscellaneous Workers	311	12/31/2008
Operating Engineers' Local 3	Miscellaneous Workers	276	06/30/2006†
Stockton Firefighters' Local 3	Firefighters	217	12/31/2007
Mid-Management/Supervisory Level Unit	Miscellaneous Workers	151	12/31/2008
Stockton Public Management Association	Police Officers	20	12/31/2006†
Stockton Fire Management Unit	Firefighters	9	12/31/2007

† Negotiations are in process. The employees represented by this bargaining unit continue working at the City pursuant to the terms of the expired agreement.

Health and Insurance

The City provides health benefits to certain employees and their dependents for medical, dental and vision care. For Fiscal Years 2002-03, 2003-04 and 2004-05, the City paid premiums in the amount of $21.905 million, $23.703 million and $25.155 million, respectively. Each employee and dependent is covered by a life insurance policy and the employee also is covered by a long-term disability policy.

The life insurance benefits are based upon the bargaining unit to which the employee is associated. Life insurance benefits following retirement are continued at the same benefit level and conditions as active employees except that after age 65 a reduction to 65% is instituted. In Fiscal Years 2002-03, 2003-04 and 2004-05, the City paid premiums in the amount of $1.165 million, $1.072 million and $1.107 million, respectively.

Post Employment Healthcare Benefits

In addition to providing pension benefits through PERS, the City provides certain health care benefits for retired employees under contractual obligations negotiated between the City and various employee bargaining units. All City management and public safety employees who receive a PERS retirement allowance upon separation are eligible for coverage under the Retiree Medical Plan at age 50.

Some employees retired for disability may qualify at a younger age. Other miscellaneous employees receive a PERS retirement allowance with 15 or more years of service at age 50 or 55. Full medical benefits are continued until age 65 or a maximum of 15 years whichever occurs first. Such coverage includes the retiree and one dependent. At age 65, eligible retirees are covered under a Medicare Supplement Plan, which pays secondary to Medicare. This is a lifetime benefit provided to the retired employee and his or her eligible spouse.

The contributions by the City to finance these benefits are made on a pay-as-you-go basis. Substantially all of the employees of the City may become eligible for these benefits. Table A-18 summarizes contributions made by the City for participating retirees.

Table A-18
City of Stockton
Contributions to Post Employment Health Benefits
Fiscal Years 2001-02 through 2005-06

Fiscal Year	No. of Retirees	Contribution Amount ($ in 000's)
2001-02	465	$4,763
2002-03	525	5,652
2003-04	525	7,303
2004-05	656	8,179
2005-06	694	7,162

Sources: Comprehensive Annual Financial Reports for the Fiscal Years Ended June 30, 2002 through 2006.

In June 2004, the Governmental Accounting Standards Board ("GASB") issued Statement No. 45 ("GASB 45"), which addresses how state and local governments should account for and report their costs and obligations related to post-employment health care and other non-pension benefits ("OPEB"). 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 they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The provisions of GASB 45 may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation. However, the unfunded actuarial liability is required to be amortized over future periods on the income statement. GASB 45 also established disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and for certain employers, the extent to which the plan has been funded over time. In addition, if the employer does not have dedicated assets or funding arrangements to pay for the benefits, GASB 45 requires that the OPEB liability be recognized on an accounting basis. Currently, the City does not have any dedicated assets or funding arrangements for payment of OPEB liabilities. These disclosure requirements will be effective for the City's Fiscal Year ending June 30, 2008.

GASB 45 is likely to result in a substantial increase in the annual expense recognized by the City for post-retirement health care benefits. The City retained the services of an independent actuary, in Fiscal Year 2004-05 to provide a preliminary working estimate of the City's OPEB liability. While the final amount of the liability and the increase in the annual expense to be recognized has not yet been determined, and will not be finalized until Fiscal Year 2007-08, preliminary working estimates indicate that the liability could range from $250 to $450 million.

For a description of PERS and the Retirement Plan, see Appendix C–CERTAIN INFORMATION REGARDING THE CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM."

Long-Term General Fund Obligations

The City has never defaulted on the payment of principal of or interest on any of its indebtedness. Table A-17 summarizes the general fund obligations of the City.

No General Obligation Bonds

The City does not have any authorized but unissued general fund obligation debt outstanding.

Lease Obligations

The City has made use of various lease arrangements with private and public financing entities, nonprofit corporations and authorities for the use and acquisition of capital assets. These capital lease obligations had terms ranging from 25 to 32 years. The longest capital lease terminates in 2036. For a summary of the City's long-term debt as of June 30, 2006, see APPENDIX B–"CITY OF STOCKTON COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2006–Notes to Financial Statements–Note 14–Operating Leases."

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Certain of these Lease obligations of the City reflect annual payments made for debt service on lease revenue bonds and certificates of participation or for which the General Fund is obligated as a secondary or tertiary source to make payments for debt service issued to finance capital projects.

Table A-19
City of Stockton
Long-Term General Fund Obligations
(As of June 30, 2006)

Issuer	Issue	Original Principal Amount	Outstanding Principal Amount	Maturity Date
City of Stockton[1]	Certificates of Participation (Redevelopment Housing Projects Series 2003A)	$1,160,000	1,160,000	September 1, 2033
City of Stockton[1]	Certificates of Participation (Redevelopment Housing Projects Series 2003B)	12,140,000	12,140,000	September 1, 2033
Stockton Public Financing Authority[2]	Lease Revenue Bonds, Series 2004 (Parking Capital Projects)	32,785,000	32,785,000	September 1, 2034
Stockton Public Financing Authority[3]	2006 Lease Revenue Refunding Bonds, Series A	13,965,000	13,965,000	August 1, 2031
Redevelopment Agency of the City of Stockton[4]	Revenue Bonds, Series 2004 (Stockton Events Center-Arena Project)	47,000,000	47,000,000	September 1, 2036
Stockton Public Financing Authority[1]	Taxable Revenue Bonds (Housing Projects) 2006 Series C	25,985,000	25,985,000	September 1, 2037

(1) The primary source for repayment is the 20% Redevelopment Housing-Set Aside.
(2) The primary source for repayment is parking revenue generated within the Downtown Stockton Central Parking District.
(3) The primary sources for repayment are as follows: approximately 85% is derived from parking revenues generated within and taxes assessed upon property located in the Downtown Stockton Central Parking District and approximately 15% from a police public facility fee levied upon new development within the City
(4) The primary source for repayment are tax increment revenues from the West End Redevelopment Project Area.

Direct and Overlapping Debt

Table A-19 sets forth the Statement of Direct and Overlapping Debt for the City of Stockton as of March 1, 2007.

Table A-19
City of Stockton
Statement of Direct and Overlapping Debt

2006-07 Assessed Valuation:	$20,066,230,114
Redevelopment Incremental Valuation:	2,023,049,387
Adjusted Assessed Valuation:	$18,043,180,727

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 3/1/07	
Lincoln Unified School District	87.196%	$ 37,017,032	
Lincoln Unified School District Community Facilities District No. 1	81.437	24,224,099	
Lodi Unified School District	36.980	38,893,715	
Manteca Unified School District	21.244	14,093,695	
Manteca Unified School District Community Facilities District No. 1989-1	100.	37,916,013	
Stockton Unified School District	81.393	109,213,127	
Tracy Joint Unified School District	0.006	840	
City of Stockton Community Facilities District No. 1	100.	28,630,000	
City of Stockton Community Facilities District No. 90-1	97.662	6,011,096	
City of Stockton Community Facilities District No. 90-2	100.	25,915,000	
City of Stockton Community Facilities District No. 90-4	100.	11,295,900	
City of Stockton Community Facilities District No. 96-1	100.	3,730,000	
City of Stockton Community Facilities District No. 99-02	100.	6,260,000	
City of Stockton Community Facilities District No. 2001-1 (Spanos Park West)	100.	21,330,000	
City of Stockton Community Facilities District No. 2003-1	100.	3,135,000	
City of Stockton 1915 Act Bonds	100.	69,963,664	
Reclamation District No. 2042 Community Facilities District No. 2001-1	18.211	1,360,362	
San Joaquin Area Flood Control Assessment District	81.980	13,428,324	
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		$452,417,867	
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
San Joaquin County Certificates of Participation	33.885%	$ 41,031,347	
San Joaquin Delta Community College District Certificates of Participation	30.763	25,296,996	
Lincoln Unified School District Certificates of Participation	87.196	2,947,225	
Lodi Unified School District Certificates of Participation	36.980	13,414,495	
Stockton Unified School District Certificates of Participation	81.393	20,219,931	
City of Stockton General Fund Obligations	100.	106,860,000	(1)
South San Joaquin Irrigation District Certificates of Participation	1.323	68,531	
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		$209,838,525	
Less: South San Joaquin Irrigation District (100% self-supporting)		68,531	
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$209,769,994	
GROSS COMBINED TOTAL DEBT		$662,256,392	(2)
NET COMBINED TOTAL DEBT		$662,187,861	

(1) Excludes issue 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 2006-07 Assessed Valuation:
Total Overlapping Tax and Assessment Debt 2.25%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt ($106,860,000) 0.59%

Gross Combined Total Debt 3.67%
Net Combined Total Debt 3.67%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/06: $7,144

Source: California Municipal Statistics, Inc.

APPENDIX B

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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CITY OF STOCKTON

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

STOCKTON, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

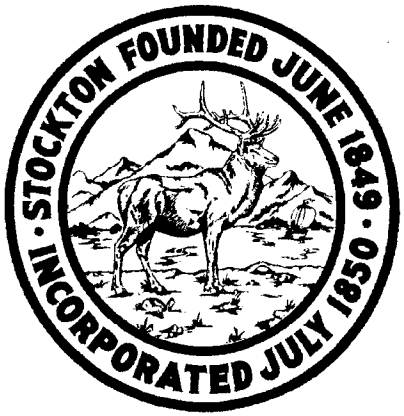
CITY OF STOCKTON, CALIFORNIA

Prepared and Issued by
The Administrative Services Department

MARK MOSES
Director of Administrative Services

JANET SALVETTI
Finance Officer

CITY OF STOCKTON



INTRODUCTORY SECTION

CITY OF STOCKTON

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2006
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CITY OF STOCKTON

ADMINISTRATIVE SERVICES

City Hall • 425 N. El Dorado Street • Stockton, CA 95202-1997 • 209/937-8460 • Fax 209/937-8844

www.stocktongov.com

October 27, 2006

Honorable Mayor, Members of the City Council And
Citizens of the City of Stockton, California

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Stockton for the fiscal year ending June, 30, 2006. The City Charter (Section 1910, Article XIX) requires that a licensed certified public accountant conduct an annual audit at the end of each fiscal year and issue a complete set of financial statements to be submitted to the City Council. The financial statements are presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards.

The intent of this report is to provide the City Council, citizens and City staff with a firm understanding of the City's financial position. Management assumes responsibility for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, management has established an internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements.

Macias Gini & O'Connell LLP, an independent firm of licensed certified public accountants, has audited the City's financial statements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Based on the audit, the independent auditors concluded that there was reasonable basis for rendering an unqualified opinion which states that the City's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Stockton
All-America City
2004
1999

In addition to meeting the City Charter audit requirements, the audit is also designed to meet the requirements of the Federal Single Audit Act of 1996 and related OMB Circular A-133. Information relating to this Single Audit, including a Schedule of Expenditures of Federal Awards, the independent auditor's report on internal controls, report on compliance with applicable laws and regulations, and a schedule of findings and recommendations are included in this CAFR.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion & Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the independent auditor's report.

Profile of the City of Stockton

The City of Stockton is located in California's flourishing San Joaquin Valley and is the county seat of San Joaquin County. Stockton encompasses nearly 60 square miles and has an estimated population of approximately 280,000. It currently is the 12th largest city in California. The City is the home of the busy inland port which is the entrance to the unique San Joaquin Delta, a series of waterways and agricultural islands leading to the San Francisco Bay.

The City was incorporated in 1850 and subsequently received its first charter, a special legislative charter, from the State in 1851. Stockton's first local Charter under the 1879 State Constitution was approved by the voters in 1888 and ratified by the State Legislature in 1889. The current Charter under which the City operates was approved by the voters in November, 1922. The charter was enacted in 1923 and changed the City from a commission form of government to the current City Council – City Manager form of government. The City Charter has been amended over 100 times since it was originally approved in 1922.

Under the Council-Manager form of government, policy-making and legislative authority are entrusted to the City Council. The mayor and representatives from six districts are chosen by city-wide election for staggered four year terms, with a two term limit. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for appointing department heads, and overseeing the operation of the City. The City Manager, City Attorney, City Auditor, and City Clerk are appointed by the City Council.

The City provides a full range of municipal services. As provided by City Charter these include: public safety (police, fire, paramedics, and building), sanitation (solid waste disposal, wastewater, and storm water utilities), water utility, community development, library, parks and recreation, and general administrative services. The City Council sits as the Board of the Stockton Redevelopment Agency.

This report includes the financial activity of separate legal entities whose activities the City controls. These entities include:

- Redevelopment Agency
- Stockton Public Financing Authority

Component unit (stand-alone) reports are available for the Redevelopment Agency.

Budgetary Controls

The annual budget serves as the foundation for the City's financial planning and control. In accordance with the provisions of the City Charter, the City Manager prepares and the City Council adopts a budget on or before June 30 for each subsequent fiscal year.

Each department is given budget targets based on a percentage of the General Fund revenue projections, and is given wide latitude in putting together its budget to meet City goals. The budget is prepared under the supervision of a budget officer and transmitted to the City Council for review 45 days prior to the beginning of each fiscal year. If the Council fails to adopt the annual budget by the beginning of the new fiscal year, the amounts proposed in the budget by the City Manager are considered appropriated until the Council adopts a budget.

Budgetary control is at the department level within each fund. Fund transfers within like categories of the same department require approval from the City Manager's Office.

Economic Condition

Local Economy. Although the State's budget problems once again had an impact on the City's budget, Stockton continues to operate within a balanced budget. In 2006 the Council Budget, Finance and Economic Development Committee was revived with its members involved in reviewing a number of issues including debt policies, revenue sources, capital improvement program, and individual departmental budgets. In May, 2006 the City Council adopted a formal reserve policy for the General Fund.

Stockton continues to experience a rebirth of the downtown area, which in the past five years, has been transformed from one of urban blight and decay, into a vibrant, growing urban center. This renaissance has served as the cornerstone of a rejuvenated economy, and its effect has rippled outward from the City's center to its boundaries and beyond.

On the North Shore of the Stockton Channel, a multi-million dollar development project has been completed. On what once was undeveloped property now stand a baseball stadium, waterfront multi-use arena, retail space and a parking structure. Scheduled for completion in spring 2007 is a Sheraton Hotel and conference center.

Completed in December, 2005 the Stockton Arena is the home to several sports teams, including the California Cougars (Major Indoor Soccer League), Stockton Thunder (East Coast Hockey League), and Stockton Lightning (Arena Football). The state of the art 220,000 square foot, 10,000 seat arena can accommodate a wide range of events and activities with a total of over 100 events anticipated each year.

Access to Stockton is being greatly improved through the State Route 99/Hammer Lane Interchange Reconstruction and Widening Project. The project is intended to relieve congestion, reduce delays, and improve safety. Included in the project is the widening of State Route 99 to six through lanes from the Crosstown Freeway to Hammer Lane, improvements to several interchanges, sound walls and improved lighting. The entire project will take over two years to complete with the date estimated to be in late 2007. Upon completion, Stockton will be better served by improved access by both State Route 99 and Interstate 5.

To accommodate the growing number of people visiting Downtown Stockton, two new parking structures were recently completed. The Stockton Arena Parking Garage and the Edmund "Ed" S. Coy Parking Garage have added 1,200 parking spaces and 25,000 square feet of retail space to better serve the area.

While it is difficult to precisely quantify the impacts of these redevelopment projects, both single family homes and commercial real estate in Stockton have seen significant appreciation over the same time horizon as the unfolding of the downtown redevelopment. In the third quarter of 2005, Stockton's per capita sales tax revenue skyrocketed 18% compared to the modest 3% increase for the statewide per capita sales tax figure.

Long-Term Financial Planning. The Stockton City Council has annually adopted a five-year Capital Improvement Program (CIP). The five-year CIP budget for FY 2006-2011 totals approximately $750 million. The five-year CIP is a planning document that does not appropriate funds for projects. The first year of the CIP is incorporated into the adopted annual budget for fiscal year 2006-07. The CIP budget amount for the first year totals $270 million.

Cash Management and Policies. The Investment Officer of the City is charged with the responsibility of investment of City funds. The government code and City policy stipulate how the City's funds can be invested. The City adopts an investment policy annually that is intended to provide guidelines for the prudent investment of the City's balances, and outlines the policies to assist in maximizing the efficiency of the City's cash management system while meeting the daily cash

flow demands of the City. Both the Investment Advisory Committee and the City Council approve the City's investment policy. Additional information on cash management can be found in Note 3 of the financial statements.

Risk Management. The City is self-insured for general liability, workers' compensation, and health insurance. The City has established three internal service funds to accumulate resources to cover potential uninsured losses. Additional information on the City's risk management activities can be found in Note 10 of the financial statements and in the internal service fund financial statements of this report.

Retirement and Other Post Employment Benefits. The City participates in the California Public Employees' Retirement System (CalPERS) and makes contributions to the retirement plans based on amounts determined by CalPERS actuaries. The City also pays the employees' required contributions as part of its benefit package.

In addition to providing retirement benefits through CalPERS, the City, in accordance with various Memorandums of Understanding, also provides post employment health benefits to certain retired employees. Additional information on the City's retirement plan and post employment benefits can be found in Notes 9 and 11 in the financial statements.

Major Initiatives. In June, 2006 the Stockton City Council embarked on the largest public investment program in the history of this community by approving the Strong Neighborhood Initiative (SNI). This initiative includes the sale of $114 million in revenue bonds which will be used within designated redevelopment project areas, to improve neighborhood conditions, enhance community safety, expand community service, and strengthen community partnerships.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended June 30, 2005. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City has received a Certificate of Achievement for the last seventeen consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA again this year for the Certificate of Achievement.

Additionally, the City received its fifteenth consecutive Certificate of Outstanding Financial Reporting from the California Society of Municipal Finance Officers (CSMFO) for its CAFR for the fiscal year ended June 30, 2005. Due to a change in the CSMFO program that is effective for this fiscal year, recipients of the GFOA Certificate of Achievement are no longer eligible to participate in the CSMFO program, if they are continuing to submit to GFOA.

The preparation of this report would not have been possible without the efficient and dedicated services of the Accounting Unit staff, as well as other Administrative Services Department staff. In addition, staff in all City departments should be recognized for their cooperative efforts in responding to the many questions and requests for detailed information that accompanies the preparation and production of the CAFR.

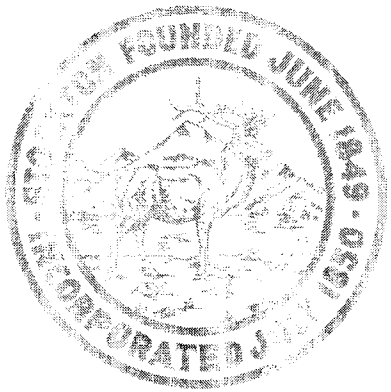
We also want to thank the Mayor, members of the City Council, and the audit committee for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

MARK MOSES
DIRECTOR OF ADMINISTRATIVE SERVICES

JANET SALVETTI
FINANCE OFFICER

J. GORDON PALMER, JR.
CITY MANAGER



California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2004-05

Presented to the

City of Stockton

This certificate is issued in recognition of meeting professional standards and criteria in reporting which reflect a high level of quality in the annual financial statements and in the underlying accounting system from which the reports were prepared.

February 24, 2006

William G. Thomas

Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Stockton, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Executive Director

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Stockton, California for its comprehensive annual financial report for the fiscal year June 30, 2005.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

CITY OF STOCKTON
CITY COUNCIL

EDWARD J. CHAVEZ
MAYOR

GARY S. GIOVANETTI
VICE MAYOR
District 5

STEVE J. BESTOLARIDES
COUNCILMEMBER
District 1

DAN J. CHAPMAN
COUNCILMEMBER
District 2

LESLIE BARANCO MARTIN
COUNCILMEMBER
District 3

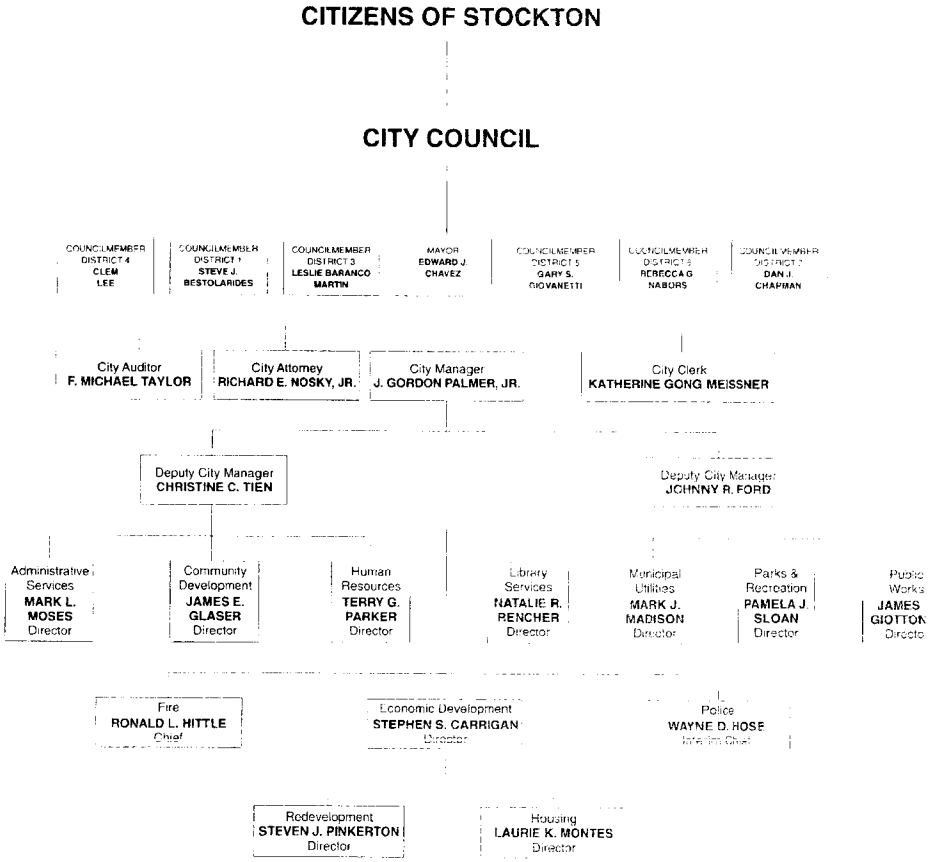
CLEM LEE
COUNCILMEMBER
District 4

REBECCA G. NABORS
COUNCILMEMBER
District 6

The City Seal is used with permission of the City Clerk of the City of Stockton.

Stockton
All-America City
2004
1999

CITY OF STOCKTON
ORGANIZATION CHART / LIST OF PRINCIPAL OFFICIALS
AS OF JUNE 30, 2006



CITY OF STOCKTON

STOCKTON FOUNDED JUNE 1849 · INCORPORATED JULY 1850 ·

FINANCIAL SECTION

FINANCIAL SECTION

The Financial Section is comprised of the Independent Auditors' Report, Management's Discussion and Analysis, Basic Financial Statements, including the notes, Required Supplementary Information, and Supplementary Information which includes Combining and Individual Fund Statements and Schedules.

MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300
Sacramento, CA 95816

2175 N. California Boulevard, Suite 645
Walnut Creek, CA 94596

515 S. Figueroa Street, Suite 325
Los Angeles, CA 90071

402 West Broadway, Suite 400
San Diego, CA 92101

To the City Council
City of Stockton, California

INDEPENDENT AUDITOR'S REPORT

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 Stockton, California (the City), as of and for the fiscal year ended June 30, 2006, 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 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 46, *Net Assets Restricted by Enabling Legislation.*

As described in Note 2, the City changed how it accounts for its land-secured financing.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2006, 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 considered in assessing the results of our audit.

The management's discussion and analysis, schedules of defined benefit pension plans funded status and schedule of revenues, expenditures and changes in fund balance – budget and actual – on a budgetary basis – General Fund, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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's basic financial statements. The introductory section, combining and individual fund statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules 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. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
October 9, 2006

CITY OF STOCKTON

STOCKTON FOUNDED JUNE 1849 · INCORPORATED JULY 1850 ·

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

The following is presented as discussion and analysis of the financial performance of the City of Stockton (City) for the fiscal year ended June 30, 2006. Please consider the information presented here in conjunction with the information furnished in the Letter of Transmittal, which can be found at the beginning of the Comprehensive Annual Financial Report. All dollar amounts are expressed in thousands unless otherwise indicated.

FINANCIAL HIGHLIGHTS

- At the close of the 2006 fiscal year, the City's assets exceeded its liabilities by $1,196,470 (net assets). Of this amount, $21,968 (unrestricted net assets) may be used to meet ongoing obligations to citizens and creditors, $203,212 is restricted for specific purposes (restricted net assets), and $971,290 is invested in capital assets, net of related debt.
- The City's total net assets increased by $117,926. Governmental activities accounted for $104,682 of this increase and business-type activities accounted for the remaining $13,244. Key factors in this increase were development related fees, contributions of capital assets from developers, and taxes and other revenues, which exceeded budgetary estimates.
- Investment earnings totaled $6,856, a decrease of $2,540 from the prior fiscal year. This is made up of a $2,344 decrease in interest income, combined with a $196 net decrease in the fair value of investments. This is attributable to the decrease in the average rate of return on the City's general investment pool from 2.68% in fiscal year 2005 to 2.38% in fiscal year 2006.
- The City's long-term liabilities related to governmental activities decreased by $5,323 or 3% at fiscal year end. The key factors in this decrease were principal repayments of $689 and the reduction of $8,142 in the allowance for workers' compensation self-insurance claims and judgments due to a change in actuarial estimates. Governmental activities also reflected the issuance of $13,965 in 2006 Series A Lease Revenue Refunding Bonds to defease $13,795 in 1999 Certificates of Participation.
- Long-term liabilities related to enterprise funds increased by $21,518 or 15%, primarily due to the issuance of the 2005 Water Revenue Bond Series A in the amount of $24,230 to finance water system capital improvement projects. This was offset by principal repayments of $3,036.
- As of June 30, 2006, the City's governmental funds reported combined ending fund balances of $181,654.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended as an introduction to the City's basic financial statements. The basic financial statements are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. In addition to the basic financial statements, this report includes other supplementary information. **Government-wide Financial Statements** are designed to provide readers with a broad overview of the City's finances and information about the activities of the City as a whole.

The government-wide financial statements include the statement of net assets and the statement of activities. Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental

activities) from other functions that are intended to recover a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include public safety, public works, library, parks and recreation, and general government services. The business-type activities of the City include water utility, wastewater utility, stormwater utility, the parking district, and golf courses, as well as the solid waste operation, which is in the process of being phased out.

The government-wide financial statements include the governmental activities of the Redevelopment Agency and the Stockton Public Financing Authority. Although legally separate from the City, these component units are blended with the primary government because of their governance or financial relationships to the City.

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

The government-wide financial statements can be found on pages 13-15 of this report.

Fund Financial Statements are designed to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with legal reporting requirements. All of the funds of the City can be divided into the following three categories: **Governmental Funds, Proprietary Funds, and Fiduciary Funds.**

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as government-wide financial activities in the government-wide financial statements. However, governmental fund financial statements focus on how financial assets can readily be converted to available resources and the balances left at year end that are available for spending. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs.

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

The City maintains several individual governmental funds organized according to their type (the General Fund, special revenue funds, debt service funds, capital projects funds, and the Permanent Fund). Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Public Facilities Impact Fees Fund, Capital Improvement Fund,

and Redevelopment Agency Fund which are considered to be major funds. Data from the remaining nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The basic governmental funds financial statements can be found on pages 20-29 of this report.

Proprietary Funds. Proprietary funds are generally used to account for activities for which the City charges a fee to either its external or internal customers. Proprietary funds provide the same type of information as in the government-wide financial statements, only in more detail. The City maintains two types of proprietary funds:

- **Enterprise Funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the Water Utility, Wastewater Utility, Stormwater Utility and Central Parking District, which are considered major funds. Data for the remaining nonmajor enterprise funds are combined into a single, aggregated presentation.

- **Internal Service Funds** are used to report activities that provide goods and services for certain City programs and activities. The City uses internal service funds to account for its fleet of vehicles, information technology systems, radio and other equipment, and the City's self insurance programs. Because these services predominately benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 30-37 of this report.

Fiduciary Funds. The fiduciary funds are used to account for resources held for the benefit of parties outside the government. This includes resources related to land secured financing, employee payroll withholdings, area of benefit fees, public facilities fees, and other miscellaneous. The City's fiduciary funds are reported as agency funds and are not reflected in the government-wide financial statements since the resources of the funds are not available to support the City's own programs. The basic fiduciary funds financial statement can be found on page 38 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 39-78 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information. This information provides a budgetary comparison schedule for the City's General Fund, as well as information about the City's participation in the California Public Employees' Retirement System defined benefit pension plan. Required supplementary information can be found on pages 79-83 of this report. The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise funds, and internal service funds are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve as a useful indicator of a government's financial position. City assets exceeded liabilities by $1,196,470 at the close of the fiscal year, which is a $117,926, or 11% increase from fiscal year 2005.

The largest component of the City's net assets is its investment of $971,290, 81%, in capital assets (e.g., land and easements, buildings and improvements, infrastructure, and equipment), less any related outstanding debt used to acquire these assets. Capital assets contributed by developers traditionally account for significant growth in the City's net assets. The City uses these capital assets to provide services to citizens; consequently, these are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be liquidated to reduce these liabilities.

City of Stockton's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets:						
Current and other assets	$246,911	$258,666	$128,406	$137,538	$375,317	$396,204
Capital assets	673,917	577,659	497,865	465,976	1,171,782	1,043,635
Total assets	920,828	836,325	626,271	603,514	1,547,099	1,439,839
Liabilities:						
Long-term liabilities	153,020	158,343	169,041	147,523	322,061	305,866
Other liabilities	18,479	33,335	10,089	22,094	28,568	55,429
Total liabilities	171,499	191,678	179,130	169,617	350,629	361,295
Net assets:						
Invested in capital assets, net of related debt	603,068	529,250	368,222	348,229	971,290	877,479
Restricted	154,758	134,804	48,454	55,386	203,212	190,190
Unrestricted	(8,497)	(19,407)	30,465	30,282	21,968	10,875
Total net assets	$749,329	$644,647	$447,141	$433,897	$1,196,470	$1,078,544

An additional portion of the City's net assets, $203,212 or 17%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, $21,968, 2%, may be used to meet the City's ongoing obligations to citizens and creditors. Unrestricted net assets increased by $11,093, 102% from fiscal year 2005.

The deficit unrestricted net assets in governmental activities decreased by $10,910 during the year. Key factors in the decrease of this deficit were taxes and other revenues which significantly exceeded budgetary estimates and expenses in the General Fund and the Measure W Public Safety Tax Fund combined with a decrease of $13,486 in the deficit unrestricted net assets in the Internal Service Funds. The Workers' Compensation Insurance Fund reported a decrease of $14,505 in deficit unrestricted net assets, largely due to revenue growth of $3,399 which resulted from increased charges to City departments and increases in excess insurance reimbursements combined with a decrease of $8,142 in estimated claims and judgments, as discussed in the Financial Highlights section. These factors were offset by expenses, which continued to exceed revenues in the Emergency Medical Transportation Fund and the funding

from unrestricted net assets of significant construction costs for the Stockton Events Center-Arena and other capital improvement projects.

Business-type activities unrestricted net assets increased by $183. This includes increases of $7,658 in the Water Utility and $92 in the Central Parking District, offset by decreases of $5,553 in the Wastewater Utility and $1,973 in the Stormwater Utility.

City of Stockton's Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues:						
Charges for service	$96,707	$86,234	$63,863	$61,931	$160,570	$148,165
Operating grants and contributions	12,388	9,715	-	-	12,388	9,715
Capital grants and contributions	45,745	44,309	20,324	28,655	66,069	72,964
General revenues:						
Property taxes	47,495	33,723	-	-	47,495	33,723
In lieu of sales tax	9,274	8,750	-	-	9,274	8,750
Utility user taxes	34,313	34,908	-	-	34,313	34,908
Sales and use taxes	52,004	38,245	-	-	52,004	38,245
Franchise fees	10,333	9,812	-	-	10,333	9,812
Business licenses	11,222	8,960	-	-	11,222	8,960
Hotel/motel room taxes	2,171	2,160	-	-	2,171	2,160
Document transfer taxes	2,010	2,036	-	-	2,010	2,036
Other taxes	218	373	713	733	931	1,106
Grants and contributions not restricted to specific programs	18,629	16,137	-	881	18,629	17,018
Investment earnings	3,457	5,554	3,399	3,842	6,856	9,396
Miscellaneous	1,010	6,603	-	-	1,010	6,603
Total revenues	346,976	307,519	88,299	96,042	435,275	403,561
Expenses						
General government	20,171	19,894	-	-	20,171	19,894
Public safety	149,512	145,703	-	-	149,512	145,703
Public works	36,481	33,328	-	-	36,481	33,328
Library	13,545	13,190	-	-	13,545	13,190
Parks and recreation	26,352	19,365	-	-	26,352	19,365
Interest and fiscal charges	4,136	4,346	-	-	4,136	4,346
Water utility	-	-	19,063	14,809	19,063	14,809
Wastewater utility	-	-	36,458	31,607	36,458	31,607
Stormwater utility	-	-	6,009	5,653	6,009	5,653
Central parking district	-	-	3,162	2,487	3,162	2,487
Other	-	-	2,460	2,448	2,460	2,448
Total expenses	250,197	235,826	67,152	57,004	317,349	292,830
Increase in net assets before transfers	96,779	71,693	21,147	39,038	117,926	110,731
Transfers	7,903	8,076	(7,903)	(8,076)	-	-
Increase in net assets	104,682	79,769	13,244	30,962	117,926	110,731
Net assets, beginning of year, as restated	644,647	564,878	433,897	402,935	1,078,544	967,813
Net assets, end of year	$749,329	$644,647	$447,141	$433,897	$1,196,470	$1,078,544

Governmental Activities. Governmental activities accounted for $104,682 or 89% of the total increase in the City's net assets. The key factors impacting the change in net assets are:

- Continued vibrant economy
- High levels of commercial and residential development
- increased assessed valuations due to growth in new homes and the strong resale market
- Addition of North Stockton Redevelopment Project Area
- First full year of Measure W Public Safety Tax
- Increase in public facilities fees rates
- Success of the Voluntary Business License Compliance Program

Over 27% of the increase in net assets can be attributed to public facilities fees totaling $28,179.

The City's governmental activities also realized the following revenue increases:

- Property taxes - $13,772 - 41%
- Sales and use taxes - $13,759 - 36%
- Business licenses - $2,262 - 25%
- Motor Vehicle Licenses - $3,625 - 25%

In addition to the Measure W Public Safety Tax, the continued build out of Park West Place located in Spanos Park West also contributed to the growth in sales tax revenue.

Investment earnings in governmental activities decreased by $2,097 or 38%, as discussed in the Financial Highlights section.

Business-type Activities. Business-type activities accounted for $13,244 or 11% of the total increase in the City's net assets. The key elements of this increase are:

- Contributions of capital assets from developers:
  Water Utility: $1,162
  Wastewater Utility: $1,394
  Stormwater Utility: $859
- Connection fees:
  Water Utility: $1,892
  Wastewater Utility: $10,040

On September 18, 2005 water connection fees increased substantially, more than tripling to allow infrastructure to keep pace with development.

Investment earnings in business-type activities decreased by $443 or 12%, as discussed in the Financial Highlights section.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with legal reporting requirements.

Governmental Funds. The focus of the City's governmental funds is providing information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved

fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City include the General Fund, special revenue funds, debt service funds, capital projects funds, and the Permanent Fund.

As of June 30, 2006 the City's governmental funds reported combined ending fund balances of $181,654, a decrease of $3,162 from the prior fiscal year.

Revenues for governmental funds overall totaled $348,403 in fiscal year 2006, which represents an increase of $53,868 from fiscal year 2005. Expenditures for governmental functions totaled $357,856, an increase of $21,023 from the prior fiscal year. During fiscal year ended June 30, 2006 expenditures for governmental functions exceeded revenues by $9,453 or approximately 3%. This reflects significant revenues from development related fees as well as increases in revenues from property taxes, including incremental tax revenues, sales and use taxes, including Measure W Public Safety tax, and business licenses. The governmental functions also reported substantial expenditures from the Public Facilities Fees Fund, the Capital Improvement Fund and the Redevelopment Agency Fund for various capital improvement projects, including the Stockton Events Center-Arena project.

The General Fund is the chief operating fund of the City. At the end of the fiscal year, the General Fund's unreserved fund balance was $23,116 and has been designated as follows: $1,120 for catastrophic events, $1,120 for budget contingency/budget uncertainty, $1,600 for termination pay, $7,500 for capital improvement projects, $8,276 for future appropriations, and $3,500 for liability. As a measure of the General Fund's liquidity, it is useful to compare the following designated unreserved fund balances to the General Fund's total expenditures of $167,166: designated for catastrophic events, .7%, designated for budget contingency/budget uncertainty, .7%, and future appropriations, 5.0%. The total fund balance for the General Fund is $31,468, which includes the designated unreserved fund balances of $23,116, as mentioned above, and reserved fund balance in the amount of $8,352. General Fund revenues exceeded expenditures by $16,146, mostly as a result of tax revenues, which exceeded budgetary estimates, as discussed under General Fund Budgetary Highlights; however, other financing uses exceeded other financing sources by $8,142. The net result was to increase fund balance by $8,004.

The Public Facilities Impact Fees Fund accounts for the collection and expenditure of fees imposed as a condition of new development within the City. At the end of the fiscal year, the Public Facilities Impact Fees Fund's total fund balance of $55,246 was reported as reserved. This represents an increase of $8,036 from the prior fiscal year. Revenues which consist mainly of development related fees were $8,183 more than expenditures. Capital outlay expenditures totaling $16,639 funded the construction of multiple street widening and traffic related projects, as well as several park improvements.

The Capital Improvement Fund accounts for the acquisition, construction, and improvement of capital facilities financed by grants and transfers from other City funds. The Capital Improvement Fund reported a reserved fund balance of $25,009 and a deficit of $1,909 in unreserved fund balance at fiscal year end. Expenditures exceeded revenues by $26,446; however, other financing sources exceeded other financing uses by $14,805, resulting in a net decrease in fund balance of $11,641. Capital outlay expenditures totaling $30,495 funded the Stockton Events Center-Arena project and several smaller projects.

The Redevelopment Agency Fund reported a deficit fund balance of $20,510 at the end of the fiscal year. The deficit increased $12,834 from the prior year, essentially due to the expenditure

of $14,860 of Stockton Events Center-Arena project bond construction funds that were recognized as revenue in a prior fiscal year. This was offset by an increase of $8,030 or 114% in incremental property tax revenues, due in large part to the new North Stockton Redevelopment Project Area and the significant turnover in the housing market over the last year, resulting in reassessment of property values.

Proprietary Funds. At the end of the fiscal year, unrestricted net assets were reported as follows: the Water Utility $16,875, the Wastewater Utility $11,435, and the Stormwater Utility $3,311. The Central Parking District reported deficit unrestricted net assets of $318. The Solid Waste and Golf Courses are combined for financial reporting purposes and together had deficit unrestricted net assets of $838. The internal service funds had a deficit in unrestricted net assets of $7,391.

The total growth in net assets for the enterprise funds was $13,244. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type activities.

The internal service funds had an increase in net assets of $14,379. For the most part, this reflects increases in net assets of $14,505 in the Workers' Compensation Insurance Fund, $1,396 in the Health Benefits Insurance Fund, and $2,172 in the Other Insurance Fund, offset by decreases in net assets of $708 in the Central Garage Fund, $1,110 in the Computer Equipment Fund, and $1,968 in the General Liability Insurance Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an increase in appropriations of $3,514. Additional appropriations of $4,042 were needed due to increased public safety salary costs; this was offset by a decrease of $393 to general government activities.

During the year, actual revenues exceeded budgetary estimates by $15,472. Some key revenues that exceeded budgetary estimates are as follows:

- An additional $4,767 in property taxes, reflecting the continued growth in new homes, commercial properties and resale of existing properties that increased assessed valuations
- $2,938 in utility user taxes, reflecting the growth in housing and commercial development
- $999 in sales and use taxes and $797 in franchise fees due to the economy gaining strength and the growth in commercial development discussed earlier
- $2,815 in business licenses, reflecting the strong economy and the success of the Voluntary Business License Compliance Program
- $410 in document transfer taxes because of the strong resale market
- $2,780 in revenue from other agencies, including Motor Vehicle License Fee revenue from the sale of new and used vehicles.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006 amounts to $1,171,782. This investment in capital assets includes land and easements, buildings and improvements, machinery and equipment, park facilities, roads, street, and bridges. The total increase in the City's capital assets for the fiscal year was $128,147 or 12%, which represented a 17% increase for governmental activities and a 7% increase for business-type activities, as shown in the table below. Governmental activities reflect $104,373 for the Stockton Events Center-Arena project which was essentially completed during fiscal year 2006. This includes $59,254 that was carried as construction in progress at the end of fiscal year 2005 plus the addition of $45,119 during fiscal year 2006.

Changes in Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	$ 34,603	$ 33,599	$ 13,819	$ 13,055	$ 48,422	$ 46,654
Buildings & Improvements	193,139	78,388	382,741	369,144	575,880	447,532
Machinery & Equipment	14,770	11,686	3,051	3,311	17,821	14,997
Infrastructure	277,352	226,665	-	-	277,352	226,665
Construction in Progress	154,053	227,321	98,254	80,466	252,307	307,787
Total	$ 673,917	$ 577,659	$ 497,865	$ 465,976	$1,171,782	$1,043,635

Additional information on the City's capital assets can be found in Note 6 on pages 56-57 of this report.

Long-term debt. At the end of the fiscal year, the City's total outstanding bonded debt was $242,833. Of this amount, $74,815 was related to governmental activities, including $13,212 of certificates of participation for redevelopment housing projects, $13,078 of lease revenue bonds for the City's Essential Services Building/Parking Structure, and $48,525 of revenue bonds issued by the Redevelopment Agency for the Stockton Events Center-Arena Project. During fiscal year 2006, the City's net bonded indebtedness related to governmental activities decreased by $998. Key factors in the decrease were principal repayments and amortization of deferred charges totaling $273, in addition to the issuance of the 2006 Series A Lease Revenue Refunding Bonds in the amount of $13,070, net of deferred charges, to defease the 1999 Certificates of Participation in the amount of $13,795.

Bonded debt related to business-type activities totaled $168,018. Of this amount $36,733 is revenue bonds backed by the Water Utility, $98,568 is certificates of participation backed by the Wastewater Utility, and $32,717 is lease revenue bonds backed by the Central Parking District. During fiscal year 2006, the City's net bonded indebtedness related to business-type activities increased by $21,949, mainly due to the issuance of the Series 2005 A Water Revenue Bonds in the amount of $24,364, net of deferred charges, offset by principal repayments and amortization of deferred charges totaling $2,415.

Additional information on the City's long-term debt can be found in Note 7 on pages 58-67 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The City's largest General Fund revenue sources are sales and use tax, utility user tax (UUT), property tax, and the motor vehicle license fee (VLF). With the exception of UUT, the proportion the City receives from each source is determined by the State.

- Current year sales tax and property tax revenues reflect the strong economy and continued growth in new homes, commercial development, resale of existing properties and property improvement projects. Sales tax revenue is expected to continue to steadily increase next year due to the strong retail sales economy.

- The VLF revenue growth rate is approximately 3.5%. Through the agreements reached with the passage of Proposition 1A, fiscal year 2006 was the second and final year that the City was required to make a contribution of $2.7 million to the State of California from its Motor Vehicle License Fee proceeds. Therefore, in the 2007 fiscal year the City will be able to keep all revenues generated.

- Measure W increased the local sales and use tax by one-quarter of one percent, and revenues will be used solely to address Stockton's public safety needs, with the ultimate objective of funding 40 additional police officers and 40 additional sworn fire fighters. The 2007 fiscal year budget includes a full year of funding at $9.1 million. During the upcoming fiscal year, the Police Department anticipates hiring an additional 16 sworn employees, bringing the total to 40. The Fire Department anticipates hiring an additional 8 sworn employees, bringing the total to 27.

- The City Council approved a resolution in fiscal year 2005 to reduce the UUT rate from 8% to 6%. The final reduction from 7% to 6% is effective July 1, 2006.

- The fiscal year 2007 Budget and Fee Schedule contains fees for services provided to the public, including cost recovery fees for development, as well as 911 services. Most fees contain an automatic inflation adjustment.

- As of June 30, 2006 state mandated costs reimbursement (SB-90) claims totaling $4,550 are reported as deferred revenue in the General Fund because the State did not appropriate funds for this reimbursement in fiscal year 2006.

- The unemployment rate for the City was 7.2% as of June 2006. Although the local unemployment rate is 2.3 percentage points higher than the State unemployment rate of 4.9%, it has dropped since June 2005.

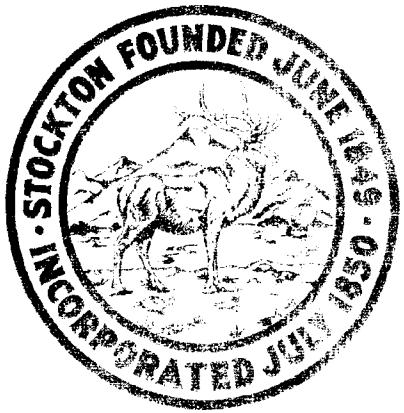
REQUESTS FOR INFORMATION

This financial report is designed to provide 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, contact the Administrative Services Department of the City of Stockton at City Hall, 425 North El Dorado Street, Stockton, CA 95202.

CITY OF STOCKTON

BASIC FINANCIAL STATEMENTS

CITY OF STOCKTON



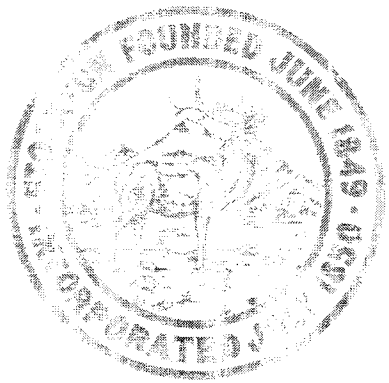
BASIC FINANCIAL STATEMENTS

The government-wide financial statements provide a broad overview of the City's financial position and operating results. Information is grouped by governmental activities or business-type activities.

The fund financial statements report information about the City's governmental funds, proprietary funds, and the fiduciary fund.

The notes have an integral role in disclosing information essential to the fair presentation of the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS



CITY OF STOCKTON

STATEMENT OF NET ASSETS
JUNE 30, 2006
(With comparative totals as of June 30, 2005)
(Dollar amounts in thousands)

	Governmental Activities	Business-Type Activities	Totals 2006	Totals 2005
ASSETS				
Cash and investments	$ 141,465	$ 32,714	$ 174,179	$ 209,049
Restricted cash and investments	-	85,200	85,200	85,245
Interest receivable	538	443	981	1,366
Accounts receivable, net	15,111	7,170	22,281	21,607
Internal balances	1,665	(1,665)	-	-
Due from other governments	29,837	-	29,837	22,889
Inventory of supplies	158	1,246	1,404	3,008
Other assets	2,781	398	3,179	411
Advances to property owners	53,426	-	53,426	48,638
Deferred charges	1,930	2,900	4,830	3,991
Capital assets, net:				
Nondepreciable	188,656	112,073	300,729	354,441
Depreciable, net	485,261	385,792	871,053	689,194
Total assets	920,828	626,271	1,547,099	1,439,839
LIABILITIES				
Accounts payable and accrued expenses	8,725	5,355	14,080	43,368
Accrued payroll and benefits	3,451	-	3,451	3,190
Accrued interest	1,085	2,659	3,744	3,689
Deposits and other liabilities	1,288	2,075	3,363	2,430
Unearned revenue	3,930	-	3,930	2,752
Long-term liabilities:				
Due within one year	15,043	2,627	17,670	17,386
Due in more than one year	137,977	166,414	304,391	288,480
Total liabilities	171,499	179,130	350,629	361,295
NET ASSETS				
Invested in capital assets, net of related debt	603,068	368,222	971,290	877,479
Restricted for:				
Capital projects	57,101	48,389	105,490	105,398
Debt service	4,112	65	4,177	2,320
Loan programs	54,362	-	54,362	51,201
Low- and moderate-income housing	16,908	-	16,908	13,876
City-County library	3,640	-	3,640	2,514
Public safety	2,677	-	2,677	-
Street improvements	7,535	-	7,535	7,587
Special maintenance districts	4,565	-	4,565	3,865
Endowments:				
Nonexpendable	1,423	-	1,423	1,423
Expendable	252		252	265
Other purposes	2,183	-	2,183	1,741
Unrestricted	(8,497)	30,465	21,968	10,875
Total net assets	$ 749,329	$ 447,141	$ 1,196,470	$ 1,078,544

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

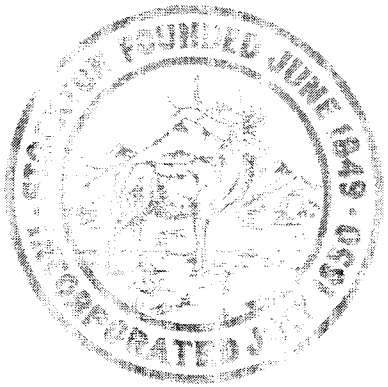
CITY OF STOCKTON

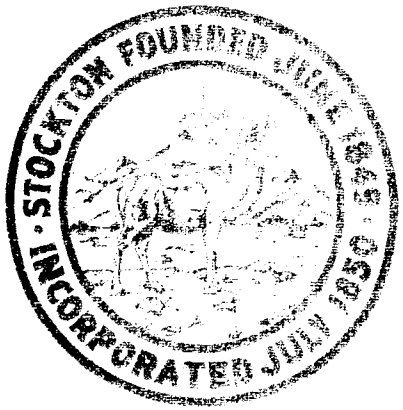
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006
(With comparative totals for the year ended June 30, 2005)
(Dollar amounts in thousands)

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-Type Activities	Totals: 2006	Totals: 2005
PRIMARY GOVERNMENT:								
Governmental activities:								
General government	$ 20,171	$ 10,154	$ 97	$ 13	$ (9,907)		$ (9,907)	$ (8,451)
Public safety	149,512	37,603	2,727	-	(109,182)		(109,182)	(103,076)
Public works	36,481	35,054	2,465	42,980	44,018		44,018	31,826
Library	13,545	1,489	6,138	-	(5,918)		(5,918)	(5,455)
Parks and recreation	26,352	12,407	961	2,752	(10,232)		(10,232)	(6,066)
Interest and fiscal charges	4,136	-	-	-	(4,136)		(4,136)	(4,346)
Total governmental activities	250,197	96,707	12,388	45,745	(95,357)		(95,357)	(95,568)
Business-type activities:								
Water utility	19,063	20,268	-	8,031		$ 9,236	9,236	9,786
Wastewater utility	36,458	32,746	-	11,434		7,722	7,722	20,145
Stormwater utility	6,009	5,063	-	859		(87)	(87)	3,457
Central parking district	3,162	3,502	-	-		340	340	209
Other	2,460	2,284	-	-		(176)	(176)	(15)
Total business-type activities	67,152	63,863	-	20,324		17,035	17,035	33,582
Total	$ 317,349	$ 160,570	$ 12,388	$ 66,069	(95,357)	17,035	(78,322)	(61,986)
General revenues:								
Taxes:								
Property					47,495	-	47,495	33,723
In lieu of sales tax					9,274	-	9,274	8,750
Utility user					34,313	-	34,313	34,908
Sales and use					52,004	-	52,004	38,245
Franchise fees					10,333	-	10,333	9,812
Business license					11,222	-	11,222	8,960
Hotel/motel room					2,171	-	2,171	2,160
Document transfer					2,010	-	2,010	2,036
Other					218	713	931	1,106
Grants and contributions not restricted to specific programs					18,629	-	18,629	17,018
Investment earnings					3,457	3,399	6,856	9,396
Miscellaneous					1,010	-	1,010	6,603
Transfers					7,903	(7,903)	-	-
Total general revenues and transfers					200,039	(3,791)	196,248	172,717
Change in net assets					104,682	13,244	117,926	110,731
Net assets, beginning of year, restated					644,647	433,897	1,078,544	967,813
Net assets, end of year					$ 749,329	$ 447,141	$ 1,196,470	$ 1,078,544

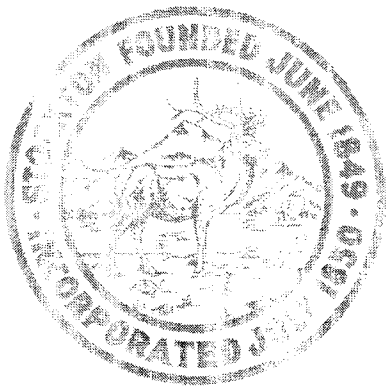
The notes to the financial statements are an integral part of this statement.

CITY OF STOCKTON





FUND FINANCIAL STATEMENTS



FUND FINANCIAL STATEMENTS

Governmental Fund Types

Governmental funds consist of the General Fund, special revenue funds, debt service funds, capital projects funds, and permanent funds.

Major Governmental Funds include:

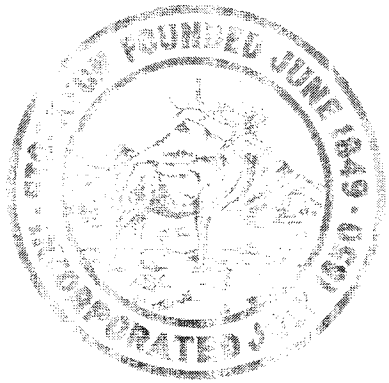
- General Fund
  The fund used to account for resources that are not required legally or by sound financial management to be accounted for in another fund.

- Public Facilities Impact Fees
  To account for the collection of and expenditure of fees imposed as a condition of new development within the City. Impact fees have been established for each of the following types of public facilities:

  - Traffic signals
  - Street improvements
  - Community recreation centers
  - City office space
  - Fire stations
  - Libraries
  - Police stations
  - Parkland, street tree & street signs
  - Street light in-lieu
  - Air quality mitigation
  - Public facilities fees - administration

- Capital Improvement
  To account for the acquisition, construction and improvement of capital facilities financed by grants and operating transfers from other City funds.

- Redevelopment Agency
  To account for the acquisition, relocation, demolition and sale of land for those portions of the City earmarked for redevelopment. Projects are financed from bond proceeds, loans from other city funds and property tax increment revenue.



Proprietary Fund Types

Proprietary funds consist of the enterprise funds and the internal service funds.

Major enterprise funds include:

- **Water Utility**
  To account for activities associated with the acquisition or construction of water facilities, production, distribution and transmission of potable water to users.

- **Wastewater Utility**
  To account for activities associated with the acquisition or construction, and operation and maintenance of wastewater facilities for collection, treatment, and disposal of wastewater.

- **Stormwater Utility**
  To account for activities associated with the acquisition or construction, and operation and maintenance of stormwater facilities for drainage and disposal of stormwater.

- **Central Parking District**
  To account for activities associated with the acquisition or construction, operation and maintenance of off-street parking facilities.

Fiduciary Fund Type

The fiduciary funds are the:

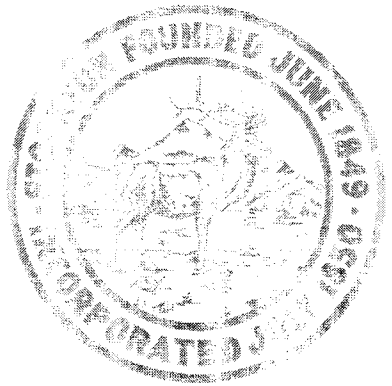
- **Agency funds**
  To account for assets held in an agency capacity for parties outside the City. The resources of these funds cannot be used to support the City's own programs.

CITY OF STOCKTON

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2006
(With comparative totals as of June 30, 2005)
(Dollar amounts in thousands)

	General	Public Facilities Impact Fees	Capital Improvement	Redevelopment Agency	Other Governmental	Total Governmental 2006	Total Governmental 2005
ASSETS							
Cash and investments	$ 8,966	$ 58,002	$ -	$ 12,073	$ 18,483	$ 97,524	$ 97,558
Cash and investments with fiscal agents	1,096	-	68	77	5,140	6,381	37,795
Receivables:							
Interest	104	334	(13)	53	60	538	700
Taxes and special assessments	9	-	-	-	-	9	9
Accounts and other receivables	16,989	814	35	28	2,325	20,191	18,280
Allowance for uncollectibles	(5,326)	-	-	-	-	(5,326)	(4,179)
Due from other funds	6,975	-	-	-	-	6,975	10,743
Due from other governments	12,023	29	4,431	330	14,014	30,827	22,905
Allowance for uncollectibles	(16)	-	(737)	-	(237)	(990)	(16)
Due from other agencies	371	-	-	-	-	371	364
Inventory of supplies	158	-	-	-	-	158	1,495
Deposits	-	-	-	2,059	342	2,401	38
Advances to other funds	4,083	1,130	21,305	-	15,916	42,434	41,035
Advances to property owners	-	-	50	-	53,376	53,426	48,638
Total assets	$ 45,432	$ 60,309	$ 25,139	$ 14,620	$ 109,419	$ 254,919	$ 275,365
LIABILITIES AND FUND BALANCES (DEFICIT)							
LIABILITIES:							
Accounts payable	$ 1,575	$ 849	$ 707	$ 1,125	$ 3,758	$ 8,014	$ 23,518
Accrued payroll and benefits	3,451	-	-	-	-	3,451	3,133
Due to other funds	-	-	578	1,671	4,674	6,923	9,617
Due to other governments	-	-	30	-	9	39	35
Due to other agencies	235	-	-	-	-	235	108
Deposits and other liabilities	241	-	-	4	659	904	762
Deferred revenue	8,462	486	374	-	3,556	12,878	12,315
Advances from other funds	-	3,728	350	32,330	4,413	40,821	41,061
Total liabilities	13,964	5,063	2,039	35,130	17,069	73,265	90,549
FUND BALANCES (DEFICIT):							
Reserved	8,352	55,246	25,009	3,877	113,038	205,522	253,009
Unreserved, reported in:							
General Fund:							
Designated	23,116	-	-	-	-	23,116	16,506
Special revenue funds:							
Designated	-	-	-	-	132	132	132
Undesignated	-	-	-	-	(20,859)	(20,859)	(57,567)
Debt service funds	-	-	-	-	(213)	(213)	(42)
Capital projects funds	-	-	(1,909)	(24,387)	-	(26,296)	(27,487)
Permanent fund	-	-	-	-	252	252	265
Total fund balances (deficit)	31,468	55,246	23,100	(20,510)	92,350	181,654	184,816
Total liabilities and fund balances (deficit)	$ 45,432	$ 60,309	$ 25,139	$ 14,620	$ 109,419	$ 254,919	$ 275,365

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



CITY OF STOCKTON

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006
(With comparative totals as of June 30, 2005)
(Dollar amounts in thousands)

	2006	2005
Amounts reported for governmental activities in the statement of net assets are different because:		
Total fund balances - total governmental	$ 181,654	$ 184,816
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Nondepreciable capital assets	188,656	260,920
Depreciable capital assets, net	474,094	306,465
Internal service funds are used by management to charge the costs of central garage, computer equipment, radio equipment, other equipment, general insurance, workers' compensation insurance, health benefits insurance and other insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	3,776	(10,603)
Various long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds as follows:		
Compensated absences	(20,745)	(18,170)
Bonds payable and other long-term debt	(87,289)	(87,165)
Unamortized bond discounts, premiums and deferred amount on refunding	(550)	(1,483)
Accrued interest	(1,085)	(1,279)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are:		
deferred in the governmental funds, or	8,948	9,563
not recorded in the governmental funds.	1,870	1,583
Net assets of governmental activities	$ 749,329	$ 644,647

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

CITY OF STOCKTON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(With comparative totals for the year ended June 30, 2005)
(Dollar amounts in thousands)

	General	Public Facilities Impact Fees	Capital Improvement	Redevelopment Agency	Other Governmental	Total Governmental 2006	Total Governmental 2005
REVENUES:							
Taxes:							
Property	$ 32,418	$ -	$ -	$ 15,077	$ -	$ 47,495	$ 33,723
In lieu of sales tax	9,274	-	-	-	-	9,274	8,750
Utility user	34,313	-	-	-	-	34,313	34,908
Sales and use	37,725	-	-	-	14,279	52,004	36,951
Franchise fees	10,333	-	-	-	-	10,333	9,812
Business license	11,150	-	-	-	72	11,222	8,960
Hotel/motel room	2,171	-	-	-	-	2,171	2,160
Document transfer	2,010	-	-	-	-	2,010	2,036
Other	2	-	1	-	215	218	193
Licenses and permits	346	-	-	-	8,614	8,960	11,112
Federal grants and subsidies	-	-	519	29	20,981	21,529	10,465
Other governmental	18,857	-	2,757	-	30,788	52,402	44,737
Charges for services	10,821	28,179	-	-	27,443	66,443	61,903
Fines and forfeitures	3,900	-	-	-	33	3,933	3,250
Use of money and property	537	48	12	43	5,634	6,274	3,370
Investment income:							
Interest income	586	1,313	(30)	359	474	2,702	4,686
Net increase (decrease) in fair value of investments	65	140	2	26	(104)	129	333
Refunds and reimbursements	4,020	3	1	3,780	480	8,284	5,524
Miscellaneous	4,784	-	1,654	19	2,250	8,707	11,662
Total revenues	183,312	29,683	4,916	19,333	111,159	348,403	294,535
EXPENDITURES:							
Current:							
General government	14,110	2,194	218	2,483	4,930	23,935	23,520
Public safety	131,689	144	-	-	25,466	157,299	142,211
Public works	13,334	1,060	308	5,487	10,770	30,959	27,346
Library	-	1,042	-	-	12,241	13,283	12,391
Parks and recreation	8,027	421	-	-	17,189	25,637	17,931
Capital outlay	6	16,639	30,495	23,628	30,631	101,399	108,560
Debt service:							
Principal retirement	-	-	-	24	665	689	669
Cost of issuance	-	-	341	-	-	341	22
Interest and fiscal charges	-	-	-	29	4,285	4,314	4,183
Total expenditures	167,166	21,500	31,362	31,651	106,177	357,856	336,833
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	16,146	8,183	(26,446)	(12,318)	4,982	(9,453)	(42,298)

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

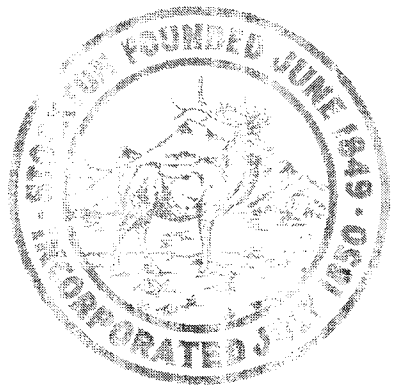
(Continued)

CITY OF STOCKTON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(With comparative totals for the year ended June 30, 2005)
(Dollar amounts in thousands)

	General	Public Facilities Impact Fees	Capital Improvement	Redevelopment Agency	Other Governmental	Total Governmental 2006	Total Governmental 2005
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	16,146	8,183	(26,446)	(12,318)	4,982	(9,453)	(42,298)
OTHER FINANCING SOURCES (USES):							
Transfers in	10,848	-	15,570	1,165	17,609	45,192	46,449
Transfers out	(18,992)	(147)	(40)	(1,884)	(17,758)	(38,821)	(39,845)
Issuance of long-term debt	-	-	13,965	203	440	14,608	592
Sales of capital assets	2	-	-	-	-	2	2
Payment to refunded bond escrow agent	-	-	(14,604)	-	-	(14,604)	-
Discounts on debt issuances	-	-	(86)	-	-	(86)	-
Total other financing sources (uses)	(8,142)	(147)	14,805	(516)	291	6,291	7,198
NET CHANGE IN FUND BALANCES	8,004	8,036	(11,641)	(12,834)	5,273	(3,162)	(35,100)
FUND BALANCES (DEFICIT), BEGINNING OF YEAR, restated	23,464	47,210	34,741	(7,676)	87,077	184,816	219,916
FUND BALANCES (DEFICIT), END OF YEAR	$ 31,468	$ 55,246	$ 23,100	$ (20,510)	$ 92,350	$ 181,654	$ 184,816

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



CITY OF STOCKTON

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006
(With comparative totals for the year ended June 30, 2005)
(Dollar amounts in thousands)

	2006	2005
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances (deficit) - total governmental	$ (3,162)	$ (35,100)
Governmental funds report capital outlays as expenditures. As donated capital assets don't create or use financial resouces, they are not reported in governmental funds. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. Capital outlays, donated capital assets and depreciation expense are as follows:		
Capitalized capital outlays	101,399	108,560
Donated capital assets	2,831	14,929
Depreciation expense	(8,865)	(7,263)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, dispositions, etc.) is to decrease net assets.	-	(265)
Long-term debt (including refunding debt), net of bond premiums and discounts, provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of principal (including bond refundings) and costs of issuance are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets, and the costs of issuance increase deferred charges in the statement of net assets. Long-term debt proceeds, bond premiums, discounts, repayment of principal, costs of issuance and bond refundings are as follows:		
Long-term debt issuance	(14,608)	(592)
Discounts on debt issuances	86	-
Repayment of principal	689	669
Costs of issuance	341	22
Bond refunding	14,604	-
Internal service funds are used by management to charge the costs of certain activities, such as central garage, equipment and insurance, to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities.	14,379	(1,767)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		
Deferred revenue	(615)	2,246
Other expenses in the statement of activities that do not use current financial resources are not reported as expenditures in the governmental funds.		
Change in compensated absences	(2,575)	(1,507)
Amortization of bond discounts and premiums, costs of issuance, and deferred amount on refunding	(16)	32
Change in accrued interest	194	(195)
Change in net assets of governmental activities	$ 104,682	$ 79,769

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

CITY OF STOCKTON

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2006
(With comparative totals as of June 30, 2005)
(Dollar amounts in thousands)

	Enterprise									
	Water Utility	Wastewater Utility	Stormwater Utility	Central Parking District	Other	Totals 2006	Totals 2005	Internal Service 2006	Internal Service 2005
ASSETS									
Current assets:									
Cash and investments	$ 18,332	$ 10,232	$ 2,901	$ 1,065	$ 53	$ 32,583	$ 41,488	$ 37,560	$ 32,205
Cash and investments with fiscal agents	-	131	-	-	-	131	3	-	-
Receivables:									
Interest	91	328	19	6	(1)	443	666	-	-
Accounts and other receivables	2,471	5,510	955	179	192	9,307	9,746	373	257
Allowance for uncollectibles	(199)	(1,423)	(345)	(58)	(112)	(2,137)	(2,370)	(127)	(127)
Due from other funds			72	-	-	72	-	-	-
Inventory of supplies	-	1,137	-	-	109	1,246	1,513	-	-
Total current assets	20,695	15,915	3,602	1,192	241	41,645	51,046	37,806	32,335
Noncurrent assets:									
Restricted assets:									
Cash and investments	2,661	45,728	-	-	-	48,389	55,321	-	-
Cash and investments with fiscal agents	19,629	12,697	-	4,485	-	36,811	29,924	-	-
Advances to other funds	-	84	-	847	-	931	940	-	-
Loans receivable	-	398	-	-	-	398	-	-	-
Deferred charges	804	1,212	-	884	-	2,900	2,347	60	61
Capital assets, net:									
Nondepreciable	11,658	68,923	2,126	29,006	360	112,073	93,521	-	-
Depreciable, net	84,598	248,973	43,661	7,125	1,435	385,792	372,455	11,167	10,274
Total noncurrent assets	119,350	378,015	45,787	42,347	1,795	587,294	554,508	11,227	10,335
Total assets	140,045	393,930	49,389	43,539	2,036	628,939	605,554	49,033	42,670
LIABILITIES									
Current liabilities:									
Accounts payable	1,121	3,878	271	45	40	5,355	18,159	711	1,691
Due to other funds	-	-	-	-	124	124	1,126	-	-
Due to other governments	30	-	-	-	-	30	46	-	-
Deposits and other liabilities	1,437	507	-	101	-	2,045	1,479	110	57
Accrued interest	441	1,667	-	551	-	2,659	2,410	-	-
Compensated absences - current	-	13	2	1	-	16	49	39	71
Self-insurance claims and judgments - current	-	-	-	-	-	-	-	12,952	11,502
Other long-term debt - current	483	2,045	-	83	-	2,611	2,628	-	-
Total current liabilities	3,512	8,110	273	781	164	12,840	25,897	13,812	13,321
Noncurrent liabilities:									
Advances from other funds	-	-	-	1,630	914	2,544	914	-	-
Compensated absences - long-term	4	168	18	29	1	220	398	521	552
Self-insurance claims and judgments - long-term	-	-	-	-	-	-	-	30,924	39,400
Notes payable	787	-	-	-	-	787	790	-	-
Certificates of participation	-	96,523	-	-	-	96,523	98,567	-	-
Bonds payable	36,250	-	-	32,634	-	68,884	45,091	-	-
Total noncurrent liabilities	37,041	96,691	18	34,293	915	168,958	145,760	31,445	39,952
Total liabilities	40,553	104,801	291	35,074	1,079	181,798	171,657	45,257	53,273
NET ASSETS (DEFICIT)									
Invested in capital assets, net of related debt	79,951	231,951	45,787	8,738	1,795	368,222	348,229	11,167	10,274
Restricted for capital projects	2,661	45,728	-	-	-	48,389	55,321	-	-
Restricted for debt service	5	15	-	45	-	65	65	-	-
Unrestricted (deficit)	16,875	11,435	3,311	(318)	(838)	30,465	30,282	(7,391)	(20,877)
Total net assets (deficit)	$ 99,492	$ 289,129	$ 49,098	$ 8,465	$ 957	$ 447,141	$ 433,897	$ 3,776	$ (10,603)

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

CITY OF STOCKTON

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(With comparative totals for the year ended June 30, 2005)
(Dollar amounts in thousands)

	Enterprise								Internal Service	
	Water Utility	Wastewater Utility	Stormwater Utility	Central Parking District	Other	Totals 2006	Totals 2005		2006	2005
OPERATING REVENUES:										
Charges for services	$ 19,785	$ 31,727	$ 4,789	$ 3,502	$ 1,498	$ 61,301	$ 58,535		$ 101,457	$ 88,727
Miscellaneous	482	1,009	274	-	786	2,551	3,387		-	-
Total operating revenues	20,267	32,736	5,063	3,502	2,284	63,852	61,922		101,457	88,727
OPERATING EXPENSES:										
Operation and maintenance	8,515	17,342	2,604	2,021	2,322	32,804	24,896		83,517	86,123
General and administrative	2,665	5,015	2,082	-	-	9,762	10,268		5,280	4,513
Depreciation and amortization	2,044	8,714	1,323	343	138	12,562	12,458		2,572	2,853
Purchased water	4,451	-	-	-	-	4,451	3,196		-	-
Total operating expenses	17,675	31,071	6,009	2,364	2,460	59,579	50,818		91,369	93,489
OPERATING INCOME (LOSS)	2,592	1,665	(946)	1,138	(176)	4,273	11,104		10,088	(4,762)
NON-OPERATING REVENUES (EXPENSES):										
Taxes	-	-	-	713	-	713	733		-	-
Other governmental	-	-	-	-	-	-	881		-	-
Investment income:										
Interest income	827	1,833	76	417	(3)	3,150	3,578		569	501
Net increase (decrease) in fair value of investments	35	308	11	(105)	-	249	264		57	34
Loss from disposal of property	-	-	-	-	-	-	-		(87)	(43)
Interest expense and fiscal charges	(1,388)	(5,387)	-	(798)	-	(7,573)	(6,186)		-	-
Other non-operating revenues	1	10	-	-	-	11	9		2,220	1,031
Total non-operating revenues (expenses)	(525)	(3,236)	87	227	(3)	(3,450)	(721)		2,759	1,523
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	2,067	(1,571)	(859)	1,365	(179)	823	10,383		12,847	(3,239)
Capital contributions	8,031	11,434	859	-	-	20,324	28,655		-	-
Transfers in	-	-	-	-	-	-	-		1,532	1,495
Transfers out	(1,676)	(4,582)	(814)	(831)	-	(7,903)	(8,076)		-	(23)
CHANGE IN NET ASSETS	8,422	5,281	(814)	534	(179)	13,244	30,962		14,379	(1,767)
NET ASSETS (DEFICIT), BEGINNING OF YEAR	91,070	283,848	49,912	7,931	1,136	433,897	402,935		(10,603)	(8,836)
NET ASSETS (DEFICIT), END OF YEAR	$ 99,492	$ 289,129	$ 49,098	$ 8,465	$ 957	$ 447,141	$ 433,897		$ 3,776	$ (10,603)

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

CITY OF STOCKTON

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(With comparative totals for the year ended June 30, 2005)
(Dollar amounts in thousands)

	Enterprise									
	Water Utility	Wastewater Utility	Stormwater Utility	Central Parking District	Other	Totals 2006	Totals 2005	Internal Service 2006	Internal Service 2005
CASH FLOWS FROM OPERATING ACTIVITIES:									
Receipts from customers and users	$ 20,888	$ 32,414	$ 4,833	$ 3,483	$ 2,308	$ 63,926	$ 61,334	$ 5,862	$ 2,362
Receipts from interfund service providers	-	-	143	-	-	143	2	97,699	87,362
Payments to suppliers	(20,661)	(27,725)	(3,957)	(813)	(1,573)	(54,729)	(23,371)	(85,215)	(72,378)
Payments to employees	(1,161)	(1,501)	(547)	(1,064)	(848)	(5,121)	(5,040)	(11,367)	(12,977)
Payments for interfund services used	(21)	(135)	(19)	(184)	(83)	(442)	(504)	(230)	(222)
Net cash provided by (used for) operating activities	(955)	3,053	453	1,422	(196)	3,777	32,421	6,749	4,147
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:									
Transfers in	-	-	-	-	-	-	-	1,532	1,495
Transfers out	(1,676)	(4,582)	(814)	(831)	-	(7,903)	(8,076)	-	(23)
Due to other funds	-	-	(72)	(1,000)	(2)	(1,074)	(37)	-	-
Advances from other funds	-	-	-	1,630	-	1,630	-	-	1
Advances to other funds	-	9	-	-	-	9	(240)	-	-
Proceeds from taxes	-	-	-	713	-	713	733	-	-
Net cash provided by (used for) noncapital financing activities	(1,676)	(4,573)	(886)	512	(2)	(6,625)	(7,620)	1,532	1,473
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:									
Proceeds from sale of capital assets	-	-	-	-	-	-	8	329	65
Proceeds from debt	24,364	-	-	-	-	24,364	-	-	-
Principal paid on debt	(540)	(2,330)	(166)	-	-	(3,036)	(2,921)	-	-
Purchases of capital assets	(4,254)	(23,659)	(1,457)	(11,539)	-	(40,909)	(53,904)	(3,881)	(2,916)
Paid interest capitalized	-	-	-	-	-	-	(1,126)	-	-
Interest paid on debt	(1,081)	(5,044)	(5)	(793)	-	(6,923)	(5,820)	-	-
Capital contributions	6,868	10,040	-	-	-	16,908	16,412	-	-
Net cash provided by (used for) capital and related financing activities	25,357	(20,993)	(1,628)	(12,332)	-	(9,596)	(47,351)	(3,552)	(2,851)
CASH FLOWS FROM INVESTING ACTIVITIES:									
Investment earnings	892	2,337	102	294	(3)	3,622	3,740	626	535
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	23,618	(20,176)	(1,959)	(10,104)	(201)	(8,822)	(18,810)	5,355	3,304
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	17,004	88,964	4,860	15,654	254	126,736	145,546	32,205	28,901
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 40,622	$ 68,788	$ 2,901	$ 5,550	$ 53	$ 117,914	$ 126,736	$ 37,560	$ 32,205

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

(Continued)

CITY OF STOCKTON

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(With comparative totals for the year ended June 30, 2005)
(Dollar amounts in thousands)

	Enterprise							Internal Service	
	Water Utility	Wastewater Utility	Stormwater Utility	Central Parking District	Other	Totals 2006	Totals 2005	2006	2005
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:									
Operating income (loss)	$ 2,592	$ 1,665	$ (946)	$ 1,138	$ (176)	$ 4,273	$ 11,104	$ 10,088	$ (4,762)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:									
Depreciation and amortization	2,044	8,714	1,323	343	138	12,562	12,458	2,572	2,853
Provision for uncollectible accounts	(31)	(172)	(36)	14	(8)	(233)	218	-	2
Self-insurance	-	-	-	-	-	-	-	(7,026)	4,558
Other governmental	-	-	-	-	-	-	881	-	-
Other non-operating revenues	1	10	-	-	-	11	9	2,220	1,031
Changes in assets and liabilities:									
Accounts and other receivables	651	(160)	(51)	(33)	32	439	(1,664)	(116)	(91)
Deferred charges	(679)	-		-	-	(679)	-	1	234
Inventory of supplies	340	-	-	-	(73)	267	(304)	-	-
Loans receivable	-	(398)	-	-	-	(398)	-	-	-
Accounts payable	(6,058)	(6,890)	163	(20)	1	(12,804)	9,406	(980)	425
Due to other governments	(16)	-	-	-	-	(16)	(7)	-	-
Deposits and other liabilities	208	366	-	(8)	-	566	188	53	57
Compensated absences	(7)	(82)	-	(12)	(110)	(211)	132	(63)	(160)
Net cash provided by (used for) operating activities	$ (955)	$ 3,053	$ 453	$ 1,422	$ (196)	$ 3,777	$ 32,421	$ 6,749	$ 4,147
NONCASH TRANSACTIONS:									
Net increase (decrease) in fair value of investments	$ 35	$ 308	$ 11	$ (105)	$ -	$ 249	$ 264	$ 57	$ 34
Amortization of issuance discounts	8	28	-	-	-	36	44	-	-
Amortization of loss on refunding	17	343	-	-	-	360	360	-	-
Donation of capital assets	1,163	1,394	859	-	-	3,416	12,243	-	-
Accrued interest capitalized	-	-	-	-	-	-	551	-	-
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS - PROPRIETARY FUNDS:									
Cash and investments	$ 18,332	$ 10,232	$ 2,901	$ 1,065	$ 53	$ 32,583	$ 41,488	$ 37,560	$ 32,205
Cash with investments fiscal agents	-	131	-	-	-	131	3	-	-
Restricted assets:									
Cash and investments	2,661	45,728	-	-	-	48,389	55,321	-	-
Cash and investments with fiscal agents	19,629	12,697	-	4,485	-	36,811	29,924	-	-
Total cash and investments	$ 40,622	$ 68,788	$ 2,901	$ 5,550	$ 53	$ 117,914	$ 126,736	$ 37,560	$ 32,205

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

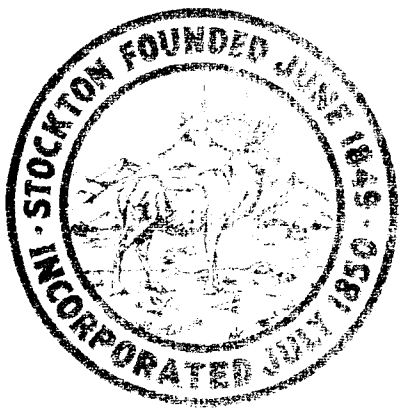
CITY OF STOCKTON

STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUNDS
JUNE 30, 2006
(With comparative totals as of June 30, 2005)
(Dollar amounts in thousands)

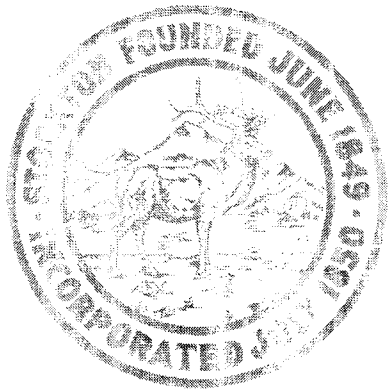
	2006	2005
ASSETS		
Cash and investments	$ 55,983	$ 56,797
Cash and investments with fiscal agents	21,496	22,415
Receivables:		
Interest	261	359
Accounts and other receivables	1,439	1,351
Due from other governments	1	-
Total assets	$ 79,180	$ 80,922
LIABILITIES		
Accounts payable	$ 216	$ 154
Due to other governments	2,622	3,519
Deposits and other liabilities	76,342	77,249
Total liabilities	$ 79,180	$ 80,922

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

CITY OF STOCKTON



NOTES TO THE FINANCIAL STATEMENTS



CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – The City of Stockton (City) was incorporated on July 25, 1850 under the general laws of the State of California. Under the charter adopted in 1923, the City operates under a Council-Manager form of government. There are seven elected council members including the Mayor and a council appointed City Manager. The following services, as authorized by the charter, are provided by the City: public safety (police, fire, paramedics, and building), sanitation (solid waste disposal, wastewater, and stormwater utilities), water utility, community development, library, parks and recreation, and general administrative services.

As required by generally accepted accounting principles in the United States and Governmental Accounting Standards Board (GASB) Statement 14, these financial statements present the City and its component units. Component units are legally separate entities for which the government is considered to be financially accountable. Additionally, blended component units can be organizations for which the primary government's exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Each blended component unit has a June 30th year-end.

The following is a brief overview of the component units included in the City's accompanying financial statements. Financial information for these component units can be obtained from the City's Administrative Services Department.

The Redevelopment Agency of the City (Agency) was formed to prepare and carry out plans for improvement, rehabilitation and redevelopment of blighted areas within the City. City Council members in concurrent sessions serve as the governing board of the Agency, and all accounting and administrative functions are performed by the City. The Agency is reported in the City's fund financial statements as a special revenue fund, debt service fund, and capital projects fund, as well as in the City's government-wide financial statements.

The Stockton Public Financing Authority (SPFA) was created in June 1990 and carries out lease financing for the City General Fund, Redevelopment Agency, Water Utility, Wastewater Utility, and Central Parking District. The SPFA governing board is the same as the City Council members. The SPFA is reported in the City's fund financial statements in the General Fund, debt service funds, capital projects funds, and the enterprise funds, as well as in the City's government-wide financial statements. Consistent with the National Council on Governmental Accounting (NCGA) Statement No. 5 and GASB Statement 14, capital leases between the primary government and blended component units are eliminated. The debt and assets are reported in the primary government. The SPFA also issues various land secured debt financings with no City commitment. This activity is reported in the Fiduciary Fund.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City Council serves as the governing body of the Agency and SPFA. As a result, the financial activities of these entities are integrally related to those of the City and are "blended" with those of the City.

Other governmental agencies that provide services with the City include:

San Joaquin Area Flood Control Agency (SJAFCA) was established by Council resolution in May 1995 and is jointly governed by the City and San Joaquin County. The City retains neither on-going financial interest in nor obligation to SJAFCA, therefore financial information for the organization is not included in the accompanying financial statements.

Basis of Accounting and Measurement Focus -

Government-wide and Fund Financial Statements – The government-wide financial statements include a statement of net assets and a statement of activities. These statements present summaries of governmental activities for the City. Fiduciary activities of the City are not included in these statements. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation The government-wide financial statements are reported using the *economic resources* measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Fiduciary funds have no measurement focus.

For this purpose, the government considers intergovernmental revenues, which are primarily grants and subventions, received as reimbursement for specific purposes or projects to be available if they are expected to be received within the upcoming year to repay interfund liabilities incurred as a result of borrowing the cash in order to pay the expenditures. Other major revenues in accordance with GASB Statement No. 22, "Accounting for Taxpayer Assessed Tax Revenues in Governmental Funds" are considered to be available if they are collected within 60 days of the end of the current fiscal period. Revenues considered to be available include sales, hotel/motel room, gas, and utility user taxes, franchise fees, interest, and intergovernmental revenues, which are virtually unrestricted as to purpose of expenditure and revocable only for failure to meet prescribed compliance requirements. All other revenue items, such as business licenses and fines and penalties, are considered to be measurable and available only when received by the City.

Property taxes receivable are recorded in the fiscal year for which the tax is levied. Revenue is recognized when measurable and available. The County of San Joaquin (County) levies, bills and collects property taxes for the City. Property taxes paid to the City by the County within 60 days after the end of the fiscal year are "available" and are, therefore, recognized as revenue.

Secured and unsecured property taxes are levied based on the assessed value as of January 1, the lien date, of the preceding fiscal year. Secured property tax is levied on October 1 and due in two installments, on November 1 and February 1. Collection dates are December 10 and April 10, which are also the delinquent dates. Under the Teeter Plan, the County pays the City 100% of the tax that is levied. The County assumes responsibility for collecting any delinquent amounts and retains penalties and interest for those amounts.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred revenue is that for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The City typically records deferred revenue related to uncollected estimated special assessments not yet payable and intergovernmental revenues (primarily grants and subventions) received but not earned.

The City reports the following major governmental funds:

The ***General Fund*** is the primary operating fund of the City. It accounts for normal recurring activities traditionally associated with government, which are not required to be accounted for in another fund. These activities are funded primarily by property taxes, utility user taxes, sales and use taxes, franchise fees, business licenses, state grants, charges for services, and interest and rental income.

Public Facilities Impact Fees Capital Projects Fund accounts for the collection of and expenditure of fees imposed as a condition of new development within the City. Impact fees were established in July 1988 by Ordinance No. 56-88 C.S. for each of the following types of public facilities:

> traffic signals, street improvements, community recreation centers, city office space, fire stations, libraries, police stations, parkland and street tree/street signs, street light in-lieu, air quality mitigation, and public facilities fees administration.

Capital Improvement Capital Projects Fund accounts for the acquisition, construction and improvement of capital facilities financed by grants and transfers from other City funds.

Redevelopment Agency Capital Projects Fund accounts for the acquisition, relocation, demolition, and sale of land for those portions of the City earmarked for redevelopment. Projects are financed from bond proceeds, loans from other City funds, and property tax increment revenue.

The City reports the following major enterprise funds:

Water Utility Fund accounts for activities associated with the acquisition or construction of water facilities, production, distribution and transmission of potable water to users.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Wastewater Utility Fund accounts for activities associated with the acquisition or construction, and operation and maintenance of wastewater facilities for collection, treatment, and disposal of wastewater.

Stormwater Utility Fund accounts for activities associated with the acquisition or construction, and operation and maintenance of stormwater facilities for drainage and disposal of stormwater.

Central Parking District Fund accounts for activities associated with the acquisition or construction, operation and maintenance of off-street parking facilities.

Additionally, the City reports the following fund types:

Internal Service Funds account for the financing of goods, services, or facilities provided by one City department to other City departments on a cost-reimbursement basis.

Agency Funds account for assets held by the City as an agent for individuals, private organizations and/or other governmental units for land secured financing, employee payroll withholdings, area of benefit fees, public facilities fees, and other miscellaneous items. The agency funds are custodial in nature and do not involve measurement of results of operations.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions are land utilization fees and other charges between the City's enterprise functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources, as they are needed.

Cash and Investments – Except for certain bond proceeds, the City pools cash from all funds in order to maximize interest from investment activities. Money market investments and certain nonparticipating guaranteed investment contracts are carried at cost. All other investments are stated at fair value, which is based on published market prices.

The City participates in an investment pool managed by the State of California, the Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in structured notes and asset-backed securities. Based on information obtained from the State of California, the investment in LAIF has been recorded at fair value.

Interest income on pooled investments is allocated on the basis of average daily cash balances in the General Fund, special revenue funds, debt service funds, capital projects funds, Water Utility Fund, Wastewater Utility Fund, Stormwater Utility Fund, Central Parking District Fund, Solid Waste Fund, internal service self-insurance funds, and the Agency Fund, as required by law or as directed by the City Council adopted budget. The remainder of interest income is credited to the General Fund as required by California Government Code.

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, LAIF and money market investments, and cash held by fiscal agents to be cash and cash equivalents. Investments that are held with fiscal agents with a maturity of greater than three months are not included as cash and cash equivalents.

Restricted Cash and Investments – Proceeds from debt and other cash and investments held by fiscal agents by agreement are classified as restricted assets in the proprietary funds.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables/Payables – Short-term interfund loan receivables and payables are reported as "due from other funds" and "due to other funds," respectively.

Long-term interfund loan receivables are reported as "advances to other funds" and are offset equally by fund balance reservations that indicate they do not constitute expendable available resources and, therefore, are not available for appropriation. The corresponding long-term interfund loan payables are reported as "advances from other funds."

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

"Advances to property owners" represent loans for repairs to low-income owner- and tenant-occupied households throughout the City. These loans are to be repaid over an extended period of time; therefore, the vast majority of the year-end balance will not be repaid within the next year.

Inventory of Supplies – Inventories consist of expendable supplies held for consumption. The cost is determined using the weighted average method and recorded as an expenditure at the time an item is consumed.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than $5 for equipment and works of art; $10 for land, buildings and improvements; $50 for infrastructure and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value on the date of donation.

The costs of normal maintenance and repair that do not add value to the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. In accordance with generally accepted accounting principles, the City capitalizes net interest cost of funds borrowed to finance the construction of capital assets in the proprietary fund types. For the year ended June 30, 2006, capitalized interest costs totaled $1,269 in connection with construction in progress.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation is recorded using the straight-line method over the estimated useful lives of assets, as follows:

Building and structures	30 - 50 years
Improvements other than buildings	20 - 30 years
Machinery and equipment	3 - 30 years
Roads and streets infrastructure	50 - 65 years
Curb and gutter infrastructure	65 years
Streetlight and traffic control devices infrastructure	30 years
Transmission and distribution plant (including infrastructure such as water, wastewater and stormwater mains and laterals)	50 - 100 years

Vacation and Sick Leave Pay – In accordance with negotiated labor agreements, employees accumulate earned but unused vacation and other compensated leave, and sick pay benefits. Accrued vacation leave is payable at 100% of accumulated hours upon separation of service. Accrued sick leave is payable at 50% of accumulated hours for all City employees upon separation of service due to death, service or disability retirement. Police and Fire department safety and management employees, mid-management, law and unrepresented employees are also eligible for pay-off of 50% of accumulated sick leave upon termination after ten years of service.

All bargaining unit employees may utilize their remaining 50% of accrued sick leave hours for additional California Public Employees' Retirement System (CalPERS) service credit upon retirement. In addition, upon retirement, Fire department safety employees are eligible for pay-off of 100% of accumulated longevity vacation allowance.

The value of accumulated vacation, sick, and longevity vacation allowance is accrued, as appropriate, for all funds. A liability for these amounts is presented in the government-wide financial statements.

Long-Term Obligations – In the government-wide and proprietary fund types 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 effective interest 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capital Contributions – Capital contributions are comprised of cash and assets donated from developers. Connection fees are recorded as capital contributions in the Water Utility and Wastewater Utility enterprise funds.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting for Escheat Property – The City is in compliance with the GASB Statement 21, *Accounting for Escheat Property*, and accounts for these assets in the General Fund when the assets are subject to escheatment in accordance with California state law.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Data – The 2005 comparative data amounts are presented only to facilitate financial analysis. These columns do not present information that reflects financial position, changes in financial position or cash flows in accordance with generally accepted accounting principles. Certain amounts in the 2005 comparative data have been restated for the effects of the change in accounting described in Note 2 regarding the debt without City commitment to conform to the 2006 financial statements presentation.

New Pronouncements – For fiscal year ended June 30, 2006, the City implemented GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section - an Amendment of NCGA Statement 1*. This Statement amends the portions of NCGA Statement 1, Government Accounting and Financial Reporting Principles that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to the basic financial statements, and required supplementary information to assess the economic condition of a government.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, establishes 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. The City surveyed its capital assets and determined that for fiscal year ended June 30, 2006, the City does not possess capital assets that are considered impaired based on the criteria presented in this Statement.

GASB Statement No. 46, Net Assets Restricted by Enabling Legislation – an Amendment of GASB Statement No. 34, clarifies accounting and financial reporting requirements for restricted net assets based on limitations imposed by enabling legislation. A legally enforceable enabling legislation restriction is one that a party external to a government, such as citizens, public interest groups, or the judiciary, can compel a government to honor. The City's financial reporting for restricted net assets complies with the requirements of GASB Statement No. 46.

GASB Statement No. 47, Accounting for Termination Benefits, establishes accounting standards for termination benefits. During fiscal year ended June 30, 2006, the City did not offer any termination benefits, as defined in this Statement.

2. CHANGE IN ACCOUNTING

The City has adopted a formal policy for land-secured financing that states that unless specifically found to be required for a particular kind of financing, bonds issued for land secured financings shall be limited obligations, payable solely from special assessments or taxes or other identified sources other than the general funds or revenues of the City and do not require the use of such general funds or revenues to replenish any reserves or to bid at any foreclosure sale. All land secured debt outstanding is considered debt without government commitment, as the City is not legally liable for repayment of the debt, and in practice has never paid such outstanding debt or replenished any related reserves. The assets held in a fiduciary capacity are now reported in the Land Secured Financing Agency Fund. The effect of this change on the City's government-wide financial statements is that beginning net assets of its governmental activities increased by $128,456. This change also affected the beginning fund balances of the City's nonmajor governmental funds, which decreased by $62,255.

In previous years, the City reported the outstanding balances as long-term debt in the basic financial statements. The related accumulation of resources for, and the retirement of principal and interest were reported in the debt service funds. The acquisition and construction of facilities using proceeds of debt was reported in the capital projects funds. Prior year total columns have been restated to reflect this change for comparative purposes.

3. CASH AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Each fund's portion of the pool is displayed on the balance sheet (governmental funds) and the statement of net assets (proprietary funds) as "cash and investments."

Summary of carrying amounts at June 30, 2006 are as follows:

Deposits	$	7,331
Investments		329,527
Total cash and investments	$	336,858
Presented in the government-wide statement of net assets:		
Cash and investments	$	174,179
Restricted cash and investments		85,200
Presented in the statement of fiduciary net assets:		
Cash and investments		55,983
Cash and investments with fiscal agents		21,496
Total cash and investments	$	336,858

Deposits – At June 30, 2006, the recorded amount of the City's deposits was $7,331; and the bank balance was $2,412. The bank balance and carrying amount differ due to deposits in transit of $13,347 and outstanding checks of $8,428.

The bank balances were entirely insured or collateralized at June 30, 2006. Section 53652 of the California Government Code requires financial institutions to secure a city's deposits, in excess of insured amounts, by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of a city's deposits. California law also allows financial institutions to secure a city's deposits by pledging first trust deed mortgage notes having a value of 150% of a city's total deposits.

Investments – California statutes and the City's investment policy authorize the investment of funds in the following instruments:

- Securities of the U.S. Government, or its agencies
- Small Business Administration loans
- Certificates of deposit
- Negotiable certificates of deposit
- Bankers acceptances
- Commercial paper
- Local Agency Investment Fund (LAIF) demand deposits - State pool
- Repurchase agreements (repos)
- Demand accounts - insured/collateralized
- Money market mutual funds
- Medium term notes
- Guaranteed investment contracts (GICs)

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

3. CASH AND INVESTMENTS (Continued)

The City has entered into nonparticipating guaranteed investment contracts, which are in compliance with the City's investment policy. All of the investment contracts bear interest ranging from 3.29% to 6.57% of which $25,605 is collateralized 100% to 105% by investments.

Although the City did not participate in any securities lending transactions or enter into any reverse repurchase agreements during the year, the City does have an investment in LAIF in the amount of $39,623. The total amount invested by all public agencies in LAIF at June 30, 2006 was $16,392,047. LAIF is part of the State of California Pooled Money Investment Account (PMIA) whose balance at June 30, 2006 was $63,337,960. Of this amount, 2.567% is invested in structured and asset backed financial products. PMIA is not SEC-registered, but is required to invest according to California State Code. The average maturity of PMIA investments was 152 days as of June 30, 2006.

The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the City's position in the pool.

Risks –

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy provides that final maturities of securities cannot exceed ten years. Investments maturing beyond a five-year horizon should not exceed fifteen percent (15%) of the total portfolio value at any given time. Specific maturities of investments depend on liquidity needs.

Credit Risk - It is the City's policy that medium-term notes must have a rating of A or better. Money market mutual funds and federal agency securities must have the highest rating issued by the nationally recognized statistical rating organizations. The Local Agency Investment Fund (LAIF) administered by the State of California, has a separate investment policy, governed by Government Code Sections 16480-16481.2, that provides credit standards for its investments.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All securities, with the exception of the money market funds and LAIF, are held by a third party custodian (Union Bank of California). Union Bank of California (UBOC) is a registered member of the Federal Reserve Bank. The securities held by UBOC are in the street name, and a customer number assigned to the City identifies ownership.

3. CASH AND INVESTMENTS (Continued)

As of June 30, 2006, the City's investments in U.S. Agencies, money market mutual funds, and tax-exempt municipal bonds were rated AAA by Standard and Poor's, and AAA by Moody's Investors Service. Investments of bond proceeds permitted under bond covenants are included in the ratings above. LAIF and GICs are not rated. A summary of investments by category and maturity at June 30, 2006 is as follows:

		Investment Maturities (in years)					
Investment Type	Fair Value	1 year or less	1-2 years	2-3 years	3-4 years	4-5 years	5 years or more
U. S. Agencies	$ 229,629	$ 192,197	$ 21,440	$ 7,496	$ 3,356	$ 2,773	$ 2,367
U. S. Treasuries	50	-	6	-	-	-	44
U. S. Treasury strips	25	-	-	-	-	-	25
LAIF	39,623	39,623	-	-	-	-	-
Money market mutual funds	33,255	33,255	-	-	-	-	-
Tax exempt municipal bonds	1,340	-	-	-	-	-	1,340
GICs	25,605	1,315	-	-	-	-	24,290
Total	$ 329,527	$ 266,390	$ 21,446	$ 7,496	$ 3,356	$ 2,773	$ 28,066
Allocation by percentage	100	81	7	2	1	1	9

Restricted Cash and Investments – Certain proceeds of governmental and enterprise funds certificates of participation (COP), revenue bonds, and bonds payable are classified as restricted cash and investments on the statement of net assets because their use is limited by applicable indentures or covenants. These covenants provide that these monies, in the absence of specific statutory provisions governing the issuance of bonds, certificates, or leases, may be invested in accordance with the ordinances, resolutions or indentures specifying the types of investments its trustees or fiscal agents may make. These ordinances, resolutions, and indentures are generally more restrictive than the City's general investment policy. In no instance have additional types of investments, not permitted by the City's general investment policy, been authorized. The major part of this restriction is for the construction or acquisition of facilities, but also includes reserves for payment of debt service as required by the bond indentures.

At June 30, 2006, restricted cash and cash equivalents/investments are as follows:

Business-type activities	
Water Utility	$ 22,290
Wastewater Utility	58,425
Central Parking District	4,485
Total	$ 85,200

4. INTERFUND RECEIVABLES / PAYABLES

Interfund receivables and payables are as follows at June 30, 2006:

Due to/from other funds:

		Receivable Funds		
		General	Stormwater Utility	Total
Payable Funds	Capital Improvement	$ 578	$ -	$ 578
	Redevelopment Agency	1,671	-	1,671
	Other Governmental	4,602	72	4,674
	Other Enterprise	124	-	124
	Total	$ 6,975	$ 72	$ 7,047

"Due to" and "due from" balances have primarily been recorded when funds overdraw their share of pooled cash or when there are short-term loans between funds.

Advances from/to other funds:

	Receivable Funds						
	General	Public Facilities Impact Fees	Capital Improvement	Other Governmental	Wastewater Utility	Central Parking District	Total
Payable Funds: Public Facilities Impact Fees	$ -	$ -	$ 3,728	$ -	$ -	$ -	$ 3,728
Capital Improvement	350	-	-	-	-	-	350
Redevelopment Agency	797	130	14,556	15,916	84	847	32,330
Other Governmental	2,306	-	2,107	-	-	-	4,413
Central Parking District	630	1,000	-	-	-	-	1,630
Other Enterprise	-	-	914	-	-	-	914
Total	$ 4,083	$ 1,130	$ 21,305	$ 15,916	$ 84	$ 847	$ 43,365

4. INTERFUND RECEIVABLES / PAYABLES (Continued)

"Advances to" and "advances from" balances represent loan activity between various funds. The $797 is loans from the General Fund to the Redevelopment Agency for various project areas. The $2,306 is primarily a loan from the General Fund to the Emergency Medical Transportation Fund to help establish the fund. The $3,728 loan from Capital Improvement to Public Facilities Impact Fees is for architectural and construction costs for police and fire stations. The $14,556 from Capital Improvement to the Redevelopment Agency represents loans for various project areas. The $2,107 from Capital Improvement to the Emergency Medical Transportation Fund is a loan for the purchase of equipment and improvements to fire stations. Finally, the $15,916 represents loans in the amount of $197 from the Development Services Fund, $4,686 from the Urban Development Action Grant, $10,469 from the Community Development Block Grant, and $564 from the Community Development Loan to the Redevelopment Agency to provide funds for various project areas.

5. TRANSFERS

Transfers for the year ended June 30, 2006 are summarized as follows:

		Transfers In					
		General	Capital Improvement	Redevelopment Agency	Other Governmental	Internal Service	Total
Transfers Out	General	$ -	$ 4,524	$ 500	$ 13,968	$ -	$ 18,992
	Public Facilities Impact Fees	-	-	-	147	-	147
	Capital Improvement	-	-	-	-	40	40
	Redevelopment Agency	-	-	-	1,884	-	1,884
	Other Governmental	6,907	7,084	665	1,610	1,492	17,758
	Water Utility	654	1,022	-	-	-	1,676
	Wastewater Utility	2,099	2,483	-	-	-	4,582
	Stormwater Utility	357	457	-	-	-	814
	Central Parking District	831	-	-	-	-	831
	Total	$ 10,848	$ 15,570	$ 1,165	$ 17,609	$ 1,532	$ 46,724

5. TRANSFERS (Continued)

During the year various interfund transfers were made to finance expenditures, subsidize operating losses, and service debt. The $18,992 General Fund transfer out includes transfers of $6,486 to the City-County Library, $6,630 to Recreation Services, and $4,524 to the Capital Improvement Fund.

The General Fund received transfers in of $5,062 from the Gas Tax Fund primarily for the reimbursement of qualified street repair and maintenance expenditures. In addition, the General Fund received land utilization transfers in of $654 from the Water Utility Fund, $2,099 from the Wastewater Utility Fund, and $831 from the Central Parking District for the payment of debt service on the Stewart Eberhardt Building / Parking Structure.

The Capital Improvement Fund received transfers from various funds in the amount of $15,570 to finance capital improvement projects. The transfers included $4,524 from the General Fund, $6,000 from Development Services, $1,084 from Stockton Public Financing Authority, $1,022 from the Water Utility Fund, and $2,483 from the Wastewater Utility Fund.

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

Governmental activities:	Balance July 1, 2005	Acquisitions	Dispositions	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	$ 33,599	$ 1,004	$ -	$ 34,603
Construction in progress	227,321	98,835	(172,103)	154,053
Total capital assets, not being depreciated	260,920	99,839	(172,103)	188,656
Capital assets, being depreciated:				
Infrastructure	280,969	56,480	-	337,449
Buildings and improvements	117,688	117,489	(39)	235,138
Machinery and equipment	36,302	6,406	(2,392)	40,316
Total capital assets, being depreciated	434,959	180,375	(2,431)	612,903
Less accumulated depreciation for:				
Infrastructure	(54,304)	(5,793)	-	(60,097)
Buildings and improvements	(39,300)	(2,738)	39	(41,999)
Machinery and equipment	(24,616)	(2,906)	1,976	(25,546)
Total accumulated depreciation	(118,220)	(11,437)	2,015	(127,642)
Total capital assets, being depreciated, net	316,739	168,938	(416)	485,261
Governmental activities capital assets, net	$ 577,659	$ 268,777	$ (172,519)	$ 673,917

6. CAPITAL ASSETS (Continued)

Business-type activities:	Balance July 1, 2005	Acquisitions	Dispositions	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	$ 13,055	$ 764	$ -	$ 13,819
Construction in progress	80,466	40,145	(22,357)	98,254
Total capital assets, not being depreciated	93,521	40,909	(22,357)	112,073
Capital assets, being depreciated:				
Buildings and improvements	499,364	25,773	-	525,137
Machinery and equipment	8,730	-	-	8,730
Total capital assets, being depreciated	508,094	25,773	-	533,867
Less accumulated depreciation for:				
Buildings and improvements	(130,220)	(12,176)	-	(142,396)
Machinery and equipment	(5,419)	(260)	-	(5,679)
Total accumulated depreciation	(135,639)	(12,436)	-	(148,075)
Total capital assets, being depreciated, net	372,455	13,337	-	385,792
Business-type activities capital assets, net	$ 465,976	$ 54,246	$ (22,357)	$ 497,865

Depreciation expense was charged to functions and programs of the City as follows:

Governmental activities:	
General government	$ 1,168
Public safety	516
Public works	5,810
Library	292
Parks & Recreation	1,079
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	2,572
Total depreciation expense - governmental activities	$ 11,437
Business-type activities:	
Water Utility	$ 2,009
Wastewater Utility	8,655
Stormwater Utility	1,323
Central Parking District	311
Golf Courses	138
Total depreciation expense - business-type activities	$ 12,436

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

7. LONG-TERM DEBT

Governmental Activities

A summary of changes in governmental activities long-term liabilities for the year ended June 30, 2006 is as follows:

Governmental activities:	Restated Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due Within One Year
Stockton Public Financing Authority:					
Lease Revenue Refunding Bonds:					
2006 Series A (Essential Services Building)	$ -	$ 13,965	$ -	$ 13,965	$ 105
Certificates of Participation:					
1999 (Essential Services Building/Parking)	14,030	-	(14,030)	-	-
Series 2003A (Redevelopment Housing)	1,160	-	-	1,160	-
Series 2003B (Redevelopment Housing)	12,140	-	-	12,140	-
Unamortized premium / (discount)	(92)	(86)	4	(174)	(7)
Deferred amount on refunding	-	(809)	8	(801)	(32)
Total Stockton Public Financing Authority	27,238	13,070	(14,018)	26,290	66
Other long-term obligations:					
Notes payable:					
U.S. Dept. of Housing and Urban Development	11,795	200	(430)	11,565	460
California Housing Finance Agency	810	240	-	1,050	-
Estimated liability for self-insurance	50,902	26,391	(33,417)	43,876	12,952
Compensated absences	18,793	12,574	(10,062)	21,305	1,489
Total other long-term obligations	82,300	39,405	(43,909)	77,796	14,901
Redevelopment Agency:					
Revenue Bonds:					
Series 2004 (Stockton Events Center-Arena)	47,000	-	-	47,000	-
Unamortized premium / (discount)	1,575	-	(50)	1,525	50
Notes payable	230	203	(24)	409	26
Total Redevelopment Agency	48,805	203	(74)	48,934	76
Total governmental activities - long-term liabilities	$ 158,343	$ 52,678	$ (58,001)	$ 153,020	$ 15,043

As a result of the change in accounting described in Note 2, the City's long-term debt for its governmental activities as of July 1, 2005 was reduced by $189,653, which is reflected in the July 1, 2005 amounts above.

7. LONG-TERM DEBT (Continued)

Stockton Public Financing Authority

Lease Revenue Refunding Bonds

The 2006 Lease Revenue Refunding Bonds Series A were issued by the Stockton Public Financing Authority (SPFA) on March 22, 2006. Bonds totaling $13,965 are due in installments ranging from $105 to $875 through August 1, 2031, with interest rates ranging from 4.0% to 5.0% on bonds outstanding. The Bonds were issued to advance refund and defease $13,795 in outstanding 1999 Certificates of Participation which were used to finance a portion of the acquisition and construction of an essential services building and an adjacent parking facility. The refunding resulted in an economic gain of $1,218, a reduction of $3,760 in future debt service payments, and a deferred amount on refunding of ($809), which will be amortized over the remaining life of the 2006 Bonds. Repayment of the Bonds is financed from lease payments pledged by the City to the SPFA. The primary sources for repayment are as follows: approximately 85% is paid by the Central Parking District Fund and approximately 15% is paid from the police public facility fee. The principal amount due is reported net of deferred amount on refunding and unamortized premium/(discount) of ($887).

Certificates of Participation

Certificates of Participation Series 2003A (Redevelopment Housing Projects) were issued on June 17, 2003. Certificates totaling $1,160 are due in installments ranging from $35 to $75 through September 1, 2033, with interest rates ranging from 3.0% to 4.375% on certificates outstanding. The Certificates were issued to finance certain redevelopment housing projects. Repayment of the Certificates is financed from lease payments pledged by the City to the SPFA. The primary source of repayment is the 20% Redevelopment Agency housing set-aside. The principal amount due is reported net of unamortized premium/(discount) of ($18).

Certificates of Participation Taxable Series 2003B (Redevelopment Housing Projects) were issued on June 17, 2003. Certificates totaling $12,140 are due in installments ranging from $295 to $870 through September 1, 2033, with interest rates ranging from 4.52% to 5.28% on certificates outstanding. The Certificates were issued to finance certain redevelopment housing projects. Repayment of the Certificates is financed from lease payments pledged by the City to the SPFA. The primary source of repayment is the 20% Redevelopment Agency housing set-aside. The principal amount due is reported net of unamortized premium/(discount) of ($70).

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

7. LONG-TERM DEBT (Continued)

Other Long-term Obligations

Notes Payable

The City entered into three Section 108 loan guarantee agreements with the U.S. Department of Housing and Urban Development to complete redevelopment projects. Outstanding balances are $2,575, $8,790, and $200, respectively, as of June 30, 2006. Final payment on the first two loans is due in August 2020; the third is due in August 2025. Interest is calculated at a variable rate based on the London Interbank Offered Rate (LIBOR) plus 20 basis points per annum. Accumulated interest will be recognized as expenditures when paid. Repayment of the loans will be financed from Community Development Block Grant entitlement funds.

The City also entered into two loan agreements with the California Housing Finance Agency for the purposes of the operation of a local housing program. Outstanding balances are $500 and $550, respectively, as of June 30, 2006. Simple interest is calculated at 3.0% per annum. The term of the loans are 10 years and 8 years from the date of the agreements and will be due on June 24, 2013 and April 4, 2013, along with all interest charges incurred during the term of the loans.

Estimated liability for self-insurance

Internal service funds predominantly serve the governmental funds. Accordingly, estimated long-term liabilities for these funds are included in the totals for governmental activities. As of June 30, 2006, the estimated long-term liabilities for the General Liability Insurance, Workers' Compensation Insurance, and Health Benefits Insurance Funds total $43,876. See Note 10 for additional disclosures regarding risk management.

Compensated Absences

Compensated absences related to governmental activities total $21,305 at year-end. These balances are generally paid by the General Fund. The above balance includes $560 of compensated absences from the internal service funds.

7. LONG-TERM DEBT (Continued)

Redevelopment Agency

Revenue Bonds

Revenue Bonds, Series 2004 (Stockton Events Center-Arena) were issued March 18, 2004 by the Redevelopment Agency (Agency). Bonds totaling $47,000 are due in installments ranging from $175 to $25,330 through September 1, 2036, with interest rates ranging from 2.0% to 5.0% on bonds outstanding. The Bonds were issued to finance a portion of the costs of an indoor arena, including facilities for ice hockey, indoor football, indoor soccer, concerts, and other events, with a seating capacity of approximately 10,000. The Bonds are special obligations of the Agency payable from revenues consisting primarily of lease payments payable by the City to the Agency and pledge payments to be made by the Agency from certain tax increment revenues derived from specified Redevelopment Agency project areas. The principal amount due is reported net of unamortized premium/(discount) of $1,525.

Note Payable

The Redevelopment Agency entered into a loan with the California Department of Boating and Waterways (DBAW) to complete a planning report and to develop a small craft harbor facility. The loan amount outstanding is $409 and will paid in annual installments through August 1, 2013, with an interest rate of 4.5%. Repayment of the loan will be financed from tax increment revenues of the Redevelopment Agency.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

7. LONG-TERM DEBT (Continued)

Annual Debt Service Requirements to Maturity

Year Ending June 30,	Stockton Public Financing Authority					
	Revenue Bonds		Certificates of Participation		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 105	$ 485	$ -	$ 667	$ 460	$ 634
2008	325	584	-	667	490	609
2009	340	570	-	667	525	581
2010	355	556	-	667	555	551
2011	370	540	-	667	595	518
2012-2016	2,085	2,453	1,800	3,145	4,710	2,281
2017-2021	2,550	1,990	2,250	2,686	5,280	761
2022-2026	3,105	1,409	2,860	2,046	-	-
2027-2031	3,855	646	3,685	1,203	-	-
2032-2036	875	20	2,705	216	-	-
Total	$ 13,965	$ 9,253	$ 13,300	$ 12,631	$ 12,615	$ 5,935

Year Ending June 30,	Redevelopment Agency			
	Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
2007	$ -	$ 2,155	$ 26	$ 9
2008	175	2,154	27	8
2009	225	2,150	28	7
2010	280	2,144	29	6
2011	335	2,137	31	4
2012-2016	2,625	10,489	268	4
2017-2021	4,625	9,857	-	-
2022-2026	7,305	8,678	-	-
2027-2031	11,085	6,563	-	-
2032-2036	16,310	3,168	-	-
2037	4,035	101	-	-
Total	$ 47,000	$ 49,596	$ 409	$ 39

7. LONG-TERM DEBT (Continued)

Business-type Activities

A summary of changes in business-type activities long-term liabilities for the year ended June 30, 2006 is as follows:

Business-type activities:	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due Within One Year
Water Utility					
California Statewide Community Development Authority					
Revenue Bonds					
Series 2002A (Water System Capital Improvements)	$ 13,381	$ -	$ (486)	$ 12,895	$ 510
Unamortized premium / (discount)	(251)	-	11	(240)	(14)
Deferred amounts on refunding	(300)	-	17	(283)	(17)
Stockton Public Financing Authority					
Revenue Bonds					
Series 2005A (Water System Capital Improvements)	-	24,230	-	24,230	-
Unamortized premium / (discount)	-	134	(3)	131	4
Note payable					
Federal Drought Relief Act Loan	841	-	(54)	787	-
Total Water Utility	13,671	24,364	(515)	37,520	483
Wastewater Utility					
Stockton Public Financing Authority					
Certificates of Participation					
Revenue COP 1998 Series A (Wastewater Projects)	92,375	-	(1,780)	90,595	1,855
Refunding COP 2003 Seris A (Wastewater Projects)	13,590	-	(550)	13,040	560
Unamortized premium / (discount)	(569)	-	28	(541)	(27)
Deferred amounts on refunding	(4,869)	-	343	(4,526)	(343)
Total Wastewater Utility	100,527	-	(1,959)	98,568	2,045
Stormwater Utility					
Note Payable					
Federal Clean Water Act Loan	166	-	(166)	-	-
Total Stormwater Utility	166	-	(166)	-	-
Cental Parking District					
Stockton Public Financing Authority					
Lease Revenue Bonds					
Series 2004 (Parking and Capital Projects)	32,785	-	-	32,785	85
Unamortized premium / (discount)	(73)	-	5	(68)	(2)
Total Central Parking District	32,712	-	5	32,717	83
Other long-term obligations:					
Compensated absences	447	137	(348)	236	16
Total other long-term obligations	447	137	(348)	236	16
Total business-type activities - long-term liabilities	$ 147,523	$ 24,501	$ (2,983)	$ 169,041	$ 2,627

7. LONG-TERM DEBT (Continued)

Water Utility

Revenue Bonds

On April 16, 2002, the City participated in the California Statewide Community Development Authority (CSCDA) Water and Wastewater Revenue Bond (Pooled Financing Program), Series 2002A. Bonds totaling $12,895 are due in installments ranging from $510 to $1,090 through October 1, 2022, with interest rates ranging from 3.9% to 5.125% on bonds outstanding. The Bonds were issued to refinance prior water system expansion bonds. Repayment of the Bonds is financed from net revenues pledged by the Water Utility Fund to CSCDA. The principal amount due is reported net of deferred amounts on refunding and unamortized premium/(discount) of ($523).

The 2005 Water Revenue Bonds, Series A (Water System Capital Improvement Projects) were issued by the SPFA on November 3, 2005. Bonds totaling $24,230 are due in installments ranging from $150 to $2,350 through September 1, 2035, with interest rates ranging from 4.0% to 5.0% on bonds outstanding. The Bonds were issued to finance various water system capital improvement projects. Repayment of the Bonds is financed from net revenues pledged by the Water Utility Fund to the SPFA. The principal amount due is reported net of unamortized premium/(discount) of $131.

Note Payable

In August 1977, the City accepted a Federal Drought Relief Act loan to finance drought relief projects for the Water Utility Enterprise Fund. As of June 30, 2006 the outstanding balance on this loan was $787. The loan bears interest at 5.0% per annum with final payment due in July 2017.

7. LONG-TERM DEBT (Continued)

Wastewater Utility

Certificates of Participation

Revenue Certificates of Participation 1998 Series A (Wastewater System Project) were issued by the SPFA on February 3, 1998. Certificates totaling $90,595 are due in installments ranging from $1,855 to $7,325 through September 1, 2029, with interest rates ranging from 4.3% to 5.2% on certificates outstanding. The proceeds of the 1998 issue were used to finance the design and construction of a sewer interceptor, to make improvements and modifications to the southern industrial sewer trunk line, and to refund the 1995 Certificates of Participation issue that was used to finance the design, improvements and modifications to the regional wastewater control facilities serving the citizens of the City of Stockton. Repayment of the Certificates is financed from net revenues pledged by the Wastewater Utility Fund to the SPFA. The principal amount due is reported net of deferred amounts on refunding and unamortized premium/(discount) of ($4,689).

Refunding Certificates of Participation 2003 Series A (Wastewater System Project) were issued by the SPFA on May 21, 2003. Certificates totaling $13,040 are due in installments ranging from $560 to $965 through September 2, 2023, with interest rates ranging from 2.0% to 4.25% on certificates outstanding. The Certificates were issued to advance refund the 1993 certificates of participation. Repayment of the Certificates is financed from net revenues pledged by the Wastewater Utility Fund to the SPFA. The principal amount due is reported net of unamortized premium/(discount) of ($378).

Central Parking District

Lease Revenue Bond

Lease Revenue Bonds, Series 2004 (Parking and Capital Projects) were issued by the SPFA on June 16, 2004. Bonds totaling $32,785 are due in installments ranging from $85 to $2,950 through September 1, 2034, with interest rates ranging from 4.0% to 5.375% on bonds outstanding. The Bonds were issued to finance the construction of the Edward S. Coy Parking Garage, the Stockton Events Center Parking Structure, and other parking facilities within the Central Parking District. Repayment of the Bonds is financed from lease payments pledged by the Central Parking District Fund to the SPFA. The principal amount due is reported net of unamortized premium/(discount) of ($68).

7. LONG-TERM DEBT (Continued)

Other Long-term Obligations

Compensated Absences

At year-end, $236 of enterprise funds compensated absences is included in the totals for business-type activities.

Annual Debt Service Requirements to Maturity

Year Ending June 30,	Water Utility Revenue Bonds Principal	Water Utility Revenue Bonds Interest	Wastewater Utility Certificates of Participation Principal	Wastewater Utility Certificates of Participation Interest	Central Parking District Lease Revenue Bonds Principal	Central Parking District Lease Revenue Bonds Interest
2007	$ 510	$ 1,173	$ 2,415	$ 4,958	$ 85	$ 1,651
2008	540	1,147	2,510	4,867	125	1,647
2009	565	1,119	2,605	4,770	165	1,641
2010	590	1,094	2,720	4,659	210	1,634
2011	620	1,070	2,840	4,539	255	1,625
2012-2016	3,510	4,925	16,220	20,653	2,075	7,910
2017-2021	5,070	6,250	20,610	16,274	3,755	7,275
2022-2026	6,635	5,400	26,570	10,591	6,135	6,043
2027-2031	8,375	3,652	27,145	2,915	9,385	4,060
2032-2036	10,710	1,322	-	-	10,595	1,164
Total	$ 37,125	$ 27,152	$ 103,635	$ 74,226	$ 32,785	$ 34,650

Defeasance of Debt

The City and the SPFA defeased certain long-term debt by placing the proceeds of new debt in irrevocable trusts to provide for all future debt service payments on the old debt until called. Accordingly, the trust account assets and liabilities for the following defeased debt issues are not included in the City's financial statements. At June 30, 2006, the outstanding balances of the bonds considered defeased were as follows:

1999 Certificates of Participation – ESB/Parking	$ 13,795

7. LONG-TERM DEBT (Continued)

Debt without City Commitment

Land Secured Debt Financing (No City Commitment) – The City has authorized the formation of community facilities districts (CFDs) and assessment districts (local improvement districts) (LIDs) and the issuance of bonds under various public improvement acts of the State of California to finance eligible public facilities necessary to serve developing commercial, industrial, residential and/or mixed use developments. The bonds are secured by annual special tax levies or liens placed on the property within the districts. The City is not liable for repayment and acts only as an agent for the property owners in collecting the special taxes or assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings when necessary. These bonds are payable solely from special taxes or assessments, specific reserves, and the proceeds from property foreclosures. Accordingly, the bonds are not reported as liabilities in the accompanying basic financial statements. As of June 30, 2006, there were ten CFD special tax bonds, eight special assessment bonds, and seven revenue bonds outstanding with aggregate principal amounts payable of $76,030, $31,365, and $80,980, respectively.

Conduit Debt (No City Commitment) – Revenue Bonds have been issued to provide financial assistance to public and private sector entities for the funding of mortgage loans, capital improvements to medical facilities and refinancing of previously existing debt deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying assets. Neither the City, nor the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying basic financial statements. As of June 30, 2006, there were four series of revenue bonds outstanding, with an aggregate principal amount payable of $79,785.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

8. EQUITY

Nature and Purpose of Reported Reserves and Designations

Reserves are portions of the fund balance not appropriable for expenditures under the flow of current financial resources measurement focus or those portions of the fund balance legally segregated for specific future use. Designations are portions of the fund balance that have been identified by management to reflect tentative plans or commitments of governmental resources.

A summary of reported reserves and designations by fund at June 30, 2006 follows:

	Governmental Funds					
	General	Public Facilities Impact Fees	Capital Improvement	Redevelopment Agency	Other	Total
Reserves:						
Encumbrances	$ 896	$ 22,107	$ 3,655	$ 993	$ 32,481	$ 60,132
Advances	4,083	1,130	21,354	-	69,292	95,859
Debt service	-	-	-	-	4,885	4,885
Capital projects	1,020	32,009	-	19	-	33,048
Low and moderate income housing	-	-	-	2,825	-	2,825
Endowments	-	-	-	-	1,423	1,423
Other items	2,353	-	-	40	4,957	7,350
Total reserves	$ 8,352	$ 55,246	$ 25,009	$ 3,877	$ 113,038	$ 205,522
Designations:						
Catastrophic events	$ 1,120	$ -	$ -	$ -	$ -	$ 1,120
Budget contingency/ budget uncertainty	1,120	-	-	-	-	1,120
Termination pay	1,600	-	-	-	132	1,732
Capital improvement projects	7,500	-	-	-	-	7,500
Future appropriations	8,276	-	-	-	-	8,276
Liability	3,500	-	-	-	-	3,500
Total designations	$ 23,116	$ -	$ -	$ -	$ 132	$ 23,248

Encumbrances – Represent approved purchase orders, contracts, and other commitments not completed at the end of the fiscal year.

Advances – Council approved loans made for the purposes described in Note 4 and advances to property owners.

8. EQUITY (Continued)

Debt Service – Security for payment of long-term debt principal, interest and related fiscal charges.

Capital Projects – The construction and improvement of capital facilities.

Low and Moderate Income Housing – Set aside for eligible low- and moderate-income housing.

Endowments – Set aside for various endowments; the majority is for the arts.

Other Items – To offset miscellaneous assets that do not represent expendable available financial resources, the majority of which is loan commitments.

Catastrophic Events – Funds for protection of a portion of the City's exposure to natural disaster and severe unforeseen emergencies.

Budget Contingency/Budget Uncertainty – Funds to assist in allowing the City to perform required duties in the event of a significant loss of revenue or significant, unplanned costs.

Termination Pay – To cover unanticipated costs due to employee separation for all General Fund departments and for the City-County Library Fund.

Capital Improvement Projects – Set aside for a variety of repairs and improvements, including redevelopment projects.

Future Appropriations – Set aside for future unanticipated budgetary needs.

Liability – Set aside for unanticipated costs of the City's self-insured programs and legal challenges.

Net Assets

The government-wide statement of net assets reports $200,386 of restricted net assets, of which $107,194 is restricted by enabling legislation.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

9. RETIREMENT PLAN

Plan Description - The City contributes to the Safety Plan of the City of Stockton and the Miscellaneous Plan of the City of Stockton, which are part of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan that acts as a common investment and administrative agent for governmental entities in the State of California. CalPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

All full-time City employees are eligible to participate in CalPERS. Part-time employees must meet specific criteria for participation. City employees are eligible for retirement at age 50 or older with five years of service credits. Benefits are payable monthly for life in an amount equal to a certain percent of their highest annual salary. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of the CalPERS comprehensive annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California, 95814.

Funding Policy – Safety Plan participants are required to contribute 9% of their annual covered salary. Miscellaneous Plan participants are required to contribute 7% of their annual covered salary. As part of the City employees' benefit package, the City pays the employees' contribution. The City is required to contribute at an actuarially determined rate. The rate for Safety members was 34.714% of annual covered payroll. The rate for Miscellaneous members was 17.525% of annual covered payroll. The contribution requirements of the plan members and the City are established and may be amended by CalPERS.

Annual Pension Cost - For the year ended June 30, 2006, the City's annual pension costs of $17,894 for the Safety Plan and $9,132 for the Miscellaneous Plan were equal to the City's required and actual contributions. The required contribution rates were determined as part of the June 30, 2003 actuarial valuations using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary depending on age, service, and type of employment from 3.25% to 14.45%; (c) inflation of 3.00%; and (d) payroll growth of 3.25%. The actuarial values of the Plans' assets were determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. The City's CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period as of June 30, 2004 was 32 years for the Safety Plan and 27 years for the Miscellaneous Plan.

9. RETIREMENT PLAN (Continued)

SAFETY PLAN

Three-Year Trend Information for (Dollar Amount in Thousands)

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/06	$ 17,894	100 %	$ -
6/30/05	15,433	100 %	-
6/30/04	9,513	100 %	-

MISCELLANEOUS PLAN

Three-Year Trend Information for (Dollar Amount in Thousands)

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/06	$ 9,132	100 %	$ -
6/30/05	6,439	100 %	-
6/30/04	1,896	100 %	-

10. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City established three internal service insurance funds (General Liability, Workers' Compensation, and Health Benefits Insurance) to account for and finance its uninsured risk of loss. Under the City's risk management program, the City retains risk for up to $1,000 for each general liability claim, $750 for each workers' compensation claim and $210 for each medical plan member under the health benefits program. The City's coverage for excess claims is discussed later in this note under risk pools. The workers' compensation and health benefits programs are administered by third-party administrators who are experts in their respective fields. The general liability program is self-administered by the City of Stockton.

The City records estimated liabilities for claims filed or expected to be filed up to the amounts for which it retains risk in the internal service insurance funds. Charges to the General Fund and other funds are determined from an analysis of claims costs, and are recorded as expenditures or expenses in the various funds and revenues in the internal service insurance funds. Charges for general liability and workers' compensation insurances are a percentage of payroll, and the charge for health benefits is a monthly dollar amount for all active budgeted positions.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

10. RISK MANAGEMENT (Continued)

The City contracts with independent actuaries to perform an analysis of the City's potential liability for the City's retained risk portions of the various self-insurance programs. The amounts recorded as liabilities represent estimates of amounts to be paid for reported claims, as well as incurred but not reported claims based upon past experience, modified for current trends and information. For general liability and workers' compensation for the current year, the present value of estimated outstanding losses is reported at a 70% probability level, using a 5.25% discount rate to reflect future investment earnings. In previous years, it had been the City's practice to report the undiscounted expected value of estimated unpaid claims liabilities. While the ultimate amounts of losses incurred through June 30, 2006 are dependent on future developments, based upon information provided from the City Attorney, outside counsel and others involved with the administration of the programs, the City's management believes that the aggregate accrual is adequate to cover such losses. There have been no significant reductions in any of the City's insurance coverage and no settlement amounts have exceeded coverage each of the past three years.

Changes in the balances of the City's claims liabilities for the current and prior fiscal years are as follows:

	General Liability	Workers' Compensation	Health Benefits	Total
Balance, June 30, 2004	$ 2,918	$ 40,847	$ 2,579	$ 46,344
Claims incurred	1,866	8,471	22,618	32,955
Claims paid	(540)	(6,099)	(21,758)	(28,397)
Balance, June 30, 2005	4,244	43,219	3,439	50,902
Claims incurred	3,183	-	23,208	26,391
Claims paid	(1,458)	(8,142)	(23,817)	(33,417)
Balance, June 30, 2006	$ 5,969	$ 35,077	$ 2,830	$ 43,876

Risk Pools – The City is a member of two joint powers authorities organized pursuant to the California Government Code for the purpose of pooling self-insured losses, as described below.

General Liability Insurance - In 1986, the City joined with other municipalities and regional municipal joint powers authorities to form the California Joint Powers Risk Management Authority (CJPRMA), a public entity risk pool currently operating as a general liability risk management and insurance program for 22 member entities. The City's self-insured retention (SIR) is $1,000. Losses above the City's SIR are pooled up to $5,000 per occurrence, with reinsurance in place above the $5,000 up to $40,000. Specific coverage includes comprehensive and general automotive liability, personal injury, contractual liability, errors and omissions and certain other coverage.

10. RISK MANAGEMENT (Continued)

The CJPRMA governing board is comprised of a representative from each member entity. All members have a single vote for policy and charter changes. An executive committee of seven is elected to handle administration. Members are assessed annual contributions based on actuarially determined rates. CJPRMA retroactively adjusts premium deposits for any excess or deficiency in deposits related to paid claims and reserves. Financial statements for CJPRMA for the fiscal year ended June 30, 2006 can be obtained from CJPRMA at 2333 San Ramon Valley Blvd., Suite #250 San Ramon, California 94583-4456.

Workers' Compensation Insurance - In 2003, in an effort to obtain a lower self-insured retention level for workers' compensation, the City joined California Public Entity Insurance Authority (CPEIA), a public entity risk pool which currently operates an Excess Workers' Compensation (EWC) Program for 90 member entities. The City's self-insured retention is currently set at $750 per occurrence. Losses above the City's SIR are pooled up to $5,000 per occurrence. Reinsurance is in place in layers above the $5,000 up to $50,000, with an additional $100,000 in limits purchased by the Program, for a combined total of $150,000 per occurrence.

CPEIA is a sister joint powers authority of the Excess Insurance Authority (EIA) which established the EWC Program in 1979. The CPEIA is governed by a board of directors comprised of nine elected CPEIA members and two members of the EIA Executive Committee. Board members and officers are elected by a majority vote of member entities. The Board is responsible for conducting all business of the CPEIA with the assistance of designated members of the EIA staff, as well as any committees that the Board deems appropriate to create. Members are assessed annual contributions based on actuarially determined rates. CPEIA retroactively adjusts premium deposits for any excess or deficiency in deposits related to paid claims and reserves. Financial statements for CPEIA for the fiscal year ended June 30, 2006 can be obtained from CPEIA at 3017 Gold Canal Drive, Rancho Cordova, California 95670.

Property Protection - The City participates in CJPRMA's All Risks Property Protection Program, which is primarily underwritten by a casualty insurance company. The Program provides $300,000 per occurrence in coverage to participating members, subject to a deductible of $25. Premiums, which are negotiated each year, are based on property values and are not subject to retroactive adjustments.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

11. POST EMPLOYMENT HEALTH CARE BENEFITS

In addition to providing pension benefits through the California Public Employees' Retirement System, the City provides certain health care benefits for retired employees under contractual obligations negotiated between the City and various employee bargaining units. All City management and public safety employees who receive a CalPERS retirement allowance upon separation are eligible for coverage under the Retiree Medical Plan at age 50. Other miscellaneous employees who receive a CalPERS retirement allowance after 15 or more years of service are eligible for coverage at age 50 or 55, depending on bargaining unit. Some employees retired for disability may qualify at a younger age. Full medical benefits are continued until age 65 or a maximum of 15 years whichever occurs first. Such coverage includes the retiree and one dependent. At age 65, eligible retirees are covered under a Medicare Supplemental Plan, which pays secondary to Medicare. This is a lifetime benefit provided to the retired employee and his or her eligible dependent. Currently, 694 retirees meet these eligibility requirements and participate in the Plan.

The City's contributions are financed on a pay-as-you-go basis. During the year, expenditures of approximately $7,162 were recognized for post employment health care.

Most retirees do not contribute to the plan. Retirees who exhaust their City-paid benefit before reaching age 65 can purchase coverage until they reach age 65. Those that qualify for City paid benefits may purchase coverage for additional dependents not covered by the City's contribution to the Plan.

12. CONTINGENCIES AND OTHER COMMITMENTS

Contingencies - There are various claims and legal actions pending against the City for which no provision has been made in the financial statements. In the opinion of the City Attorney and City management, liabilities arising from these claims and legal actions, if any, will not be material to these financial statements.

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

The City is self-insured and participates in two public entity risk pools. Details of this are covered in Note 10, Risk Management.

12. CONTINGENCIES AND OTHER COMMITMENTS (Continued)

Commitments - The City is undertaking a number of capital improvement projects, the most significant of which include the following encumbrances at June 30, 2006:

• Hammer Lane/SR 99 Interchange	$ 33,411
• Street Improvements	16,471
• Wastewater Utility	11,941
• Park Improvements	3,336
• Water Utility	1,363
• Stormwater Utility	1,113

Operating Leases - Operating lease obligations are primarily for rental of parking facilities space, but other lease obligations are included. Total expenditures for leases were $354 for the year ended June 30, 2006. The future minimum lease payments required for those operating leases are as follows:

June 30,	Amount
2007	$ 242
2008	225
2009	237
2010	249
2011	261
2012-2016	1,516
2017-2021	1,646
Total	$ 4,376

Service Contract - On February 18, 2003, the City Council approved a Service Contract for Wastewater, Water, and Stormwater Utilities Capital Improvements and Asset Management between the City of Stockton and OMI/Thames Water Stockton (Service Contract). The Service Contract is for a 20-year period and commenced on August 1, 2003, following a transition period.

The Service Contract requires OMI/Thames Water Stockton (OMI/Thames) to assume the operations and maintenance responsibilities for the three utilities and to also design and construct certain Initial Capital Improvements (ICIs), if awarded by the issuance of a Notice to Proceed by the City.

The Service Contract requires OMI/Thames to provide substantial performance guarantees, including a performance bond and a $10 million letter of credit, which the City can draw upon in the event of default. The City may terminate the Contract at any time for cause due to non-performance. In addition, the City may terminate the Contract, without cause, by paying $1 million to OMI/Thames Water. If the City were to terminate the contract for any reason, it would resume responsibility for operating and maintaining the three utilities.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

12. CONTINGENCIES AND OTHER COMMITMENTS (Continued)

Compensation to OMI/Thames is for construction and operation and maintenance of capital improvements. Payment for their operation and maintenance services is determined from a base fee, which is divided into fixed and variable components. Both of these components are eligible for adjustments based on the Consumer Price Index (CPI) or various growth factors specified in the Service Contract. Payment for the ICIs is based on the percent completed as specified in the original billing timeline.

Financial information concerning the Service Contract is reported in the Water Utility, Wastewater Utility, and Stormwater Utility major enterprise funds.

Facilities Management Agreement – On March 2, 2004, the City Council approved a Facilities Management Agreement (Agreement) with International Facilities Group, L.L.C.-Stockton, Inc. (IFG).

Under the terms of the Agreement, IFG is responsible for providing development and operation management services, including project design and construction administration services to the City for an events center, which includes a multi-purposes indoor arena and a baseball park. IFG is also responsible for managing, operating and marketing the arena, ballpark (for times when the ballpark is not operated by the Stockton Ports baseball team) and the events center common areas, as well as the Bob Hope Theatre and an ice center, all owned by the City. IFG is responsible for operating these facilities in keeping with the management goals set each year and approved by the City, with the overarching goal of having the arena operating revenues exceed its operating expenses.

The Agreement is for a period of ten full fiscal years commencing after the opening of the arena, which occurred during fiscal year 2006, and may be renewed at the option of the City for one additional five-year period. Either party may terminate the Agreement for cause due to a material breach by the other party. Beginning in 2010, the City may terminate the Agreement, without cause, by paying to IFG a "buy-out" payment, beginning at $2,350, if the termination occurs during 2010, and declining to $470, if the termination occurs in 2014. IFG is required to provide various fidelity and performance bonds, including a $150 faithful performance bond, and a $1,000 fidelity bond, which covers IFG employees who handle cash on behalf of the City.

Compensation to IFG is determined from a base fee for all venues, plus performance based compensation, as defined in the Agreement. Both of these components are eligible for periodic adjustments based on the CPI.

Financial information concerning the Facilities Management Agreement is reported in the Recreation Services non-major special revenue fund.

13. DEFICIT FUND EQUITY

- The Redevelopment Agency Fund had a deficit fund balance of $20,510 at June 30, 2006, primarily as a result of expenditures incurred in advance of receipt of revenues. It is the intent of the City's Redevelopment Agency to fund this deficit from future tax increments and other revenues.
- The Cooperative Library Fund had a deficit fund balance of $3 at June 30, 2006 as a result of expenditures incurred in advance of receipt of revenues. It is the intent of the Library to fund this deficit from future revenues.
- The Emergency Medical Transportation Fund had a deficit fund balance of $5,980 at June 30, 2006. While the Stockton Fire Department discontinued providing ambulance service at the end of April 2006, the fund had both outstanding receivables and payables. During fiscal year 2007, collection efforts will continue and asset liquidations will take place. At the end of 2007 the City will be in a better position to assess when the fund should be discontinued.
- The Recreation Services Fund had a deficit fund balance of $328 at June 30, 2006 due to start up operating costs that exceeded initial estimates for the new downtown events center-arena. This fund is supported by recreation user fees and an annual subsidy from the General Fund. The City intends to fund this deficit with an additional subsidy from the General Fund or other funds during fiscal year 2007.
- The Solid Waste Fund had a deficit in net assets of $82 at June 30, 2006 due to the transfer of billing services to California Water Service Company and the resulting write off of residual uncollectible receivables.
- The City budgets revenues and projects expenses in the General Liability Insurance Fund (internal service) based upon an analysis of cash flows in the fund. On an accrual basis of accounting, the General Liability Insurance Fund has a long-term liability of $5,969 and a deficit in net assets of $3,080. The cash balance of the fund at June 30, 2006 is $2,897. The City will fund the deficit over time by adjusting the rates paid by City funds.
- The City budgets revenues and projects expenses in the Workers' Compensation Insurance Fund (internal service) based upon an analysis of cash flows in the fund. On an accrual basis of accounting, the Workers' Compensation Insurance Fund has a long-term liability of $35,077 and a deficit in net assets of $16,757. The cash balance of the fund at June 30, 2006 is $18,291. The City will fund the deficit over time by adjusting the rates paid by City funds.

CITY OF STOCKTON

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

13. DEFICIT FUND EQUITY (Continued)

- The City budgets revenues and projects expenses in the Health Benefits Insurance Fund (internal service) based upon an analysis of cash flows in the fund. On an accrual basis of accounting, the Health Benefits Insurance Fund has a current liability for claims of $2,830 and a deficit in net assets of $1,109. The cash balance of the fund at June 30, 2006 is $1,798. The City will fund the deficit over time by adjusting the rates paid by City funds.

14. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded appropriations in the Recreation Services Fund by $1,308, primarily due to cost overruns for the events center-arena, ballpark, and theater venues operated for the City by IFG. This was unavoidable due to the timing of financial reporting by IFG. The final financial reports for the first year of operations were received from IFG after final budget amendments for fiscal year ended June 30, 2006 had been concluded by the City Council. The City will review the reporting process and coordinate closely with IFG to ensure that this does not reoccur.

15. SUBSEQUENT EVENTS

On June 13, 2006, the Redevelopment Agency and the Stockton Public Financing Authority authorized, and on July 12, 2006 issued $75,755 of 2006 Series A Revenue Bonds, $8,445 of 2006 Series B Taxable Revenue Bonds, and $25,985 of 2006 Series C Taxable Revenue Bonds. The proceeds of the Series A and Taxable Series B Bonds will be used to finance redevelopment projects, while the proceeds of the Taxable Series C Bonds will be used to finance certain low and moderate income housing projects throughout the City. The Bonds were issued pursuant to Article 4 of Chapter 5, Division 7, Title 1 of the California Government Code (commencing with Section 6584). The interest rates range from 5.00% to 6.87%, the full amount maturing serially through September 1, 2037.

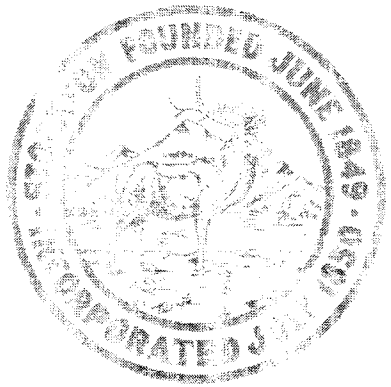
On July 11, 2006, the City authorized the issuance of $28,630 of tax exempt Community Facilities District No. 1 (Weston Ranch) Special Tax Refunding Bonds, Series 2006. The City is not obligated in any manner for repayment of the Bonds, which are secured by annual special tax levies placed on the property within the district. The proceeds of the Bonds, which were issued on August 10, 2006 pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, constituting Section 53311, et seq. of the California Government Code, will be used to defease the remaining balances owed on the 1998 and 2001 Series. . The interest rates range from 3.50% to 4.25%, the full amount maturing serially through September 1, 2021.

16. FUTURE GASB PRONOUNCEMENTS

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, Accounting and Financial Reporting by Employers of Post employment Benefits Other Than Pensions. GASB Statement No. 45 establishes standards for the measurement, recognition and display of other post-employment benefits (OPEBs) expenses/expenditures, related assets and liabilities, note disclosures and, if applicable, required supplementary information in the financial reports of state and local government employers. GASB No. 45 will be effective for the fiscal year ending June 30, 2008. The City is currently analyzing the impact of the required implementation of this new statement on its future financial statements.

CITY OF STOCKTON

REQUIRED SUPPLEMENTARY INFORMATION



CITY OF STOCKTON

SCHEDULES OF DEFINED BENEFIT PENSION PLANS FUNDED STATUS
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

MISCELLANEOUS PLAN

Valuation Date	Entry Age Normal Accrued Liability (1)	Actuarial Value of Assets (2)	Unfunded Liability (1)-(2)	Funded Status (2)/(1)	Annual Covered Payroll (3)	UAAL As a Percentage of Payroll [(1)-(2)]/(3)
6/30/04	$ 366,460	$ 321,947	$ 44,513	87.9%	$ 50,602	88.0%
6/30/03	344,933	305,879	39,054	88.7%	54,241	72.0%
6/30/02	304,791	302,384	2,408	99.2%	53,151	4.5%

SAFETY PLAN

Valuation Date	Entry Age Normal Accrued Liability (1)	Actuarial Value of Assets (2)	Unfunded Liability (1)-(2)	Funded Status (2)/(1)	Annual Covered Payroll (3)	UAAL As a Percentage of Payroll [(1)-(2)]/(3)
6/30/04	$ 504,303	$ 401,038	$ 103,265	79.5%	$ 45,116	228.9%
6/30/03	473,038	380,682	92,356	80.5%	43,816	210.8%
6/30/02	447,098	375,902	71,196	84.1%	42,400	167.9%

The notes to the required supplementary information are an integral part of this schedule.

CITY OF STOCKTON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - ON A BUDGETARY BASIS GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

	Budget			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES:				
Taxes:				
Property	$ 27,651	$ 27,651	$ 32,418	$ 4,767
In lieu of sales tax	9,274	9,274	9,274	-
Utility user	31,375	31,375	34,313	2,938
Sales and use	36,726	36,726	37,725	999
Franchise fees	9,536	9,536	10,333	797
Business license	8,335	8,335	11,150	2,815
Hotel/motel room	2,172	2,172	2,171	(1)
Document transfer	1,600	1,600	2,010	410
Other	-	-	2	2
Licenses and permits	355	355	346	(9)
Other governmental	16,077	16,077	18,857	2,780
Charges for services	11,646	11,646	10,821	(825)
Fines and forfeitures	3,713	3,713	3,900	187
Use of money and property	461	469	537	68
Investment income:				
Interest income	600	600	586	(14)
Net increase in fair value of investments	-	-	65	65
Refunds and reimbursements	3,404	3,404	4,020	616
Miscellaneous	4,907	4,907	4,784	(123)
Total revenues	167,832	167,840	183,312	15,472
EXPENDITURES:				
General government:				
City council	587	603	602	1
City manager	2,191	2,467	2,456	11
City attorney	1,142	952	947	5
City clerk	938	897	892	5
City auditor	698	768	715	53
Administrative services	5,641	5,637	5,636	1
Human resources	1,958	1,746	1,719	27
Housing and redevelopment	69	69	68	1
Non-departmental	1,868	1,560	1,516	44
Total general government	15,092	14,699	14,551	148
Public safety:				
Police	84,036	88,013	87,912	101
Fire	43,951	44,016	44,015	1
Total public safety	127,987	132,029	131,927	102

The note to the required supplementary information is an integral part of this schedule.

CITY OF STOCKTON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - ON A BUDGETARY BASIS GENERAL FUND (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

	Budget			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
Public works	13,699	13,565	13,530	35
Parks and recreation	8,050	8,049	8,054	(5)
Total expenditures	164,828	168,342	168,062	280
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES (BUDGETARY BASIS)	3,004	(502)	15,250	15,752
OTHER FINANCING SOURCES (USES):				
Transfers in	10,079	10,910	10,848	(62)
Transfers out	(12,266)	(18,992)	(18,992)	-
Sale of capital assets	-	-	2	2
Total other financing sources (uses)	(2,187)	(8,082)	(8,142)	(60)
NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)	$ 817	$ (8,584)	7,108	$ 15,692
BASIS ADJUSTMENT:				
Encumbrances			896	
NET CHANGE IN FUND BALANCE (GAAP BASIS)			8,004	
FUND BALANCE, BEGINNING OF YEAR			23,464	
FUND BALANCE, END OF YEAR			$ 31,468	

The note to the required supplementary information is an integral part of this schedule.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

1. DEFINED BENEFIT PENSION PLANS

The schedules of defined benefit pension plans funded status display a historical summary of the Entry Age Normal Accrued Liability, the Actuarial Value of Assets, the Unfunded Actuarial Accrued Liability ("UAAL"), the Funded Ratio, the estimated annual covered payroll and the UAAL as a percentage of covered payroll for each of the City's defined benefit pension plans.

2. BUDGET

Budgetary Process

- In accordance with the provisions of the City Charter, the City prepares and adopts a budget on or before June 30 for each fiscal year. Total appropriations shall not exceed the total of estimated revenues, estimated unencumbered balances of funds to be carried over from the preceding year and unencumbered available fund balances. The General Fund, certain special revenue funds (Solid Waste and Recycling, Gas Tax, Measure K Sales Tax, Measure W Public Safety Tax, City-County Library, Special Assessments, Emergency Communication, Emergency Medical Transportation, Recreation Services, Development Services, and Other Special Revenue) and certain capital projects funds (Public Facilities Impact Fees and Capital Improvement) have legally adopted annual budgets. Prior to July 1, the original adopted budget is legally enacted through the passage of a resolution by the City Council. In the event this does not occur, the City Manager's draft budget is in force until a budget is adopted by the City Council.

- Enterprise and internal service funds are accounted for on a cost of service (net income) or capital maintenance measurement focus. The City is not legally mandated to report the results of operations for these fund types on a budget comparison basis; therefore, budgetary data related to these funds has not been presented.

- If expenditures exceed appropriations, the City Manager is authorized to transfer budgeted amounts between line items within any fund. During the year, the City Council approves supplemental appropriations and, by resolution, has also authorized the City Manager to transfer fund balances to applicable appropriation accounts, or to transfer between funds, when necessary to continue purposes approved by the City Council in the current year, adopted budget, or subsequent action. Amounts reported as final budget in the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – On a Budgetary Basis include amendments authorized throughout the year.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

2. BUDGET (Continued)

- Formal budgetary integration is employed as a management control device during the year for the General Fund and certain special revenue and capital projects funds. Formal budgetary integration is not employed for the debt service funds because effective budgetary control is alternatively achieved through bond indenture provisions.

- All unencumbered appropriations lapse at year-end, with the exception of some capital improvement projects and miscellaneous grants in the respective funds. Encumbered appropriations are re-appropriated in the following year's budget.

Budgetary Basis of Accounting

The City adopts budgets each fiscal year on a basis of accounting, which is different from accounting principles generally accepted in the United States of America (GAAP).

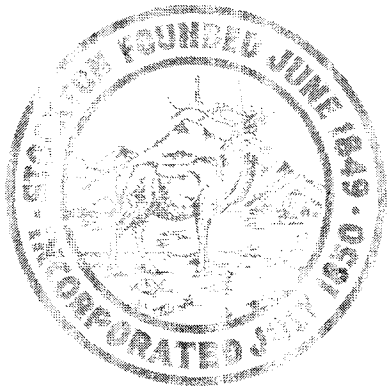
The statements of revenues, expenditures and changes in fund balances have been prepared on the modified accrual basis of accounting in accordance with GAAP. The schedules of revenues, expenditures and changes in fund balances – budget and actual – on a budgetary basis have been prepared on the budgetary basis, which is different from GAAP.

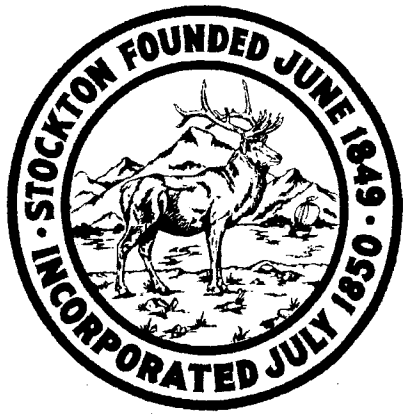
The variations from GAAP are that for budgetary purposes:

- Outstanding commitments relating to construction contracts and other purchases of goods and services are recorded as expenditures at the time contracts or purchase agreements are entered into. Under GAAP, these obligations are recognized when goods are received or services are rendered.

Certain funds of the City contain capital projects, grant projects, loan programs or other programs that are budgeted on a multi-year or project length basis. The amounts of the projects and programs budgeted on a multi-year basis are significant compared to the items budgeted on an annual basis; therefore, a comparison of budget to actual for the fund would not be meaningful. As a result, such funds are excluded from budgetary reporting.

CITY OF STOCKTON





NONMAJOR
GOVERNMENTAL FUNDS

NONMAJOR GOVERNMENTAL FUNDS

- Special revenue funds account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditures for specified purposes, other than those for major capital projects.
- Debt service funds account for the accumulation of resources for the repayment of principal and interest on long-term debt.
- Capital projects funds account for the financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.
- The permanent fund reports resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

SPECIAL REVENUE FUNDS

Special Grants
To account for miscellaneous, comparatively smaller grants, from federal and state governments, not otherwise established as a stand-alone special revenue fund.

Solid Waste and Recycling
To account for the administration of solid waste collection services, and planning and implementing solid waste reduction and recycling programs.

Gas Tax
To account for revenues and expenditures apportioned to the City under the Streets and Highway Code, Sections 2105, 2106, 2107 and 2107.5 of the State of California. Expenditures for administration, maintenance and construction must be street-related. This fund includes Intermodal Surface Transportation Efficiency Act and SB325 Non-Transit revenues and Traffic Congestion Relief.

Measure K Sales Tax
To account for revenues and expenditures apportioned to the City for sales tax collections under Measure K. Expenditures for administration, maintenance and construction must be for street-related projects.

Measure W Public Safety Tax
To account for revenues and expenditures apportioned to the City from district sales tax collections under Measure W. Expenditures are for administration, implementation, and operation of the Police and Fire Safe Neighborhood Gang and Drug Prevention Program.

Cooperative Library
To account for federal and state grants to encourage the development, improvement and expansion of the library system within the State of California. Parties to the agreement are neighboring cities, counties and other agencies.

City-County Library
To account for the public library system for the City of Stockton and San Joaquin County branch libraries. The libraries are funded in cooperation with San Joaquin County, which provides approximately 50% of the funding.

Special Assessments
To account for revenues and expenditures related to levies on property owners for special types of services - basic lighting, landscape and stormwater drainage maintenance services.

Redevelopment Agency Loan
To account for loans extended to eligible low- and moderate-income families.

SPECIAL REVENUE FUNDS (Continued)

Urban Development Action Grant
To account for federal grant and other resources, the purpose of which is to revitalize activities in the designated Urban Development Action Grant area.

Community Development Block Grant
To account for the annual federal grant that provides for development of a viable urban community by providing a suitable living environment and expansion of economic opportunities, principally for low- and moderate-income residents.

Community Development Loan
To account for the City's Community Rehabilitation Loan program that provides adequate housing and suitable living environments for low- and moderate-income residents.

CDBG Revolving Loan
To account for the City's federal revolving loan program that provides for development of a viable urban community by providing a suitable living environment and expansion of economic opportunities for low and moderate income residents.

Special Grant and Loan Programs
To account for the City's Economic Development grant and loan programs that provide economic development in the downtown Stockton area.

Home Program
To account for the City's Home Program that provides adequate and affordable housing for low- and very low-income residents.

Emergency Communication
To account for the financial consolidation of the City's Police and Fire department emergency communication dispatching service.

Emergency Medical Transportation
To account for the City's 911 emergency response ambulance transportation services.

Recreation Services
To account for all recreation programs and facilities which provide a variety of recreational opportunities for the community.

Development Services
To account for development planning and project review services including land use entitlements, permit processing and review/inspection of public improvements to ensure orderly physical growth and development of the City.

Other Special Revenue
To account for comparatively smaller special revenue funds including Asset Seizure and Boat Launching Facilities.

DEBT SERVICE FUNDS

Redevelopment Agency
To account for the accumulation of resources for, and the retirement of principal and interest on long-term debt for revenue bonds issued by the Redevelopment Agency.

Stockton Public Financing Authority
To account for the accumulation of resources and the retirement of principal and interest on long term debt for revenue bonds and certificates of participation issued by the Stockton Public Financing Authority.

PERMANENT FUND

To account for assets that require the principal to remain intact, but allow earnings to be spent on designated arts, recreation and library programs.

CITY OF STOCKTON

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006
(With comparative totals for June 30, 2005)
(Dollar amounts in thousands)

	Special Revenue											
	Special Grants	Solid Waste & Recycling	Gas Tax	Measure K Sales Tax	Measure W Public Safety Tax	Cooperative Library	City-County Library	Special Assessments	Redevelopment Agency Loan	Urban Development Action Grant	Community Development Block Grant
ASSETS											
Cash and investments	$ 19	$ 975	$ -	$ 2,765	$ 818	$ 9	$ 3,788	$ 4,766	$ 757	$ -	$ -
Cash and investments with fiscal agents	-	-	-	28	-	-	-	-	-	-	-
Receivables:											
Interest	3	6	-	11	12	-	-	26	-	-	(1)
Accounts and other receivables	56	30	-	-	-	-	10	-	-	-	44
Due from other governments	1,478	-	1,940	7,720	1,863	-	-	-	-	-	761
Allowance for uncollectibles	-	-	-	(237)	-	-	-	-	-	-	-
Inventory of supplies	-	-	-	-	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-	-	-	-	-
Advances to other funds	-	-	-	-	-	-	-	-	-	4,686	10,469
Advances to property owners	-	-	-	-	-	-	-	-	13,325	-	-
Total assets	$ 1,556	$ 1,011	$ 1,940	$ 10,287	$ 2,693	$ 9	$ 3,798	$ 4,792	$ 14,082	$ 4,686	$ 11,273
LIABILITIES AND FUND BALANCES											
LIABILITIES:											
Accounts payable	$ 45	$ 22	$ 301	$ 2,352	$ 16	$ 2	$ 158	$ 155	$ -	$ -	$ 89
Due to other funds	-	-	1,331	-	-	-	-	72	-	-	238
Due to other governments	-	-	-	-	-	-	-	-	-	-	-
Deposits and other liabilities	-	-	-	-	-	-	-	-	-	-	2
Deferred revenue	1,416	-	-	400	-	10	-	-	-	-	-
Advances from other funds	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	1,461	22	1,632	2,752	16	12	158	227	-	-	329
FUND BALANCES (DEFICIT):											
Reserved for:											
Encumbrances	175	6	13,770	16,402	12	-	489	253	-	-	477
Advances	-	-	-	-	-	-	-	-	13,325	4,686	10,469
Debt service	-	-	-	-	-	-	-	-	-	-	-
Endowments	-	-	-	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-	184	-	-	-
Unreserved, reported in:											
Special revenue funds:											
Designated for termination pay	-	-	-	-	-	-	132	-	-	-	-
Undesignated	(80)	983	(13,462)	(8,867)	2,665	(3)	3,019	4,128	757	-	(2)
Debt service funds	-	-	-	-	-	-	-	-	-	-	-
Permanent fund	-	-	-	-	-	-	-	-	-	-	-
Total fund balances (deficit)	95	989	308	7,535	2,677	(3)	3,640	4,565	14,082	4,686	10,944
Total liabilities and fund balances (deficit)	$ 1,556	$ 1,011	$ 1,940	$ 10,287	$ 2,693	$ 9	$ 3,798	$ 4,792	$ 14,082	$ 4,686	$ 11,273

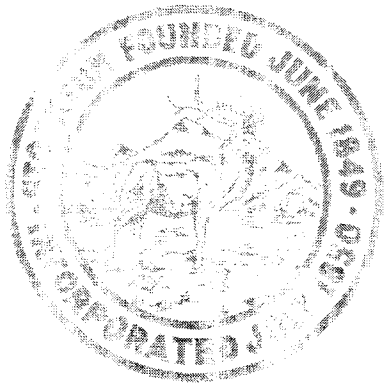
(Continued)

CITY OF STOCKTON

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (Continued)
JUNE 30, 2006
(With comparative totals for June 30, 2005
(Dollar amounts in thousands)

	Special Revenue									Debt Service	
	Community Development Loan	CDBG Revolving Loan	Special Grant and Loan Programs	Home Program	Emergency Communication	Emergency Medical Transportation	Recreation Services	Development Services	Other Special Revenue	Redevelopment Agency	Stockton Public Financing Authority
ASSETS											
Cash and investments	$ -	$ 432	$ 307	$ -	$ -	$ -	$ 24	$ 437	$ 1,720	$ -	$ -
Cash and investments with fiscal agents	-	-	-	-	-	-	-	-	-	4,112	1,000
Receivables:											
Interest	-	2	-	(2)	(2)	(14)	-	-	10	-	-
Accounts and other receivables	9	-	-	-	889	658	290	121	218	-	-
Due from other governments	-	-	183	-	-	-	-	-	69	-	-
Allowance for uncollectibles	-	-	-	-	-	-	-	-	-	-	-
Inventory of supplies	-	-	-	-	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	342	-	-	-	-
Advances to other funds	564	-	-	-	-	-	-	197	-	-	-
Advances to property owners	19,719	277	-	18,329	-	-	-	-	1,726	-	-
Total assets	$ 20,292	$ 711	$ 490	$ 18,327	$ 887	$ 644	$ 656	$ 755	$ 3,743	$ 4,112	$ 1,000
LIABILITIES AND FUND BALANCES											
LIABILITIES:											
Accounts payable	$ 14	$ 19	$ -	$ 92	$ 12	$ 78	$ 156	$ 137	$ 110	$ -	$ -
Due to other funds	157	-	-	316	398	2,162	-	-	-	-	-
Due to other governments	-	8	-	-	-	-	1	-	-	-	-
Deposits and other liabilities	-	-	-	-	-	-	274	383	-	-	-
Deferred revenue	-	-	-	1,035	-	-	553	6	136	-	-
Advances from other funds	-	-	-	-	-	4,384	-	-	29	-	-
Total liabilities	171	27	-	1,443	410	6,624	984	526	275	-	-
FUND BALANCES (deficit):											
Reserved for:											
Encumbrances	-	-	-	-	45	141	77	587	45	-	2
Advances	20,283	277	-	18,329	-	-	-	197	1,726	-	-
Debt service	-	-	-	-	-	-	-	-	-	3,884	1,001
Endowments	-	-	-	-	-	-	-	-	-	-	-
Other items	630	-	-	3,427	-	-	-	-	278	400	38
Unreserved, reported in:											
Special revenue funds:											
Designated for termination pay	-	-	-	-	-	-	-	-	-	-	-
Undesignated	(792)	407	490	(4,872)	432	(6,121)	(405)	(555)	1,419	-	-
Debt service funds	-	-	-	-	-	-	-	-	-	(172)	(41)
Permanent fund	-	-	-	-	-	-	-	-	-	-	-
Total fund balances (deficit)	20,121	684	490	16,884	477	(5,980)	(328)	229	3,468	4,112	1,000
Total liabilities and fund balances (deficit)	$ 20,292	$ 711	$ 490	$ 18,327	$ 887	$ 644	$ 656	$ 755	$ 3,743	$ 4,112	$ 1,000

(Continued)



CITY OF STOCKTON

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (Continued)
JUNE 30, 2006
(With comparative totals for June 30, 2005)
(Dollar amounts in thousands)

	Permanent	Totals	
	Miscellaneous	2006	2005
ASSETS			
Cash and investments	$ 1,666	$ 18,483	$ 16,210
Cash and investments with fiscal agents	-	5,140	8,298
Receivables:			
Interest	9	60	74
Accounts and other receivables	-	2,325	2,673
Due from other governments	-	14,014	9,750
Allowance for uncollectibles	-	(237)	-
Inventory of supplies	-	-	423
Deposits	-	342	-
Advances to other funds	-	15,916	15,946
Advances to property owners	-	53,376	48,219
Total assets	$ 1,675	$ 109,419	$ 101,593
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	$ -	$ 3,758	$ 2,149
Due to other funds	-	4,674	5,451
Due to other governments	-	9	5
Deposits and other liabilities	-	659	556
Deferred revenue	-	3,556	1,943
Advances from other funds	-	4,413	4,412
Total liabilities	-	17,069	14,516
FUND BALANCES (deficit):			
Reserved for:			
Encumbrances	-	32,481	65,949
Advances	-	69,292	64,165
Debt service	-	4,885	8,330
Endowments	1,423	1,423	1,423
Other items	-	4,957	4,422
Unreserved, reported in:			
Special revenue funds:			
Designated for termination pay	-	132	132
Undesignated	-	(20,859)	(57,567)
Debt service funds	-	(213)	(42)
Permanent fund	252	252	265
Total fund balances (deficit)	1,675	92,350	87,077
Total liabilities and fund balances (deficit)	$ 1,675	$ 109,419	$ 101,593

CITY OF STOCKTON

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006
(With comparative totals for the year ended June 30, 2005)
(Dollar amounts in thousands)

	Special Revenue											
	Special Grants	Solid Waste & Recycling	Gas Tax	Measure K Sales Tax	Measure W Public Safety Tax	Cooperative Library	City-County Library	Special Assessments	Redevelopment Agency Loan	Urban Development Action Grant	Community Development Block Grant
REVENUES:											
Taxes:											
Sales and use	$ -	$ -	$ -	$ 4,338	$ 9,941	$ -	$ -	$ -	$ -	$ -	$ -
Business licenses	-	-	-	-	-	-	-	72	-	-	-
Other	-	-	215	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-	-	-
Federal grants and subsidies	2,145	-	9,067	-	-	-	-	-	-	-	7,450
Other governmental	1,571	-	5,497	17,461	-	127	5,744	-	-	-	-
Charges for services	-	-	-	-	-	115	235	2,116	-	-	-
Fines and forfeitures	-	-	-	-	-	-	-	-	-	-	-
Use of money and property	-	1	-	9	-	-	2	-	-	-	-
Investment income:											
Interest income	8	21	(18)	13	44	-	-	87	-	-	(14)
Net increase (decrease) in fair value of investments	1	2	4	8	3	-	-	11	-	-	(2)
Refunds and reimbursements	-	86	-	180	52	-	52	-	-	-	-
Miscellaneous	-	1,173	-	-	-	-	-	-	-	-	-
Total revenues	3,725	1,283	14,765	22,009	10,040	242	6,033	2,286	-	-	7,434
EXPENDITURES:											
Current:											
General government	57	-	-	12	-	-	-	78	-	-	-
Public safety	2,402	-	-	-	5,990	-	-	-	-	-	-
Public works	25	815	782	1,835	-	-	-	173	-	-	3,621
Library	268	-	-	-	-	243	11,386	-	-	-	-
Parks and recreation	849	-	-	-	-	-	-	1,335	-	-	-
Capital outlay	161	-	9,090	20,214	-	-	7	-	-	-	1,095
Debt service:											
Principal retirement	-	-	-	-	-	-	-	-	-	-	430
Interest and fiscal charges	-	-	-	-	-	-	-	-	-	-	658
Total expenditures	3,762	815	9,872	22,061	5,990	243	11,393	1,586	-	-	5,804
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(37)	468	4,893	(52)	4,050	(1)	(5,360)	700	-	-	1,630
OTHER FINANCING SOURCES (USES):											
Transfers in	21	-	-	-	-	-	6,486	-	1,211	-	159
Transfers out	(303)	-	(5,062)	-	(490)	-	-	-	-	-	(1,645)
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	(282)	-	(5,062)	-	(490)	-	6,486	-	1,211	-	(1,486)
NET CHANGE IN FUND BALANCES	(319)	468	(169)	(52)	3,560	(1)	1,126	700	1,211	-	144
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	414	521	477	7,587	(883)	(2)	2,514	3,865	12,871	4,686	10,800
FUND BALANCES (DEFICIT), END OF YEAR	$ 95	$ 989	$ 308	$ 7,535	$ 2,677	$ (3)	$ 3,640	$ 4,565	$ 14,082	$ 4,686	$ 10,944

(Continued)

CITY OF STOCKTON

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(With comparative totals for the year ended June 30, 2005)
(Dollar amounts in thousands)

	Special Revenue				Special Revenue					Debt Service	
	Community Development Loan	CDBG Revolving Loan	Special Grant and Loan Programs	Home Program	Emergency Communication	Emergency Medical Transportation	Recreation Services	Development Services	Other Special Revenue	Redevelopment Agency	Stockton Public Financing Authority
REVENUES:											
Taxes:											
Sales and use	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Business licenses	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	8,614	-	-	-
Federal grants and subsidies	-	-	393	1,793	-	-	-	-	133	-	-
Other governmental	-	-	-	-	-	-	1	-	387	-	-
Charges for services	-	-	-	-	5,958	2,799	2,139	13,909	172	-	-
Fines and forfeitures	-	-	-	-	32	-	-	1	-	-	-
Use of money and property	160	-	-	119	1	-	5,334	-	8	-	-
Investment income:											
Interest income	4	-	7	(8)	(7)	(51)	-	-	39	191	118
Net increase (decrease) in fair value of investments	1	1	-	-	(1)	-	-	-	4	(85)	(37)
Refunds and reimbursements	-	-	-	-	29	57	8	12	4	-	-
Miscellaneous	-	-	20	-	-	-	42	2	1,013	-	-
Total revenues	165	1	420	1,904	6,012	2,805	7,524	22,538	1,760	106	81
EXPENDITURES:											
Current:											
General government	507	-	-	-	-	-	-	4,200	25	6	6
Public safety	-	-	-	-	5,549	4,805	-	6,396	324	-	-
Public works	-	-	-	223	-	-	-	3,296	-	-	-
Library	-	-	-	-	-	-	-	-	344	-	-
Parks and recreation	-	-	-	-	-	-	14,544	-	461	-	-
Capital outlay	-	-	-	-	-	47	-	17	-	-	-
Debt service:											
Principal retirement	-	-	-	-	-	-	-	-	-	-	235
Interest and fiscal charges	-	-	-	-	-	-	-	-	-	2,154	1,473
Total expenditures	507	-	-	223	5,549	4,852	14,544	13,909	1,154	2,160	1,714
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(342)	1	420	1,681	463	(2,047)	(7,020)	8,629	606	(2,054)	(1,633)
OTHER FINANCING SOURCES (USES):											
Transfers in	1,451	-	-	-	-	-	6,630	-	-	8	1,643
Transfers out	(159)	(21)	(394)	-	-	-	-	(8,544)	-	(56)	(1,084)
Proceeds of long-term debt	-	-	200	-	-	-	-	-	240	-	-
Total other financing sources (uses)	1,292	(21)	(194)	-	-	-	6,630	(8,544)	240	(48)	559
NET CHANGE IN FUND BALANCES	950	(20)	226	1,681	463	(2,047)	(390)	85	846	(2,102)	(1,074)
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	19,171	704	264	15,203	14	(3,933)	62	144	2,622	6,214	2,074
FUND BALANCES (DEFICIT), END OF YEAR	$ 20,121	$ 684	$ 490	$ 16,884	$ 477	$ (5,980)	$ (328)	$ 229	$ 3,468	$ 4,112	$ 1,000

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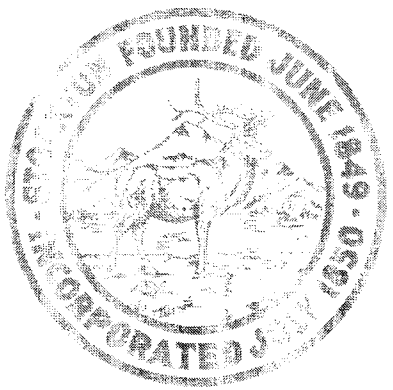


CITY OF STOCKTON

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(With comparative totals for the year ended June 30, 2005)
(Dollar amounts in thousands)

	Permanent	Totals	
	Miscellaneous	2006	2005
REVENUES:			
Taxes:			
Sales and use	$ -	$ 14,279	$ 5,062
Business licenses	-	72	87
Other	-	215	183
Licenses and permits	-	8,614	10,775
Federal grants and subsidies	-	20,981	9,303
Other governmental	-	30,788	20,399
Charges for services	-	27,443	25,217
Fines and forfeitures	-	33	36
Use of money and property	-	5,634	1,234
Investment income:			
Interest income	40	474	644
Net increase (decrease) in fair value of investments	(14)	(104)	118
Refunds and reimbursements	-	480	269
Miscellaneous	-	2,250	2,170
Total revenues	26	111,159	75,497
EXPENDITURES:			
Current:			
General government	39	4,930	4,443
Public safety	-	25,466	20,451
Public works	-	10,770	9,057
Library	-	12,241	12,123
Parks and recreation	-	17,189	10,132
Capital outlay	-	30,631	15,388
Debt service:			
Principal retirement	-	665	620
Interest and fiscal charges	-	4,285	4,164
Total expenditures	39	106,177	76,378
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(13)	4,982	(881)
OTHER FINANCING SOURCES (USES):			
Transfers in	-	17,609	18,524
Transfers out	-	(17,758)	(21,929)
Proceeds of long-term debt	-	440	592
Total other financing sources (uses)	-	291	(2,813)
NET CHANGE IN FUND BALANCES	(13)	5,273	(3,694)
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	1,688	87,077	90,771
FUND BALANCES (DEFICIT), END OF YEAR	$ 1,675	$ 92,350	$ 87,077

CITY OF STOCKTON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - ON A BUDGETARY BASIS PUBLIC FACILITIES IMPACT FEES MAJOR CAPITAL PROJECTS FUND FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
Other governmental	$ 26	$ -	$ (26)
Charges for services	33,066	28,179	(4,887)
Use of money and property	-	48	48
Investment income:			
Interest income	1,124	1,313	189
Net increase in fair value of investments	-	140	140
Refunds and reimbursements	-	3	3
Total revenues	34,216	29,683	(4,533)
EXPENDITURES:			
General government	3,229	3,076	153
Public safety	9,827	1,775	8,052
Public works	44,524	29,566	14,958
Library	2,724	1,353	1,371
Park and recreation	15,071	7,837	7,234
Total expenditures	75,375	43,607	31,768
DEFICIENCY OF REVENUES UNDER EXPENDITURES (BUDGETARY BASIS)	(41,159)	(13,924)	27,235
OTHER FINANCING USES:			
Transfers out	(147)	(147)	-
NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)	$ (41,306)	(14,071)	$ 27,235
BASIS ADJUSTMENT:			
Encumbrances		22,107	
NET CHANGE IN FUND BALANCE (GAAP BASIS)		8,036	
FUND BALANCE, BEGINNING OF YEAR		47,210	
FUND BALANCE, END OF YEAR		$ 55,246	

CITY OF STOCKTON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - ON A BUDGETARY BASIS CAPITAL IMPROVEMENT MAJOR CAPITAL PROJECTS FUND FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
Taxes:			
Other	$ 15	$ 1	$ (14)
Federal grants and subsidies	1,530	519	(1,011)
Other governmental	15,432	2,757	(12,675)
Use of money and property	-	12	12
Investment income:			
Interest income	558	(30)	(588)
Net increase in fair value of investments	-	2	2
Refunds and reimbursements	-	1	1
Miscellaneous	1,701	1,654	(47)
Total revenues	19,236	4,916	(14,320)
EXPENDITURES:			
General government	27,790	27,858	(68)
Public safety	1,393	969	424
Public works	1,453	3,326	(1,873)
Park and recreation	16,134	2,864	13,270
Total expenditures	46,770	35,017	11,753
DEFICIENCY OF REVENUES UNDER EXPENDITURES (BUDGETARY BASIS)	(27,534)	(30,101)	(2,567)
OTHER FINANCING SOURCES (USES):			
Transfers in	14,793	15,570	777
Transfers out	(42)	(40)	2
Issuance of long-term debt	-	13,965	13,965
Payment to refunded bond escrow agent	-	(14,604)	(14,604)
Discounts	-	(86)	(86)
Total other financing sources (uses)	14,751	14,805	54
NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)	$ (12,783)	(15,296)	$ (2,513)
BASIS ADJUSTMENT:			
Encumbrances		3,655	
NET CHANGE IN FUND BALANCE (GAAP BASIS)		(11,641)	
FUND BALANCE, BEGINNING OF YEAR		34,741	
FUND BALANCE, END OF YEAR		$ 23,100	

CITY OF STOCKTON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - ON A BUDGETARY BASIS SOLID WASTE & RECYCLING NONMAJOR SPECIAL REVENUE FUND FOR THE YEAR ENDED JUNE 30, 2006 (Dollar amounts in thousands)

	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
Taxes:			
Use of money and property	$ 1	$ 1	$ -
Investment income:			
Interest income	18	21	3
Net increase in fair value of investments	-	2	2
Refunds and reimbursements	-	86	86
Miscellaneous	1,055	1,173	118
Total revenues	1,074	1,283	209
EXPENDITURES:			
Public works	1,112	821	291
NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)	$ (38)	462	$ 500
BASIS ADJUSTMENT:			
Encumbrances		6	
NET CHANGE IN FUND BALANCE (GAAP BASIS)		468	
FUND BALANCE, BEGINNING OF YEAR		521	
FUND BALANCE, END OF YEAR		$ 989	

CITY OF STOCKTON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - ON A BUDGETARY BASIS GAS TAX NONMAJOR SPECIAL REVENUE FUND FOR THE YEAR ENDED JUNE 30, 2006 (Dollar amounts in thousands)

	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
Taxes:			
Other	$ 184	$ 215	$ 31
Federal grants and subsidies	23,739	9,067	(14,672)
Other governmental	6,304	5,497	(807)
Investment income:			
Interest income	18	(18)	(36)
Net increase in fair value of investments	-	4	4
Total revenues	30,245	14,765	(15,480)
EXPENDITURES:			
Public works	24,130	23,642	488
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES (BUDGETARY BASIS)	6,115	(8,877)	(14,992)
OTHER FINANCING USES:			
Transfers out	(5,068)	(5,062)	6
NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)	$ 1,047	(13,939)	$ (14,986)
BASIS ADJUSTMENT:			
Encumbrances		13,770	
NET CHANGE IN FUND BALANCE (GAAP BASIS)		(169)	
FUND BALANCE, BEGINNING OF YEAR		477	
FUND DEFICIT, END OF YEAR		$ 308	

CITY OF STOCKTON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - ON A BUDGETARY BASIS MEASURE K SALES TAX NONMAJOR SPECIAL REVENUE FUND FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
Taxes:			
Sales and use	$ 3,122	$ 4,338	$ 1,216
Other governmental	42,460	17,461	(24,999)
Use of money and property	-	9	9
Investment income:			
Interest income	147	13	(134)
Net increase in fair value of investments	-	8	8
Refunds and reimbursements	-	180	180
Total revenues	45,729	22,009	(23,720)
EXPENDITURES:			
Public works	53,135	38,383	14,752
Park and recreation	80	80	-
Total expenditures	53,215	38,463	14,752
NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)	$ (7,486)	(16,454)	$ (8,968)
BASIS ADJUSTMENT:			
Encumbrances		16,402	
NET CHANGE IN FUND BALANCE (GAAP BASIS)		(52)	
FUND BALANCE, BEGINNING OF YEAR		7,587	
FUND BALANCE, END OF YEAR		$ 7,535	

CITY OF STOCKTON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - ON A BUDGETARY BASIS MEASURE W PUBLIC SAFETY TAX NONMAJOR SPECIAL REVENUE FUND FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
Taxes:			
Sales and use	$ 9,200	$ 9,941	$ 741
Investment income:			
Interest income	-	44	44
Net decrease in fair value of investments	-	3	3
Refunds and reimbursements	-	52	52
Total revenues	9,200	10,040	840
EXPENDITURES:			
Public safety	6,643	6,002	641
EXCESS OF REVENUES OVER EXPENDITURES (BUDGETARY BASIS)	2,557	4,038	1,481
OTHER FINANCING USES:			
Transfers out	(1,155)	(490)	665
NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)	$ 1,402	3,548	$ 2,146
BASIS ADJUSTMENT:			
Encumbrances		12	
NET CHANGE IN FUND BALANCE (GAAP BASIS)		3,560	
FUND BALANCE, BEGINNING OF YEAR		(883)	
FUND DEFICIT, END OF YEAR		$ 2,677	

CITY OF STOCKTON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - ON A BUDGETARY BASIS CITY-COUNTY LIBRARY NONMAJOR SPECIAL REVENUE FUND FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
Other governmental	$ 5,488	$ 5,744	$ 256
Charges for services	271	235	(36)
Use of money and property	6	2	(4)
Refunds and reimbursements	77	52	(25)
Total revenues	5,842	6,033	191
EXPENDITURES:			
Library	13,835	11,882	1,953
DEFICIENCY OF REVENUES UNDER EXPENDITURES (BUDGETARY BASIS)	(7,993)	(5,849)	2,144
OTHER FINANCING SOURCES:			
Transfers in	6,486	6,486	-
NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)	$ (1,507)	637	$ 2,144
BASIS ADJUSTMENT:			
Encumbrances		489	
NET CHANGE IN FUND BALANCE (GAAP BASIS)		1,126	
FUND BALANCE, BEGINNING OF YEAR		2,514	
FUND BALANCE, END OF YEAR		$ 3,640	

CITY OF STOCKTON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - ON A BUDGETARY BASIS SPECIAL ASSESSMENTS NONMAJOR SPECIAL REVENUE FUND FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
Taxes:			
Special assessments	$ 81	$ 72	$ (9)
Charges for services	2,060	2,116	56
Investment income:			
Interest income	-	87	87
Net increase in fair value of investments	-	11	11
Total revenues	2,141	2,286	145
EXPENDITURES:			
General government	81	78	3
Public works	394	175	219
Parks and recreation	3,352	1,586	1,766
Total expenditures	3,827	1,839	1,988
NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)	$ (1,686)	447	$ 2,133
BASIS ADJUSTMENT:			
Encumbrances		253	
NET CHANGE IN FUND BALANCE (GAAP BASIS)		700	
FUND BALANCE, BEGINNING OF YEAR		3,865	
FUND BALANCE, END OF YEAR		$ 4,565	

CITY OF STOCKTON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) - BUDGET AND ACTUAL - ON A BUDGETARY BASIS EMERGENCY COMMUNICATION NONMAJOR SPECIAL REVENUE FUND FOR THE YEAR ENDED JUNE 30, 2006

(Dollar amounts in thousands)

	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
Charges for services	$ 6,294	$ 5,958	$ (336)
Fines and forfeitures	-	32	32
Use of money and property	-	1	1
Investment income:			
Interest income	-	(7)	(7)
Net decrease in fair value of investments	-	(1)	(1)
Refunds and reimbursements	-	29	29
Total revenues	6,294	6,012	(282)
EXPENDITURES:			
Public safety	5,437	5,594	(157)
NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)	$ 857	418	$ (439)
BASIS ADJUSTMENT:			
Encumbrances		45	
NET CHANGE IN FUND BALANCE (GAAP BASIS)		463	
FUND BALANCE, BEGINNING OF YEAR		14	
FUND DEFICIT, END OF YEAR		$ 477	

CITY OF STOCKTON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) - BUDGET AND ACTUAL - ON A BUDGETARY BASIS EMERGENCY MEDICAL TRANSPORTATION NONMAJOR SPECIAL REVENUE FUND FOR THE YEAR ENDED JUNE 30, 2006

(Dollar amounts in thousands)

	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
Charges for services	$ 5,352	$ 2,799	$ (2,553)
Investment income:			
Interest income	-	(51)	(51)
Refunds and reimbursements	-	57	57
Total revenues	5,352	2,805	(2,547)
EXPENDITURES:			
Public safety	5,594	4,993	601
NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)	$ (242)	(2,188)	$ (1,946)
BASIS ADJUSTMENT:			
Encumbrances		141	
NET CHANGE IN FUND BALANCE (GAAP BASIS)		(2,047)	
FUND DEFICIT, BEGINNING OF YEAR		(3,933)	
FUND DEFICIT, END OF YEAR		$ (5,980)	

CITY OF STOCKTON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - ON A BUDGETARY BASIS RECREATIONAL SERVICES NONMAJOR SPECIAL REVENUE FUND FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
Other governmental	$ -	$ 1	$ 1
Charges for services	7,123	2,139	(4,984)
Use of money and property	803	5,334	4,531
Refunds and reimbursements	28	8	(20)
Miscellaneous	48	42	(6)
Total revenues	8,002	7,524	(478)
EXPENDITURES:			
Parks and recreation	13,313	14,621	(1,308)
DEFICIENCY OF REVENUES UNDER EXPENDITURES (BUDGETARY BASIS)	(5,311)	(7,097)	(1,786)
OTHER FINANCING SOURCES:			
Transfers in	6,630	6,630	-
NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)	$ 1,319	(467)	$ (1,786)
BASIS ADJUSTMENT:			
Encumbrances		77	
NET CHANGE IN FUND BALANCE (GAAP BASIS)		(390)	
FUND BALANCE, BEGINNING OF YEAR		62	
FUND BALANCE, END OF YEAR		$ (328)	

CITY OF STOCKTON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - ON A BUDGETARY BASIS DEVELOPMENT SERVICES NONMAJOR SPECIAL REVENUE FUND FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
License and permits	$ 13,122	$ 8,614	$ (4,508)
Charges for services	13,798	13,909	111
Fines and forfeitures	-	1	1
Refunds and reimbursements	-	12	12
Miscellaneous	3	2	(1)
Total revenues	26,923	22,538	(4,385)
EXPENDITURES:			
General government	5,563	4,357	1,206
Public safety	7,349	6,535	814
Public works	3,638	3,604	34
Total expenditures	16,550	14,496	2,054
EXCESS OF REVENUES OVER EXPENDITURES (BUDGETARY BASIS)	10,373	8,042	(2,331)
OTHER FINANCING SOURCES (USES):			
Transfers out	(8,544)	(8,544)	-
NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)	$ 1,829	(502)	$ (2,331)
BASIS ADJUSTMENT:			
Encumbrances		587	
NET CHANGE IN FUND BALANCE (GAAP BASIS)		85	
FUND BALANCE, BEGINNING OF YEAR		144	
FUND BALANCE, END OF YEAR		$ 229	

CITY OF STOCKTON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - ON A BUDGETARY BASIS OTHER SPECIAL REVENUE NONMAJOR SPECIAL REVENUE FUND FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
Federal grants and subsidies	$ -	$ 133	$ 133
Other governmental	25	387	362
Charges for services	165	172	7
Use of money and property	-	8	8
Investment income:			
Interest income	10	39	29
Net increase in fair value of investments	-	4	4
Refunds and reimbursements	4	4	-
Miscellaneous	764	1,013	249
Total revenues	968	1,760	792
EXPENDITURES:			
General government	117	25	92
Public safety	588	330	258
Library	621	357	264
Parks and recreation	388	487	(99)
Total expenditures	1,714	1,199	515
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES (BUDGETARY BASIS)	(746)	561	1,307
OTHER FINANCING SOURCES:			
Proceeds of long-term debt	-	240	240
NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)	$ (746)	801	$ 1,547
BASIS ADJUSTMENT:			
Encumbrances		45	
NET CHANGE IN FUND BALANCE (GAAP BASIS)		846	
FUND BALANCE, BEGINNING OF YEAR		2,622	
FUND BALANCE, END OF YEAR		$ 3,468	

CITY OF STOCKTON

NONMAJOR ENTERPRISE FUNDS

NONMAJOR ENTERPRISE FUNDS

The funds used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of City Council is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the City Council has decided that periodic determination of income is appropriate for accountability purposes.

NONMAJOR ENTERPRISE FUNDS

Solid Waste
To account for residual activities as a result of final transition and outsourcing of garden refuse collection service.

Golf Courses
To account for activities associated with the improvement and operation and maintenance of Swenson, Van Buskirk and Lyons golf courses.

CITY OF STOCKTON

COMBINING STATEMENT OF NET ASSETS - NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2006
(With comparative totals as of June 30, 2005)
(Dollar amounts in thousands)

	Solid Waste	Golf Courses	Totals 2006	Totals 2005
ASSETS				
Current assets:				
Cash and investments	$ -	$ 53	$ 53	$ 254
Receivables:				
Interest	(1)	-	(1)	(1)
Accounts and other receivables	155	37	192	224
Allowance for uncollectibles	(112)	-	(112)	(120)
Inventory of supplies	-	109	109	36
Total current assets	42	199	241	393
Noncurrent assets:				
Capital assets, net:				
Nondepreciable	-	360	360	360
Depreciable, net	-	1,435	1,435	1,573
Total noncurrent assets	-	1,795	1,795	1,933
Total assets	42	1,994	2,036	2,326
LIABILITIES				
Current liabilities:				
Accounts payable	-	40	40	39
Due to other funds	124	-	124	126
Compensated absences - current	-	-	-	14
Total current liabilities	124	40	164	179
Noncurrent liabilities:				
Advances from other funds	-	914	914	914
Compensated absences - long-term	-	1	1	97
Total noncurrent liabilities	-	915	915	1,011
Total liabilities	124	955	1,079	1,190
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	-	1,795	1,795	1,933
Unrestricted (deficit)	(82)	(756)	(838)	(797)
Total net assets (deficit)	$ (82)	$ 1,039	$ 957	$ 1,136

CITY OF STOCKTON

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(With comparative totals for the year ended June 30, 2005)
(Dollar amounts in thousands)

	Solid Waste	Golf Courses	Totals 2006	Totals 2005
OPERATING REVENUES:				
Charges for services	$ -	$ 1,498	$ 1,498	$ 1,689
Miscellaneous	-	786	786	744
Total operating revenues	-	2,284	2,284	2,433
OPERATING EXPENSES:				
Operation and maintenance	41	2,281	2,322	2,308
Depreciation and amortization	-	138	138	140
Total operating expenses	41	2,419	2,460	2,448
OPERATING LOSS	(41)	(135)	(176)	(15)
NON-OPERATING REVENUES:				
Investment income:				
Interest income	(3)	-	(3)	(8)
CHANGE IN NET ASSETS	(44)	(135)	(179)	(23)
NET ASSETS, BEGINNING OF YEAR	(38)	1,174	1,136	1,159
NET ASSETS (DEFICIT), END OF YEAR	$ (82)	$ 1,039	$ 957	$ 1,136

CITY OF STOCKTON

COMBINING STATEMENT OF CASH FLOWS
- NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(With comparative totals for the year ended June 30, 2005)
(Dollar amounts in thousands)

	Solid Waste	Golf Courses	Totals 2006	Totals 2005
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users	$ 46	$ 2,262	$ 2,308	$ 2,473
Payments to suppliers	(41)	(1,532)	(1,573)	(604)
Payments to employees	-	(848)	(848)	(1,483)
Payments for interfund services used	-	(83)	(83)	(181)
Net cash provided by (used for) operating activities	5	(201)	(196)	205
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Due to other funds	(2)	-	(2)	(37)
Advances to other funds	-	-	-	(250)
Net cash used for noncapital financing activities	(2)	-	(2)	(287)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment earnings	(3)	-	(3)	(7)
NET DECREASE IN CASH AND CASH EQUIVALENTS	-	(201)	(201)	(89)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	-	254	254	343
CASH AND CASH EQUIVALENTS, END OF YEAR	$ -	$ 53	$ 53	$ 254
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating loss	$ (41)	$ (135)	$ (176)	$ (15)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:				
Depreciation and amortization	-	138	138	140
Provision for uncollectible accounts	(10)	2	(8)	48
Changes in assets and liabilities:				
Accounts and other receivables	56	(24)	32	40
Inventory of supplies	-	(73)	(73)	-
Accounts payable	-	1	1	(12)
Compensated absences	-	(110)	(110)	4
Net cash provided by (used for) operating activities	$ 5	$ (201)	$ (196)	$ 205
NONCASH TRANSACTIONS:				
Net decrease in fair value of investments	$ -	$ -	$ -	$ (7)

CITY OF STOCKTON

INTERNAL SERVICE FUNDS

The funds established to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, and to other government units on a cost reimbursement basis.

INTERNAL SERVICE FUNDS

Central Garage
The fund established to account for the financing, operating and maintenance of vehicles and similar equipment provided to City departments on a cost reimbursement basis.

Computer Equipment
Provide the fund established to account for the financing, service and maintenance of all computer and related equipment to City departments on a cost reimbursement basis.

Radio Equipment
To account for the financing, service and maintenance of radio equipment provided to various City departments on a cost reimbursement basis.

Other Equipment
The fund established to account for financing, operating and maintenance of other, comparatively smaller equipment funds on a cost reimbursement basis. Included are telephone, other office, and printing and mailing equipment.

General Liability Insurance
To account for premiums and claims paid and administration of the fund established to provide general liability insurance coverage to City departments on a cost reimbursement basis.

Workers' Compensation Insurance
The fund established to account for workers' compensation premiums and claims paid and administration of the fund on behalf of all City departments on a cost reimbursement basis.

Health Benefits Insurance
The fund established to account for health benefits insurance premiums and claims paid and administration of the fund on behalf of all City departments on a cost reimbursement basis.

Other Insurance
To report, on a cost reimbursement basis, the premiums and claims paid and administration of comparatively smaller insurance funds for long-term disability and life insurance, payments to CalPERS, and termination pay.

CITY OF STOCKTON

COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS
JUNE 30, 2006
(With comparative totals as of June 30, 2005)
(Dollar amounts in thousands)

	Central Garage	Computer Equipment	Radio Equipment	Other Equipment	General Liability Insurance	Workers' Compensation Insurance	Health Benefits Insurance	Other Insurance	Totals 2006	Totals 2005
ASSETS										
Current assets:										
Cash and investments	$ 1,501	$ 1,461	$ 938	$ 3,454	$ 2,897	$ 18,291	$ 1,798	$ 7,220	$ 37,560	$ 32,205
Receivables:										
Accounts and other receivables	161	8	-	-	72	102	13	17	373	257
Allowance for uncollectibles	(127)	-	-	-	-	-	-	-	(127)	(127)
Total current assets	1,535	1,469	938	3,454	2,969	18,393	1,811	7,237	37,806	32,335
Noncurrent assets:										
Deferred charges	-	-	-	-	-	-	60	-	60	61
Capital assets, net:										
Depreciable, net	8,705	1,293	1,017	152	-	-	-	-	11,167	10,274
Total noncurrent assets	8,705	1,293	1,017	152	-	-	60	-	11,227	10,335
Total assets	10,240	2,762	1,955	3,606	2,969	18,393	1,871	7,237	49,033	42,670
LIABILITIES										
Current liabilities:										
Accounts payable	326	112	5	100	19	5	144	-	711	1,691
Deposits and other liabilities	-	-	-	-	55	51	4	-	110	57
Compensated absences - current	21	14	-	2	1	1	-	-	39	71
Self-insurance claims and judgments - current	-	-	-	-	3,201	6,921	2,830	-	12,952	11,502
Total current liabilities	347	126	5	102	3,276	6,978	2,978	-	13,812	13,321
Noncurrent liabilities:										
Compensated absences - long-term	274	190	-	34	5	16	2	-	521	552
Self-insurance claims and judgments - long-term	-	-	-	-	2,768	28,156	-	-	30,924	39,400
Total noncurrent liabilities	274	190	-	34	2,773	28,172	2	-	31,445	39,952
Total liabilities	621	316	5	136	6,049	35,150	2,980	-	45,257	53,273
NET ASSETS (DEFICIT)										
Invested in capital assets, net of related debt	8,705	1,293	1,017	152	-	-	-	-	11,167	10,274
Unrestricted (deficit)	914	1,153	933	3,318	(3,080)	(16,757)	(1,109)	7,237	(7,391)	(20,877)
Total net assets (deficit)	$ 9,619	$ 2,446	$ 1,950	$ 3,470	$ (3,080)	$ (16,757)	$ (1,109)	$ 7,237	$ 3,776	$ (10,603)

CITY OF STOCKTON

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(With comparative totals for the year ended June 30, 2005)
(Dollar amounts in thousands)

	Central Garage	Computer Equipment	Radio Equipment	Other Equipment	General Liability Insurance	Workers' Compensation Insurance	Health Benefits Insurance	Other Insurance	Totals 2006	Totals 2005
OPERATING REVENUES:										
Charges for services	$ 7,042	$ 4,966	$ 935	$ 1,534	$ 4,300	$ 16,653	$ 25,428	$ 40,599	$ 101,457	$ 88,727
Total operating revenues	7,042	4,966	935	1,534	4,300	16,653	25,428	40,599	101,457	88,727
OPERATING EXPENSES:										
Operation and maintenance	4,498	6,491	761	1,553	5,240	818	25,648	38,508	83,517	86,123
General and administrative	1,776	-	-	-	1,099	1,765	640	-	5,280	4,513
Depreciation and amortization	1,814	520	178	60	-	-	-	-	2,572	2,853
Total operating expenses	8,088	7,011	939	1,613	6,339	2,583	26,288	38,508	91,369	93,489
OPERATING INCOME (LOSS)	(1,046)	(2,045)	(4)	(79)	(2,039)	14,070	(860)	2,091	10,088	(4,762)
NON-OPERATING REVENUES (EXPENSES):										
Investment income:										
Interest income	1	-	-	-	64	397	34	73	569	501
Net increase in fair value of investments	-	-	-	-	7	38	4	8	57	34
Gain (loss) from disposal of property	(47)	(19)	1	(22)	-	-	-	-	(87)	(43)
Other non-operating revenues	1	1	-	-	-	-	2,218	-	2,220	1,031
Total non-operating revenues (expenses)	(45)	(18)	1	(22)	71	435	2,256	81	2,759	1,523
INCOME (LOSS) BEFORE TRANSFERS	(1,091)	(2,063)	(3)	(101)	(1,968)	14,505	1,396	2,172	12,847	(3,239)
Transfers in	383	953	196	-	-	-	-	-	1,532	1,495
Transfers out	-	-	-	-	-	-	-	-	-	(23)
CHANGE IN NET ASSETS	(708)	(1,110)	193	(101)	(1,968)	14,505	1,396	2,172	14,379	(1,767)
NET ASSETS (DEFICIT), BEGINNING OF YEAR	10,327	3,556	1,757	3,571	(1,112)	(31,262)	(2,505)	5,065	(10,603)	(8,836)
NET ASSETS (DEFICIT), END OF YEAR	$ 9,619	$ 2,446	$ 1,950	$ 3,470	$ (3,080)	$ (16,757)	$ (1,109)	$ 7,237	$ 3,776	$ (10,603)

CITY OF STOCKTON

COMBINING STATEMENT OF CASH FLOWS
- INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(With comparative totals for the year ended June 30, 2005)
(Dollar amounts in thousands)

	Central Garage	Computer Equipment	Radio Equipment	Other Equipment	General Liability Insurance	Workers' Compensation Insurance	Health Benefits Insurance	Other Insurance	Totals 2006	Totals 2005
CASH FLOWS FROM OPERATING ACTIVITIES:										
Receipts from customers and users	$ 444	$ 22	$ -	$ -	$ 489	$ 2,685	$ 2,222	$ -	$ 5,862	$ 2,362
Receipts from interfund service providers	6,559	4,937	935	1,534	3,766	13,941	25,428	40,599	97,699	87,362
Payments to suppliers	(2,976)	(4,292)	(1,080)	(842)	(3,486)	(9,383)	(26,563)	(36,593)	(85,215)	(72,378)
Payments to employees	(3,331)	(2,489)	(123)	(579)	(1,068)	(1,372)	(490)	(1,915)	(11,367)	(12,977)
Payments for interfund services used	-	(19)	-	(176)	(11)	(17)	(7)	-	(230)	(222)
Net cash provided by (used for) operating activities	696	(1,841)	(268)	(63)	(310)	5,854	590	2,091	6,749	4,147
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:										
Transfers in	383	953	196	-	-	-	-	-	1,532	1,495
Transfers out	-	-	-	-	-	-	-	-	-	(23)
Due to other funds	-	-	-	-	-	-	-	-	-	1
Net cash provided by noncapital financing activities	383	953	196	-	-	-	-	-	1,532	1,473
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:										
Proceeds from sale of capital assets	68	138	1	122	-	-	-	-	329	65
Purchases of capital assets	(2,934)	(872)	-	(75)	-	-	-	-	(3,881)	(2,916)
Net cash provided by (used for) capital and related financing activities	(2,866)	(734)	1	47	-	-	-	-	(3,552)	(2,851)
CASH FLOWS FROM INVESTING ACTIVITIES:										
Investment earnings	1	-	-	-	71	435	38	81	626	535
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,786)	(1,622)	(71)	(16)	(239)	6,289	628	2,172	5,355	3,304
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,287	3,083	1,009	3,470	3,136	12,002	1,170	5,048	32,205	28,901
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,501	$ 1,461	$ 938	$ 3,454	$ 2,897	$ 18,291	$ 1,798	$ 7,220	$ 37,560	$ 32,205

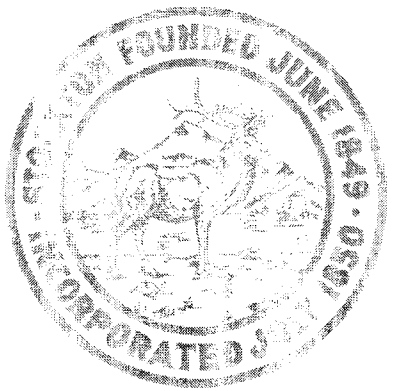
(Continued)

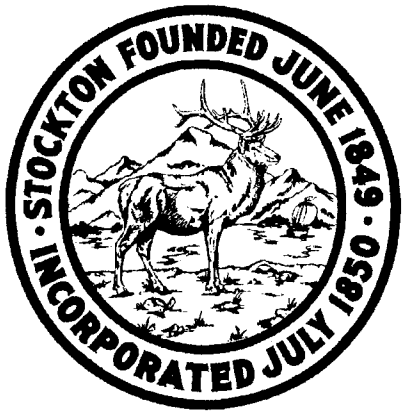
CITY OF STOCKTON

COMBINING STATEMENT OF CASH FLOWS
- INTERNAL SERVICE FUNDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(With comparative totals for the year ended June 30, 2005)
(Dollar amounts in thousands)

	Central Garage	Computer Equipment	Radio Equipment	Other Equipment	General Liability Insurance	Workers' Compensation Insurance	Health Benefits Insurance	Other Insurance	Total 2006	Total 2005
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:										
Operating income (loss)	$ (1,046)	$ (2,045)	$ (4)	$ (79)	$ (2,039)	$ 14,070	$ (860)	$ 2,091	$ 10,088	$ (4,762)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:										
Depreciation and amortization	1,814	520	178	60	-	-	-	-	2,572	2,853
Provision for uncollectible accounts	-			-	-	-	-	-	-	2
Self-insurance	-	-	-	-	1,725	(8,142)	(609)	-	(7,026)	4,558
Other non-operating revenues	1	1	-	-	-	-	2,218	-	2,220	1,031
Changes in assets and liabilities:										
Accounts and other receivables	(40)	(8)	-	-	(45)	(27)	4	-	(116)	(91)
Deferred charges	-	-	-	-	-	-	1	-	1	234
Accounts payable	(31)	(264)	(442)	(41)	2	(46)	(158)	-	(980)	425
Deposits and other liabilities	-	-	-	-	50	2	1	-	53	57
Compensated absences	(2)	(45)	-	(3)	(3)	(3)	(7)	-	(63)	(160)
Net cash provided by (used for) operating activities	$ 696	$ (1,841)	$ (268)	$ (63)	$ (310)	$ 5,854	$ 590	$ 2,091	$ 6,749	$ 4,147
NONCASH TRANSACTIONS:										
Net increase in fair value of investments	$ -	$ -	$ -	$ -	$ 7	$ 38	$ 4	$ 8	$ 57	$ 34

CITY OF STOCKTON





AGENCY FUND

AGENCY FUND

To account for all resources received by the City while acting as a fiscal agent.

AGENCY FUNDS

Land Secured Financing
To account for special taxes or assessment collections from property owners that are authorized under various public improvement acts of the State of California. The City acts only as an agent and forwards collections to bondholders and initiates foreclosure proceedings when necessary.

Employee Withholding
To account for employee withholdings, income taxes, Medicare, and other deposits collected on behalf of other governments and agencies.

Area of Benefit Fees
To account for the collection and reimbursement of construction costs required as a condition of a development or subdivision for approved public improvements within established areas of benefit.

Public Facilities Fees
To account for fees collected on behalf of other governments and agencies.

Miscellaneous
To account for deposits held by the City as required for security for construction improvements and development, unified utility bill collections on behalf of other entities, and for other deposits held in a fiduciary capacity.

All Other
To account for several cultural, recreational and educational programs that the City administers on behalf of other entities.

CITY OF STOCKTON

STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Land Secured Financing				
ASSETS				
Cash and investments	$ 39,821	$ 34,258	$ 35,373	$ 38,706
Cash and investments with fiscal agents	22,415	100,878	101,797	21,496
Receivables:				
Interest	256	181	268	169
Accounts and other receivables	712	21,000	21,025	687
Total assets	$ 63,204	$ 156,317	$ 158,463	$ 61,058
LIABILITIES				
Accounts payable	$ 72	$ 3,294	$ 3,309	$ 57
Due to other governments	188	-	-	188
Deposits and other liabilities	62,944	10,664	12,795	60,813
Total liabilities	$ 63,204	$ 13,958	$ 16,104	$ 61,058
Employee Payroll Withholdings				
ASSETS				
Cash and investments	$ 1,394	$ 808	$ 1,052	$ 1,150
Total assets	$ 1,394	$ 808	$ 1,052	$ 1,150
LIABILITIES				
Due to other governments	$ 742	$ 807	$ 743	$ 806
Deposits and other liabilities	652	2	310	344
Total liabilities	$ 1,394	$ 809	$ 1,053	$ 1,150
Area of Benefit Fees				
ASSETS				
Cash and investments	$ 6,931	$ 2,541	$ 919	$ 8,553
Receivables:				
Interest	46	46	46	46
Total assets	$ 6,977	$ 2,587	$ 965	$ 8,599
LIABILITIES				
Accounts payable	$ -	$ 383	$ 352	$ 31
Deposits and other liabilities	6,977	2,535	944	8,568
Total liabilities	$ 6,977	$ 2,918	$ 1,296	$ 8,599

(Continued)

CITY OF STOCKTON

STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Public Facilities Fees				
ASSETS				
Cash and investments	$ 2,547	$ 9,650	$ 10,600	$ 1,597
Receivables:				
Interest	14	8	14	8
Accounts and other receivables	22	-	-	22
Total assets	$ 2,583	$ 9,658	$ 10,614	$ 1,627
LIABILITIES				
Due to other governments	$ 2,583	$ 9,700	$ 10,656	$ 1,627
Total liabilities	$ 2,583	$ 9,700	$ 10,656	$ 1,627
Miscellaneous				
ASSETS				
Cash and investments	$ 5,774	$ 117,773	$ 117,948	$ 5,599
Receivables:				
Interest	39	35	39	35
Accounts and other receivables	617	12,139	12,026	730
Total assets	$ 6,430	$ 129,947	$ 130,013	$ 6,364
LIABILITIES				
Accounts payable	$ 23	$ 979	$ 892	$ 110
Due to other governments	6	112	117	1
Deposits and other liabilities	6,401	115,994	116,142	6,253
Total liabilities	$ 6,430	$ 117,085	$ 117,151	$ 6,364
All Other				
ASSETS				
Cash and investments	$ 330	$ 393	$ 345	$ 378
Receivables:				
Interest	4	3	4	3
Due from other governments	-	1	-	1
Total assets	$ 334	$ 397	$ 349	$ 382
LIABILITIES				
Accounts payable	$ 59	$ 130	$ 171	$ 18
Deposits and other liabilities	275	466	377	364
Total liabilities	$ 334	$ 596	$ 548	$ 382

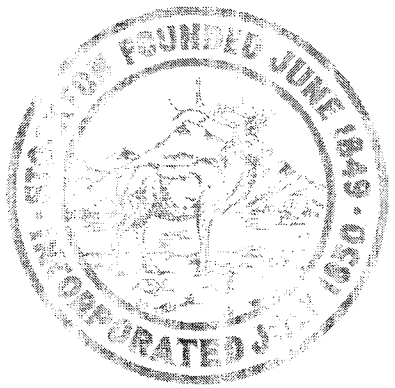
(Continued)

STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
- AGENCY FUNDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

Total	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
ASSETS				
Cash and investments	$ 56,797	$ 165,423	$ 166,237	$ 55,983
Cash and investments with fiscal agents	22,415	100,878	101,797	21,496
Receivables:				
Interest	359	273	371	261
Accounts and other receivables	1,351	33,139	33,051	1,439
Due from other governments	-	1	-	1
Total assets	$ 80,922	$ 299,714	$ 301,456	$ 79,180
LIABILITIES				
Accounts payable	$ 154	$ 4,786	$ 4,724	$ 216
Due to other governments	3,519	10,619	11,516	2,622
Deposits and other liabilities	77,249	129,661	130,568	76,342
Total liabilities	$ 80,922	$ 145,066	$ 146,808	$ 79,180

CITY OF STOCKTON

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS



CITY OF STOCKTON

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS COMPARATIVE SCHEDULE BY SOURCE JUNE 30, 2006 (With comparative totals as of June 30, 2005) (Dollar amounts in thousands)

	2006	2005
GOVERNMENTAL FUNDS CAPITAL ASSETS:		
Land	$ 34,603	$ 33,599
Buildings and improvements	235,009	117,559
Infrastructure	337,449	280,969
Equipment	4,094	2,513
Public art collections	853	58
Construction in progress	154,053	227,321
Total	$ 766,061	$ 662,019
INVESTMENTS IN GOVERNMENTAL FUND CAPITAL ASSETS BY SOURCE:		
General Fund	$ 1,080	$ 1,074
Special revenue funds	62,394	31,923
Capital projects funds	436,742	363,180
Donations	265,845	265,842
Total	$ 766,061	$ 662,019

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

CITY OF STOCKTON

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS SCHEDULE BY FUNCTION JUNE 30, 2006
(Dollar amounts in thousands)

	Land	Buildings and Improvements	Infrastructure	Equipment	Public Art Collections	Construction in Progress	Total
General government	$ 407	$ 8,255	$ -	$ 172	$ -	$ -	$ 8,834
Public safety	3,998	44,073	-	2,829	-	-	50,900
Public works	5,045	1,885	330,699	192	-	-	337,821
Library	1,207	6,885	-	399	-	-	8,491
Parks and recreation	11,917	164,147	988	377	853	-	178,282
Other property	2,081	-	-	125	-	-	2,206
Redevelopment Agency	9,948	9,764	5,762	-	-	-	25,474
Construction in progress	-	-	-	-	-	154,053	154,053
Total	$ 34,603	$ 235,009	$ 337,449	$ 4,094	$ 853	$ 154,053	$ 766,061

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

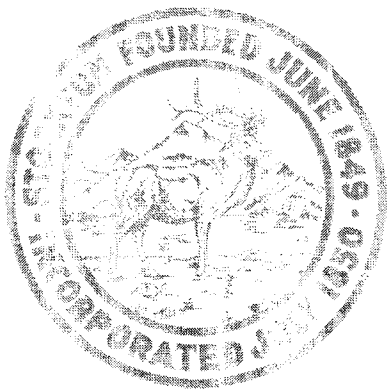
CITY OF STOCKTON

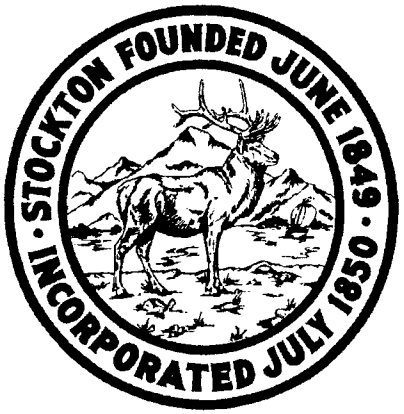
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS SCHEDULE OF CHANGES BY FUNCTION FOR THE YEAR ENDED JUNE 30, 2006
(Dollar amounts in thousands)

	Balance 6/30/05	Additions	Deductions	Transfers & Adjustments	Balance 6/30/06
General government	$ 6,105	$ 2,739	$ (10)	$ -	$ 8,834
Public safety	46,023	5,056	(179)	-	50,900
Public works	287,059	50,762	-	-	337,821
Library	8,491	-	-	-	8,491
Parks and recreation	69,187	109,095	-	-	178,282
Other property	2,084	122	-	-	2,206
Redevelopment Agency	15,749	9,725	-	-	25,474
Construction in progress	227,321	98,835	(172,103)	-	154,053
Total	$ 662,019	$ 276,334	$ (172,292)	$ -	$ 766,061

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

CITY OF STOCKTON





STATISTICAL SECTION

STATISTICAL SECTION

The statistical section is presented for the purpose of additional analysis and contains data that may provide the reader with valuable insight regarding the demographics and financial position of the City.

CITY OF STOCKTON

TABLE 1
NET ASSETS BY COMPONENT
LAST FIVE FISCAL YEARS
(Dollar amounts in thousands)

	Fiscal Year				
	2006	2005	2004	2003	2002
Governmental activities:					
Invested in capital assets, net of related debt	$ 603,068	$ 529,250	$ 289,507	$ 215,070	$ 217,640
Restricted	154,758	134,804	143,431	144,275	132,692
Unrestricted	(8,497)	(19,407)	5,071	16,162	6,551
Total governmental activities net assets	$ 749,329	$ 644,647	$ 438,009	$ 375,507	$ 356,883
Business-type activities:					
Invested in capital assets, net of related debt	$ 368,222	$ 348,229	$ 302,497	$ 265,548	$ 221,398
Restricted	48,454	55,386	52,415	29,799	24,830
Unrestricted	30,465	30,282	48,023	83,815	95,269
Total business-type activities net assets	$ 447,141	$ 433,897	$ 402,935	$ 379,162	$ 341,497
Primary government:					
Invested in capital assets, net of related debt	$ 971,290	$ 877,479	$ 592,004	$ 480,618	$ 439,038
Restricted	203,212	190,190	195,846	174,074	157,522
Unrestricted	21,968	10,875	53,094	99,977	101,820
Total primary government net assets	$ 1,196,470	$ 1,078,544	$ 840,944	$ 754,669	$ 698,380

Beginning with fiscal year 2006, land secured financings were removed from government-wide financial statements. For comparative purposes, 2005 balances have been restated to reflect this change.

Note: The City of Stockton implemented GASB 34 for the fiscal year ended June 30, 2002. Information prior to the implementation of GASB 34 is not available.

Source: City of Stockton Administrative Services Department

CITY OF STOCKTON

TABLE 2
CHANGES IN NET ASSETS
LAST FIVE FISCAL YEARS
(Dollar amounts in thousands)

	Fiscal Year				
	2006	2005	2004	2003	2002
Expenses					
Governmental activities:					
General government	$ 20,171	$ 19,894	$ 17,569	$ 15,454	$ 16,844
Public safety	149,512	145,703	125,837	126,815	106,062
Public works	36,481	33,328	42,848	46,031	30,895
Library	13,545	13,190	11,530	11,594	11,475
Parks and recreation	26,352	19,365	15,854	15,397	16,203
Interest and fiscal charges	4,136	4,346	13,081	11,954	11,186
Total governmental activities expenses	250,197	235,826	226,719	227,245	192,665
Business-type activities:					
Water utility	19,063	14,809	15,548	14,672	13,742
Wastewater utility	36,458	31,607	32,674	29,427	25,743
Stormwater utility	6,009	5,653	6,910	5,657	4,612
Central parking district	3,162	2,487	2,585	2,260	1,978
Other	2,460	2,448	5,022	4,991	4,898
Total business-type activities expenses	67,152	57,004	62,739	57,007	50,973
Total primary government expenses	$ 317,349	$ 292,830	$ 289,458	$ 284,252	$ 243,638
Program Revenues					
Governmental activities:					
Charges for services:					
General government	$ 10,154	$ 11,264	$ 7,962	$ 9,928	$ 6,429
Public safety	37,603	39,329	29,960	46,677	29,272
Public works	35,054	23,733	21,683	8,693	5,675
Library	1,489	1,920	1,859	515	387
Parks and recreation	12,407	9,988	10,050	1,736	1,725
Operating grants and contributions	12,388	9,715	7,924	8,741	8,950
Capital grants and contributions	45,745	44,309	47,789	48,914	27,654
Total governmental activities program revenues	154,840	140,258	127,227	125,204	80,092
Business-type activities:					
Charges for services:					
Water utility	20,268	20,125	18,328	15,576	15,720
Wastewater utility	32,746	31,926	30,483	29,432	27,298
Stormwater utility	5,063	4,751	4,827	4,391	4,288
Central parking district	3,502	2,696	2,694	2,645	2,273
Other	2,284	2,433	4,639	7,428	6,670
Capital grants and contributions	20,324	28,655	31,535	37,765	15,824
Total business-type activities program revenues	84,187	90,586	92,506	97,237	72,073
Total primary government program revenues	$ 239,027	$ 230,844	$ 219,733	$ 222,441	$ 152,165
Net (Expense)/Revenue					
Governmental activities	$ (95,357)	$ (95,568)	$ (99,492)	$ (102,041)	$ (112,573)
Business-type activities	17,035	33,582	29,767	40,230	21,100
Total primary government net expense	$ (78,322)	$ (61,986)	$ (69,725)	$ (61,811)	$ (91,473)

(Continued)

CITY OF STOCKTON

TABLE 2
CHANGES IN NET ASSETS (Continued)
LAST FIVE FISCAL YEARS
(Dollar amounts in thousands)

	Fiscal Year				
	2006	2005	2004	2003	2002
General Revenues and Other Changes in Net Assets:					
Governmental activities:					
Taxes:					
Property	$ 47,495	$ 33,723	$ 28,365	$ 23,449	$ 20,742
In lieu of sales tax	9,274	8,750	-	-	-
Utility user	34,313	34,908	33,322	32,157	31,462
Sales and use	52,004	38,245	40,333	36,628	35,812
Franchise fees	10,333	9,812	5,725	5,623	5,364
Business licenses	11,222	8,960	8,014	7,899	6,691
Hotel/motel room	2,171	2,160	2,030	2,048	2,005
Document transfer	2,010	2,036	1,525	1,043	777
Special assessments	-	-	18,211	18,591	18,135
Other	218	373	187	174	254
Grants and contributions not restricted to specific programs	18,629	16,137	13,338	16,693	15,454
Investment earnings	3,457	5,554	1,243	5,310	7,944
Gain on sale of capital assets	-	-	496	449	99
Miscellaneous	1,010	6,603	1,652	2,896	4,047
Transfers	7,903	8,076	7,553	6,477	5,627
Total governmental activities	200,039	175,337	161,994	159,437	154,413
Business-type activities:					
Other taxes	713	733	675	596	580
Grants and contributions not restricted to specific programs	-	881	-	1,909	6,974
Investment earnings	3,399	3,842	808	4,052	5,864
Gain on sale of capital assets	-	-	76	-	-
Transfers	(7,903)	(8,076)	(7,553)	(6,477)	(5,627)
Total business-type activities	(3,791)	(2,620)	(5,994)	80	7,791
Total primary government	$ 196,248	$ 172,717	$ 156,000	$ 159,517	$ 162,204
Change in Net Assets					
Governmental activities	$ 104,682	$ 79,769	$ 62,502	$ 57,396	$ 41,840
Business-type activities	13,244	30,962	23,773	40,310	28,891
Total primary government	$ 117,926	$ 110,731	$ 86,275	$ 97,706	$ 70,731

Note: Beginning with fiscal year 2006, land secured financings were removed from government-wide financial statements. For comparative purposes, 2005 balances have been restated to reflect this change.

The City of Stockton implemented GASB 34 for the fiscal year ended June 30, 2002. Information prior to the implementation of GASB 34 is not available.

Source: City of Stockton Administrative Services Department

CITY OF STOCKTON

TABLE 3
FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Dollar amounts in thousands)

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General Fund										
Reserved	$ 8,352	$ 6,958	$ 6,117	$ 6,255	$ 6,427	$ 2,444	$ 2,474	$ 1,995	$ 2,350	$ 4,305
Unreserved	23,116	16,506	11,730	11,765	8,642	20,346	13,270	9,341	6,968	8,346
Total General Fund	$ 31,468	$ 23,464	$ 17,847	$ 18,020	$ 15,069	$ 22,790	$ 15,744	$ 11,336	$ 9,318	$ 12,651
All other governmental funds										
Reserved	$ 197,170	$ 246,051	$ 317,874	$ 243,715	$ 127,453	$ 209,926	$ 191,983	$ 174,464	$ 162,387	$ 139,865
Unreserved, reported in:										
Special revenue funds	(20,727)	(57,435)	8,627	14,151	9,585	(1,164)	(5,416)	(952)	(3,512)	(11,739)
Debt service funds	(213)	(42)	(179)	20	(22)	-	-	-	-	13,050
Capital projects funds	(26,296)	(27,487)	(46,437)	(34,948)	71,859	(3,482)	(1,578)	-	-	-
Permanent Fund	252	265	207	230	258	n/a	n/a	n/a	n/a	n/a
Total all other governmental funds	$ 150,186	$ 161,352	$ 280,092	$ 223,168	$ 209,133	$ 205,280	$ 184,989	$ 173,512	$ 158,875	$ 141,176

Note: Beginning with fiscal year 2006 land secured financing were removed from capital projects funds and debt service funds and reported in the Land Secured Financing Agency Fund. For comparative purposes, 2005 balances were restated to reflect this change.

Source: City of Stockton Administrative Services Department

CITY OF STOCKTON

TABLE 4
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Dollar amounts in thousands)

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Revenues:										
Taxes:										
Property	$ 47,495	$ 33,723	$ 28,365	$ 23,449	$ 20,742	$ 19,035	$ 17,584	$ 16,747	$ 16,270	$ 15,820
In lieu of sales tax	9,274	8,750	-	-	-	-	-	-	-	-
Utility user	34,313	34,908	33,322	32,157	31,462	31,188	25,468	24,160	22,994	22,271
Sales and use	52,004	36,951	40,333	36,628	35,812	36,323	31,722	27,265	25,290	23,983
Franchise fees	10,333	9,812	5,725	5,623	5,364	5,255	4,222	4,630	4,056	3,951
Business license	11,222	8,960	8,014	8,065	6,897	6,643	6,133	5,714	5,244	5,459
Hotel/motel room	2,171	2,160	2,030	2,048	2,005	1,994	1,559	1,385	1,280	1,136
Document transfer	2,010	2,036	1,525	1,043	777	692	478	1,095	1,689	1,391
Special assessments	-	-	18,211	18,591	18,135	15,877	15,680	16,591	16,945	17,160
Other	218	193	187	174	254	174	154	132	134	210
Licenses and permits	8,960	11,112	9,977	11,444	5,493	3,758	3,333	2,507	2,337	2,064
Federal grants and subsidies	21,529	10,465	11,301	15,598	9,188	18,073	8,535	11,838	13,269	12,996
Other governmental	52,402	44,737	35,330	40,025	42,250	40,706	38,588	24,804	26,275	18,657
Charges for services	66,443	61,903	57,316	43,181	32,117	26,557	26,044	20,665	19,051	16,789
Fines and forfeitures	3,933	3,250	1,905	1,490	1,552	1,445	1,115	899	511	545
Use of money and property	6,274	3,370	1,640	2,011	1,806	1,416	1,467	1,701	2,170	6,602
Investment income:										
Interest income	2,702	4,686	5,000	5,422	6,686	9,069	6,422	5,654	5,222	-
investments	129	333	(3,824)	(367)	715	2,866	(908)	(1,136)	400	-
Refunds and reimbursements	8,284	5,524	3,213	4,864	3,310	2,822	1,250	7,098	988	5,717
Miscellaneous	8,707	11,662	6,314	8,791	6,661	5,884	7,521	6,414	5,696	4,489
Total revenues	348,403	294,535	265,884	260,237	231,226	229,777	196,367	178,163	169,821	159,240
Expenditures:										
Current:										
General government	23,935	23,520	22,812	16,321	16,182	14,591	13,185	11,498	11,080	11,081
Public safety	157,299	142,211	123,948	112,668	102,626	91,308	85,462	80,322	79,472	77,122
Public works	30,959	27,346	38,122	33,987	15,206	12,721	12,183	10,059	11,152	11,264
Library	13,283	12,391	11,303	10,475	10,403	9,636	8,800	8,443	7,759	7,597
Parks and recreation	25,637	17,931	14,937	13,330	13,433	12,034	10,653	9,638	9,043	8,421
Capital outlay	101,399	108,560	60,827	60,390	60,652	65,957	49,950	32,199	29,317	37,214
Debt service:										
Principal retirement	689	669	8,356	9,654	7,290	7,085	5,198	6,570	5,623	5,855
Cost of issuance	341	22	2,177	983	466	-	-	-	-	-
Interest and fiscal charges	4,314	4,183	12,460	11,937	10,814	10,430	9,479	9,221	10,816	12,615
Total expenditures	357,856	336,833	294,942	269,745	237,072	223,762	194,910	167,950	164,262	171,169
Excess (deficiency) of revenues										
Over (under) expenditures	(9,453)	(42,298)	(29,058)	(9,508)	(5,846)	6,015	1,457	10,213	5,559	(11,929)

(Continued)

CITY OF STOCKTON

TABLE 4
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS (Continued)
LAST TEN FISCAL YEARS
(Dollar amounts in thousands)

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Other financing sources (uses):										
Transfers in	45,192	46,449	64,132	71,393	38,960	28,561	20,609	18,449	29,535	17,424
Transfers out	(38,821)	(39,845)	(59,459)	(65,969)	(35,648)	(27,643)	(20,609)	(18,332)	(28,876)	(17,424)
Operating transfers out to a component unit	-	-	-	-	-	-	(98)	(98)	(98)	(98)
Issuance of long-term debt	14,608	592	79,713	38,110	32,946	6,275	16,945	3,100	17,060	2,280
Proceeds of current refunding bonds	-	-	-	-	-	2,744	11,610	8,775	71,100	40,030
Payment to refunding bond escrow agent - current refunding	-	-	-	-	-	(1,879)	(10,320)	(9,408)	(81,203)	(36,310)
Sales of capital assets	2	2	5	719	-	171	104	35	2	31
Advances from other funds	-	-	-	-	-	-	-	5,733	3,356	1,071
Current refunding	-	-	-	-	-	(680)	(3,000)	-	-	-
Payment to refunded bond escrow agent	(14,604)	-	-	(17,205)	-	-	-	-	-	-
Repayment of advances from other funds	-	-	-	-	-	(867)	(374)	(570)	(1,805)	(650)
Premiums on debt issuances	-	-	1,637	-	-	-	-	-	-	-
Discounts on debt issuances	(86)	-	(219)	(554)	(604)	-	-	-	-	-
Total other financing sources (uses)	6,291	7,198	85,809	26,494	35,654	6,682	14,867	7,684	9,071	6,354
Net change in fund balances	(3,162)	(35,100)	56,751	16,986	29,808	12,697	16,324	17,897	14,630	(5,575)
Fund balances, beginning of year	184,816	219,916	241,188	224,202	194,394	201,332	185,383	167,983	154,328	160,169
Residual equity transfers in	-	-	-	-	-	15,951	-	-	-	-
Residual equity transfers out	-	-	-	-	-	(1,234)	(375)	(497)	(192)	-
Fund balances, end of year	$ 181,654	$ 184,816	$ 297,939	$ 241,188	$ 224,202	$ 228,746	$ 201,332	$ 185,383	$ 168,766	$ 154,594
Debt service as a percentage of noncapital expenditures	2.1%	2.2%	10.9%	12.1%	11.8%	12.5%	11.3%	13.2%	13.9%	16.0%

Beginning with fiscal year 2006, land secured financings were removed from capital projects funds and debt service funds and are reported in the Land Secured Financing Agency Fund. For comparative purposes, 2005 balances have been restated to reflect this change.

Source: City of Stockton Administrative Services Department

CITY OF STOCKTON

TABLE 5
TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Dollar amounts in thousands)

	Fiscal Year										
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	% Change 1997 to 2006
Property (1)	$ 47,495	$ 33,723	$ 28,365	$ 23,449	$ 20,742	$ 19,035	$ 17,584	$ 16,747	$ 16,270	$ 15,820	200%
In lieu of sales tax (2)	9,274	8,750	-	-	-	-	-	-	-	-	100%
Utility user (3)	34,313	34,908	33,322	32,157	31,462	31,188	25,468	24,160	22,994	22,271	54%
Sales & use (4)	52,004	36,951	40,333	36,628	35,812	36,323	31,722	27,265	25,290	23,983	117%
Franchise fees (5)	10,333	9,812	5,725	5,623	5,364	5,255	4,222	4,630	4,056	3,951	162%
Business licenses (6)	11,222	8,960	8,014	8,065	6,897	6,643	6,133	5,714	5,244	5,459	106%
Hotel/motel room	2,171	2,160	2,030	2,048	2,005	1,994	1,559	1,385	1,280	1,136	91%
Document transfer	2,010	2,036	1,525	1,043	777	692	478	1,095	1,689	1,391	45%
Special assessments (7)	-	-	18,211	18,591	18,135	15,877	15,680	16,591	16,945	17,160	-100%
Other	218	193	187	174	254	174	154	132	134	210	4%
Totals	$ 169,040	$ 137,493	$ 137,712	$ 127,778	$ 121,448	$ 117,181	$ 103,000	$ 97,719	$ 93,902	$ 91,381	85%

(1) Property taxes continue to increase due to the addition of the North Stockton Redevelopment Project Area and the growth in new homes and commercial development.

(2) Effective with fiscal year 2005, the City began receiving property tax in-lieu of sales tax under provisions of Proposition 1A approved by the voters of the State of California.

(3) The Council approved a resolution in fiscal year 2005 to reduce the utility user tax rate from 8% to 6%, with the final reduction from 7% to 6% effective July 1, 2006.

(4) Measure W, Public Safety Tax, approved an additional .25% sales tax which was effective April 1, 2005 to hire 40 additional police officers and 40 additional firefighters.

(5) Contracts effective June 1, 2004 increased garbage haulers franchise fees.

(6) Business license revenue increased in 2006 based on the one-time revenue generated through the Voluntary Compliance Program.

(7) Beginning with fiscal year 2006, land secured financings were removed from the debt service funds and reported in the Land Secured Financing Agency Fund. For comparative purposes, 2005 balances have been restated to reflect this change.

Source: City of Stockton Administrative Services Department

CITY OF STOCKTON

TABLE 6
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(Dollar amounts in thousands)

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Secured roll	$ 16,860,177	$ 14,398,725	$ 12,567,832	$ 11,300,938	$ 10,201,671	$ 8,719,177	$ 8,347,987	$ 8,165,852	$ 7,995,188	$8,001,731
Utility roll	15,883	16,316	15,054	12,683	13,536	15,364	17,038	14,893	11,644	11,523
Unsecured roll	1,127,627	1,015,499	951,164	904,354	834,424	799,923	775,627	786,120	783,505	801,470
Gross assessed value	18,003,687	15,430,540	13,534,050	12,217,975	11,049,631	9,534,464	9,140,652	8,966,865	8,790,337	8,814,724
Less exemptions (1)	1,185,310	1,111,509	1,061,968	1,003,662	952,815	902,578	780,309	755,604	733,337	710,256
Net assessed value	16,818,377	14,319,031	12,472,082	11,214,313	10,096,816	8,631,886	8,360,343	8,211,261	8,057,000	8,104,468
Land	4,811,339	4,104,660	3,532,906	3,132,565	2,756,278	2,439,069	2,373,758	2,329,276	2,297,478	2,348,413
Improvements	12,251,910	10,509,572	9,220,951	8,350,637	7,579,417	6,381,458	6,089,228	5,984,645	5,848,754	5,802,491
Personal property	940,438	816,308	780,193	734,773	713,936	713,937	677,666	652,944	644,105	663,820
Gross assessed value	18,003,687	15,430,540	13,534,050	12,217,975	11,049,631	9,534,464	9,140,652	8,966,865	8,790,337	8,814,724
Less exemptions (1)	1,185,310	1,111,509	1,061,968	1,003,662	952,815	902,578	780,309	755,604	733,337	710,256
Net assessed value	$ 16,818,377	$ 14,319,031	$ 12,472,082	$ 11,214,313	$ 10,096,816	$ 8,631,886	$ 8,360,343	$ 8,211,261	$ 8,057,000	$ 8,104,468

(1) Exemptions are: homeowners - $268,961 and other - $916,349.

Note: In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the property being sold is reassessed at the purchase price. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Source: San Joaquin County Auditor/Controller's Office

CITY OF STOCKTON

TABLE 7
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS
(Rate per $100 of assessed value)

Fiscal Year	Basic Countywide Levy	City	Total Direct	Stockton Unified School District (1)	Groundwater Investigation (2)	Total
2006	1.0000	-	1.0000	0.0679	-	1.0679
2005	1.0000	-	1.0000	0.0679	-	1.0679
2004	1.0000	-	1.0000	0.0571	-	1.0571
2003	1.0000	-	1.0000	0.0206	-	1.0206
2002	1.0000	-	1.0000	0.0277	-	1.0277
2001	1.0000	-	1.0000	-	-	1.0000
2000	1.0000	-	1.0000	0.0003	0.0034	1.0037
1999	1.0000	-	1.0000	0.0206	0.0034	1.0240
1998	1.0000	-	1.0000	0.0103	0.0034	1.0137
1997	1.0000	-	1.0000	0.0223	0.0034	1.0257

(1) Stockton Unified School District Building Loan Repayment.

(2) Approved by the San Joaquin County Board of Supervisors for testing groundwater quality and investigating causes of contamination. Effective July 1, 2000 groundwater investigation is being charged as a benefit assessment.

Note: On June 6, 1978, California voters approved an amendment to the Article XIIIA of the California Constitution. The amendment, commonly known as Proposition 13, limits the taxing power of California public agencies. The California Legislature enacted legislation to implement Article XIIIA (Statues of 1978, Chapter 292, as amended) providing that local agencies may not levy any property tax except to pay debt service on indebtedness approved by voters prior to July 1, 1978, and that each county will levy the maximum tax permitted of $1.00 per $100.00 of full assessed value.

Source: San Joaquin County Tax Rate Book, 2006

CITY OF STOCKTON

TABLE 8
PRINCIPAL PROPERTY TAX PAYERS
CURRENT YEAR AND NINE YEARS AGO
(Dollar amounts in thousands)

	Fiscal Year 2006			Fiscal Year 1997		
Taxpayer	Taxable Assessed Value	Rank	Percent of Total City Taxable Assessed Value (1)	Taxable Assessed Value	Rank	Percent of Total City Taxable Assessed Value
Corn Products International Inc aka CPC Inc International	$ 68,680	1	0.407 %	$ 101,246	1	1.265 %
Diamond Walnut Growers Inc	55,535	2	0.329	49,480	3	0.618
Simpson Manufacturing Co Inc	46,566	3	0.276	-		-
Levine Investments Ltd PTP/Pacific Companies	42,624	4	0.253	-		-
Unilever Supply Chain Inc/Unilever Bestfoods	39,134	5	0.232	-		-
Pavilions Apartments LP/Sentinel Real Estate Corp	38,470	6	0.228	-		-
POSDEF Power Co.	33,820	7	0.201	29,553	5	0.369
Tru Properties Inc - Toys R Us Inc	33,364	8	0.198	17,940	9	0.224
Stockton Logistics LLC	31,344	9	0.186	-		-
Inland Western Stockton Airport Way LLC/Cost Plus Inc	31,322	10	0.186	-		-
Kaiser Foundation Hospital	-		-	82,150	2	1.027
Newark Group, Industries Inc.	-		-	32,564	4	0.407
Cargill Incorporated	-		-	21,605	6	0.270
American Savings Bank	-		-	21,044	7	0.263
American Honda Motor Company	-		-	19,044	8	0.238
Ins USA, Inc.	-		-	17,734	10	0.222
Principal Secured Property Valuation	420,859		2.496	392,360		4.903
Other Secured Taxpayers	17,591,410		104.337	8,319,627		103.973
Exemptions relative to secured tax roll	1,152,092		6.833	710,256		8.876
Total Secured Property Valuation	$ 16,860,177		100.000 %	$ 8,001,731		100.000 %

(1) Exemptions relative to secured tax roll are: homeowners - $268,803 and other - $883,289

Note: In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Source: San Joaquin County Assessor's Office
San Joaquin County Auditor/Controller

CITY OF STOCKTON

TABLE 9
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Dollar amounts in thousands)

Fiscal Year	Taxes Levied for the Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy (1)		Amount	Percent of Levy
2006	$ 30,661	$ 30,661	100 %	-	$ 30,661	100 %
2005	26,685	26,685	100	-	26,685	100
2004	23,498	23,498	100	-	23,498	100
2003	20,176	20,176	100	-	20,176	100
2002	18,056	18,056	100	-	18,056	100
2001	16,132	16,132	100	-	16,132	100
2000	15,164	15,164	100	-	15,164	100
1999	14,518	14,518	100	-	14,518	100
1998	14,268	14,268	100	-	14,268	100
1997	13,626	13,626	100	-	13,626	100

(1) Per agreement with San Joaquin County; the County provides the City of Stockton with 100% of the amount owed to the City of Stockton for secured properties, regardless of collection status. In exchange, the County is entitled to 100% of revenues collected.

Source: San Joaquin County Auditor/Controller's Office

CITY OF STOCKTON

TABLE 10
WATER SOLD BY TYPE OF CUSTOMER
FOR FISCAL YEAR ENDED JUNE 30, 2006

	Fiscal Year
	2006
Type of Customer	
Residential	44,137 hcf
Institutional	1,473 hcf
Commercial/industrial	14,143 hcf
Irrigation	11,026 hcf
Total	70,779 hcf

hcf = 100 cubic feet (748 gallons)

Note: The City of Stockton implemented GASB 44 for the fiscal year ended June 30, 2006. Information prior to the implementation of GASB 44 is not available.

Source: City of Stockton Administrative Services Department

CITY OF STOCKTON

TABLE 11
WATER AND WASTEWATER RATES
LAST TEN FISCAL YEARS

Fiscal Year	Water		Wastewater
	Monthly Base Rate	Per 100 cf	Monthly Base Rate
2006	$ 15.10	$ 0.74	$ 20.00
2005	14.55	0.71	19.30
2004	14.20	0.69	18.80
2003	13.79	0.67	18.33
2002	13.79	0.67	18.33
2001	13.79	0.67	18.33
2000	13.79	0.67	18.33
1999	13.79	0.67	18.33
1998	13.79	0.67	18.33
1997	13.79	0.67	17.56

KEY: cf = cubic foot (7.48 gallons)

Rates are based on 3/4" meter, which is the standard household meter size.

The utility charges an excess use rate above normal demand.

Source: City of Stockton Administrative Services Department

CITY OF STOCKTON

TABLE 12
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(Dollar amounts in thousands, except per capita)

Fiscal Year	Governmental Activities: Revenue Bonds (1)	Certificates of Participation	Redevelopment Agency Revenue Bonds	Notes Payable	Special Assessment/Mello Roos Bonds (1)	Total Governmental Activities	Business-type Activities: Revenue Bonds	Certificates of Participation	Notes Payable	Mello-Roos Bonds	Special Assessment Bonds	Total Business-type Activities	Total Primary Government	Percent of Personal Income (2)	Per Capita (2)
2006	$ 13,965	$ 13,300	$ 47,000	$ 13,024	$ -	$ 87,289	$ 69,910	$ 103,635	$ 787	$ -	$ -	$ 174,332	$ 261,621	1.50 %	$ 915
2005	-	27,330	47,000	12,835	-	87,165	46,166	105,965	1,007	-	-	153,138	240,303	1.38	860
2004	145,060	27,550	-	12,692	106,927	292,229	46,625	108,215	1,219	-	-	156,059	448,288	2.70	1,666
2003	102,720	27,760	-	8,270	82,122	220,872	14,280	109,855	1,421	6,180	-	131,736	352,608	2.27	1,349
2002	109,415	14,665	-	8,680	76,861	209,621	14,280	111,690	1,634	6,180	210	133,994	343,615	2.33	1,354
2001	111,005	14,860	-	-	51,486	177,351	-	129,235	1,823	-	7,005	138,063	315,414	2.21	1,256
2000	115,145	14,860	-	-	47,822	177,827	-	131,370	2,009	-	7,970	141,349	319,176	2.32	1,291
1999	106,941	-	-	-	59,995	166,936	-	133,415	2,190	-	9,040	144,645	311,581	2.47	1,279
1998	110,830	-	490	-	59,115	170,435	-	134,035	7,810	-	10,050	151,895	322,330	2.72	1,342
1997	24,945	-	945	-	138,583	164,473	-	76,480	7,977	-	11,000	95,457	259,930	2.32	1,099

Details regarding the City's outstanding debt can be found in the Note 7 on pages 58-67 of these financial statements.

(1) Beginning with fiscal year 2006, land-secured financings were removed from the City's government-wide financial statements and are no longer reported as governmental activities debt. For comparative purposes, 2005 balances were restated to reflect this change. For fiscal years 2004 and prior, the balances of land-secured financings are reflected in the balances reported above as revenue bonds, special assessment bonds, and Mello-Roos bonds of the governmental activities.

(2) See Table 17 for personal income and population data. These ratios are calculated using the latest available data, personal income for fiscal year 2005 and population for fiscal year 2006.

Source: City of Stockton Administrative Services Department

CITY OF STOCKTON

TABLE 13
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
(Dollar amounts in thousands, except per capita)

Fiscal Year	General Bonded Debt Outstanding: Lease Revenue Bonds	Certificates of Participation	Redevelopment Agency Bonds	Total	Percent of Assessed Value (1) of Property	Per Capita
2006	$ 13,965	$ 13,300	$ 47,000	$ 74,265	0.004 %	$ 0.259
2005	-	27,330	47,000	74,330	0.005	0.266
2004	-	27,550	47,000	74,550	0.006	0.277
2003	-	27,760	-	27,760	0.002	0.106
2002	-	14,665	-	14,665	0.001	0.058
2001	-	14,860	-	14,860	0.002	0.059
2000	-	14,860	-	14,860	0.002	0.060
1999	-	-	-	-	-	-
1998	-	-	490	490	0.000	0.002
1997	-	-	945	945	0.000	0.004

General bonded debt is debt payable with governmental fund resources and general obligation bonds recorded in enterprise funds (of which, the City has none).

(1) Assessed value has been used because the actual value of taxable property is not readily available in the State of California.

Source: City of Stockton Administrative Services Department

CITY OF STOCKTON

TABLE 14
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

OVERLAPPING TAX AND ASSESSMENT DEBT:	Total Debt 6/30/2006	Percentage Applicable (1)	City's share of Debt 6/30/06
Stockton Unified School District	$ 136,295,000	82.285 %	$ 112,150,341
Lodi Unified School District	96,190,000	34.397	33,086,474
Lincoln Unified School District	29,999,380	87.782	26,334,056
Lincoln Unified School District Community Facilities District No. 1	29,445,814	82.215	24,208,876
Manteca Unified School District	44,157,796	21.953	9,693,961
Manteca Unified School District Community Facilities District No. 1989-1	38,876,013	100.000	38,876,013
City of Stockton Community Facilities District No. 1	31,985,000	100.000	31,985,000
City of Stockton Community Facilities District No. 90-1	6,690,000	97.662	6,533,588
City of Stockton Community Facilities District No. 90-2	28,350,000	100.000	28,350,000
City of Stockton Community Facilities District No. 90-4	12,106,336	100.000	12,106,336
City of Stockton Community Facilities District No. 96-1	4,170,000	100.000	4,170,000
City of Stockton Community Facilities District No. 99-02	6,260,000	100.000	6,260,000
City of Stockton Community Facilities District No. 2001-1 (Spanos Park West)	21,635,000	100.000	21,635,000
City of Stockton Community Facilities District No. 2003-1	3,195,000	100.000	3,195,000
City of Stockton 1915 Act Bonds	73,505,000	100.000	73,505,000
Reclamation District No. 2042 Community Facilities District No. 2001-1	7,615,000	18.211	1,386,768
San Joaquin Area Flood Control Assessment District	18,130,000	82.050	14,875,665
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			$ 448,352,078
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
San Joaquin County Certificates of Participation	$ 130,500,000	34.423 %	$ 44,922,015
San Joaquin Delta Community College District Certificates of Participation	83,227,710	31.309	26,057,764
Lincoln Unified School District Certificates of Participation	3,495,000	87.782	3,067,981
Lodi Unified School District Certificates of Participation	37,030,000	34.397	12,737,209
Stockton Unified School District Certificates of Participation	25,466,955	82.285	20,955,484
City of Stockton General Fund Obligations	**107,050,000**	**100.000**	**107,050,000**
South San Joaquin Irrigation District Certificates of Participation	5,830,000	1.377	80,279
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT			$ 214,870,732
Less: South San Joaquin Irrigation District (100% self-supporting)			80,279
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			$ 214,790,453
GROSS COMBINED TOTAL DEBT			$ 663,222,810 (2)
NET COMBINED TOTAL DEBT			$ 663,142,531

2005-06 Assessed Valuation: $ 15,761,939,497
(after deducting $1,325,398,209 redevelopment incremental valuation and other exemptions of $916,349,380)

2005-06 Population 286,041

Debt Ratios		Per Capita	Ratio to Assessed Value
Total Gross Debt	$ 663,222,810	$ 2,319	4.21%
Total Net Debt	$ 663,142,531	$ 2,319	4.21%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/06: $7,039

(1) Percent of overlapping agency's assessed valuation located within boundaries of the city.

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

Sources: California Municipal Statistics, Inc., San Francisco, CA
San Joaquin County Auditor/Controller's Office
State of California, Department of Finance, Demographic Research Unit

CITY OF STOCKTON

TABLE 15
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(Dollar amounts in thousands)

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Assessed valuation (1)	$ 15,761,940	$ 14,037,055	$ 12,313,597	$ 11,246,185	$ 10,192,890	$ 8,699,045	$ 8,449,173	$ 8,318,150	$ 8,175,580	$ 8,224,414
Conversion percentage	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Adjusted assessed valuation	3,940,485	3,509,264	3,078,399	2,811,546	2,548,223	2,174,761	2,112,293	2,079,538	2,043,895	2,056,104
Debt limit percentage	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Debt Limit	591,073	526,390	461,760	421,732	382,233	326,214	316,844	311,931	306,584	308,416
Total net debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	$ 591,073	$ 526,390	$ 461,760	$ 421,732	$ 382,233	$ 326,214	$ 316,844	$ 311,931	$ 306,584	$ 308,416
Total net debt applicable to the limit as a percent of debt limit	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1982 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the state.

(1) Reflects City assessed valuation with Redevelopment tax increments of $1,325,398 and other exemptions of $916,349 deducted.

Source: City of Stockton Administrative Services Department

CITY OF STOCKTON

TABLE 16
PLEDGED-REVENUE COVERAGE
LAST TEN FISCAL YEARS
(Dollars amounts in thousands)

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
Water Revenue Bonds							
2006	$ 21,130	$ 15,631	$ 5,499	$ 486	$ 1,050	$1,536	3.58
2005	20,690	12,158	8,532	460	647	1,107	7.71
2004	18,391	13,324	5,067	440	671	1,111	4.56
2003	16,332	12,320	4,012	-	614	614	6.53
2002	16,943	11,295	5,648	-	887	887	6.37
2001	16,161	11,305	4,856	355	906	1,261	3.85
2000	14,616	9,873	4,743	335	922	1,257	3.77
1999	13,814	10,294	3,520	320	938	1,258	2.80
1998	13,277	9,794	3,483	305	952	1,257	2.77
1997	13,291	8,560	4,731	295	964	1,259	3.76
Wastewater Certificates of Participation							
2006	34,877	22,357	12,520	2,330	5,044	7,374	1.70
2005	34,603	17,526	17,077	2,250	5,126	7,376	2.32
2004	31,222	22,418	8,804	1,640	5,079	6,719	1.31
2003	32,413	22,949	9,464	1,935	5,583	7,518	1.26
2002	31,313	20,859	10,454	1,855	5,661	7,516	1.39
2001	33,206	18,430	14,776	1,780	5,736	7,516	1.97
2000	32,973	20,504	12,469	1,710	5,807	7,517	1.66
1999	34,255	20,090	14,165	300	5,931	6,231	2.27
1998	32,141	20,139	12,002	885	2,297	3,182	3.77
1997	28,537	19,167	9,370	845	3,757	4,602	2.04

(Continued)

CITY OF STOCKTON

TABLE 16
PLEDGED-REVENUE COVERAGE (Continued)
LAST TEN FISCAL YEARS
(Dollars amounts in thousands)

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
Central Parking District Lease Revenue Bonds							
2006	4,527	2,021	2,506	-	1,653	1,653	1.52
2005	3,873	1,957	1,916	-	1,130	1,130	1.70
2004	3,337	1,861	1,476	6,180	385	6,565	0.22
2003	3,283	1,359	1,924	210	301	511	3.77
2002	2,949	1,245	1,704	6,799	245	7,044	0.24
2001	2,453	1,192	1,261	555	553	1,108	1.14
2000	2,353	1,082	1,271	515	573	1,088	1.17
1999	2,230	1,087	1,143	490	606	1,096	1.04
1998	2,149	986	1,163	465	637	1,102	1.06
1997	2,013	982	1,031	435	666	1,101	0.94

Includes all nongeneral obligation long term debt backed by pledged revenues.

Details regarding the City's outstanding debt can be found in the Note 7 on pages 58-67 of these financial statements.

(1) Total revenues (including investment earnings) exclusive of capital contributions.

(2) Total operating expenses exclusive of depreciation and amortization.

Source: City of Stockton Administrative Services Department

CITY OF STOCKTON

TABLE 17
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS

Fiscal Year	Population	Personal Income (millions of dollars)	Per Capita Personal Income	Unemployment Rate	Labor Force	Total Housing Units	Household Average Size	Median Family Income	School Enrollment
2006	286,041	n/a	n/a	7.2 %	120,000	94,409	3.05	$57,100	77,982
2005	279,513	$ 17,387	$ 26,181	9.4	119,214	91,725	3.13	55,300	72,097
2004	269,100	16,573	25,527	9.6	118,127	88,826	3.11	55,100	67,674
2003	261,300	15,543	24,620	11.0	121,133	85,988	3.12	50,600	61,853
2002	253,800	14,747	24,150	10.2	116,126	84,303	3.08	47,500	61,006
2001	251,100	14,281	24,086	8.2	111,767	82,798	3.06	46,900	57,970
2000	247,300	13,757	24,209	8.3	109,226	82,042	3.04	45,400	59,451
1999	243,700	12,632	22,867	10.2	106,349	80,465	3.03	44,300	64,059
1998	240,100	11,859	21,952	12.6	103,480	80,207	2.99	43,700	62,389
1997	236,500	11,207	21,071	12.9	102,228	77,608	3.04	42,600	59,555

Personal income is the income received by all persons from all sources. Personal income is the sum of net earnings by place of residence, rental income of persons, personal dividend income, personal interest income, and personal current transfer receipts.

Per capita personal income is calculated as the personal income of residents of a given area divided by the resident population of the area. In computing per capita personal income, Bureau of Economic Analysis uses the Census Bureau's annual midyear population estimates.

Sources: City of Stockton: Administrative Services Department, Community Development, Economic Development
Bureau of Economic Analysis
US Dept of Commerce
US Dept of HUD
CA Dept of Finance

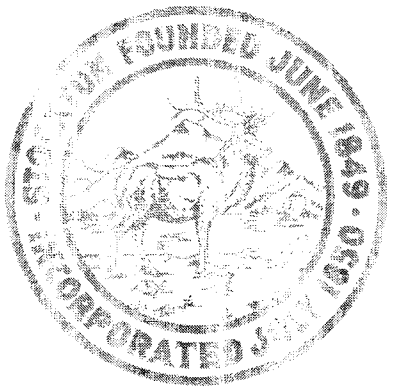
CITY OF STOCKTON

TABLE 18
PRINCIPAL PRIVATE EMPLOYERS
FOR FISCAL YEAR ENDED JUNE 30, 2006

	Fiscal Year 2006		
Employer	Employees	Rank	Percent of Total City Employment
St. Joseph's Medical Center	2,800	1	2.33 %
Dameron Hospital	1,200	2	1.00
Washington Mutual	1,000	3	0.83
University of the Pacific	974	4	0.81
Pacific Gas and Electric	879	5	0.73
Kaiser Permanente	760	6	0.63
Diamond Walnut	715	7	0.60
San Joaquin Delta College	650	8	0.54
The Grupe Company	500	9	0.42
AT&T	500	10	0.42
Total	9,978		8.32

Note: The City of Stockton implemented GASB 44 for the fiscal year ended June 30, 2006. Information prior to the implementation of GASB 44 is not available.

Source: City of Stockton Economic Development Department



CITY OF STOCKTON

TABLE 19
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES
BY FUNCTION/PROGRAM/DEPARTMENT
FOR FISCAL YEAR ENDED JUNE 30, 2006

	Fiscal Year 2006
Function/Program/Department:	
Administrative Services	86
City Attorney	18
City Auditor	5
City Clerk	8
City Council	3
City Manager	27
Community Development	46
Human Resources	24
Office of Economic Development	24
Police:	
Sworn	408
Non-sworn	205
Animal control	18
Fire:	
Firefighters-sworn	275
Firefighters-auxiliary	25
Non-sworn personnel	32
Paramedic teams (2 per team)	13
Public Works	168
Library	86
Parks and Recreation	99
Water Utility	3
Wastewater Utility	12
Stormwater Utility	2
Central Parking District	2
Total	1,589

Note: The City of Stockton implemented GASB 44 for the fiscal year ended June 30, 2006. Information prior to the implementation of GASB 44 is not available.

Source: City of Stockton

TABLE 20
OPERATING INDICATORS BY FUNCTION/PROGRAM/DEPARTMENT
FOR FISCAL YEAR ENDED JUNE 30, 2006

	Fiscal Year 2006
General government:	
Building permits issued	7,579
Business tax certificates:	
Retail sales and service	9,283
Manufacturers and processors	206
Professions	2,286
Miscellaneous contractors, peddlers, delivery vehicles, etc.	5,640
Improvement district and hotel/motel room tax	257
Utility billing/customer service:	
Utility bills issued	431,056
Utility accounts opened and closed	20,284
New service locations (water) added	1,778
Utility customer service calls received	125,179
Utility customers using automated voice response	32,985
Miscellaneous accounts receivable bills issued	18,788
Public safety:	
Police:	
Major reported crimes	23,123
Total arrests	24,412
Dispatched calls for service	169,605
Fire:	
Interior structure fire calls	481
Non-structural fire calls	1,795
Hazardous materials calls	673
Emergency medical calls	24,218
Total emergency calls	36,321
Total number of units dispatched	56,655
Public works:	
Miles of streets resurfaced	33
Fleet job orders completed	14,363
Library:	
Registered borrowers	246,983
Circulation of library materials	2,073,852
Reference, research and informational questions answered	336,650
Annual attendance at libraries	1,587,653
Number of programs offered	2,003
Annual attendance at programs	53,222
Parks and recreation:	
Golf rounds:	
Lyons golf course	23,513
Swenson Park golf course	59,670
Van Buskirk golf course	24,180

(Continued)

TABLE 20
OPERATING INDICATORS BY FUNCTION/PROGRAM/DEPARTMENT (Continued)
FOR FISCAL YEAR ENDED JUNE 30, 2006

	Fiscal Year 2006
Trees planted	882
Heritage tree removal-permits issued	16
After school program registration (number of participants/sites)	82,000 @ 54 sites
Day camps in winter (number of participants)	114
Day camps in summer (number of participants)	2,359
Day camps at Children's Museum (number of participants)	2,131
Mobile recreation programs (number of participants)	800
Instructional classes	132
Softball/baseball diamonds bookings	2,773
Showmobile bookings	31
Community center bookings	12
Picnic facility bookings	583
Adult sports (number of teams):	
Softball	610
Basketball	52
Volleyball	10
Youth sports (basketball, track, soccer, baseball, volleyball, flag football) (number of participants)	12,499
Admissions to:	
Pixie Woods	42,320
Swimming pools	12,720
Teen Center	15,000
Silver Lake	1,798
Children's Museum	55,969
Senior Center memberships	469
Civic Auditorium bookings	309
Parks and Recreation sponsored events	9
Philomathean Club bookings	6
Weber Point Events Center bookings	27
Water utility:	
New connections	2,563
Water main breaks	20
Wastewater utility:	
Average daily treatment (million gal/day)	35 mgd

Note: The City of Stockton implemented GASB 44 for the fiscal year ended June 30, 2006. Information prior to the implementation of GASB 44 is not available.

Source: City of Stockton

CITY OF STOCKTON

TABLE 21
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM/DEPARTMENT
LAST TWO FISCAL YEARS

	Fiscal Year 2006	2005
General government:		
Land use-square miles:		
Residential	33.29	32.93
Mixed use	1.62	1.62
Commercial	5.92	4.99
Industrial	10.99	10.97
Institutional	4.86	4.86
All other uses	3.71	3.26
Total square miles	60.39	58.63
Public safety:		
Police:		
Facilities:		
Stations and substations	5	4
Animal control facility	1	1
Police training facility (pistol range)	1	1
Vehicles:		
Marked patrol cars	119	127
Motorcycles and scooters	30	27
Animal control vehicles	9	9
VIPS vehicles	5	5
Other automobiles	125	122
Other mobile units (all others)	37	37
Public area security cameras	32	23
Fire:		
Fire stations	13	13
Training facilities	1	1
Fire hydrants	8,338	7,087
Public works:		
Miles of streets	734	706
Traffic signals	284	278
Street lights	19,164	n/a

(Continued)

CITY OF STOCKTON

TABLE 21
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM/DEPARTMENT (Continued)
LAST TWO FISCAL YEARS

	Fiscal Year 2006	2005
Parks and recreation:		
Parks and squares	62	62
Park acreage	619	614
Boating facilities - launch lanes	10	10
Municipal golf courses	4	4
Golf course acreage	408	408
Family camps	1	1
Senior center	1	1
Ice rink	1	1
Community centers	6	5
Swimming pools	5	4
Baseball/softball diamonds	43	42
Tennis courts	67	65
Skateboard park	1	1
Bike/jogging paths (miles)	20	19
Group picnic areas	26	24
Teen Center	1	1
Civic Auditorium (2,800 capacity)	1	1
Showmobile	2	2
Playgrounds	66	n/a
Children's Museum	1	1
Weber Point Events Center	1	1
Philomathean Club	1	1
Gymnasium	1	-
Arena	1	n/a
Ballpark	1	1
Theater (Bob Hope)	1	1
Consolidated landscape maintenance districts:		
Streetscaping (square feet)	1.9 million	n/a
Public open spaces (acreage)	63	n/a

(Continued)

TABLE 21
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM/DEPARTMENT (Continued)
LAST TWO FISCAL YEARS

	Fiscal Year 2006	2005
Library:		
Central library	1	1
City branches	3	3
Library mobile units	2	2
San Joaquin County branches	7	7
Total items in collection	1,055,726	1,152,475
Cargo delivery van	1	1
Cargo van	1	1
Undeveloped land for branch library	2	2
Integrated library system	1	1
Microform readers	5	5
Microform readers/printers	3	3
Self check out machines	13	13
Water utility:		
Water main lines	520	480
Storage capacity (thousand gallons)	15,800	15,800
Water wells	39	37
Water reservoirs	5	5
Wastewater utility:		
Wastewater main lines (miles)	875	820
Treatment capacity (million gals/day)	42	42
Wastewater pump stations	24	24
Stormwater utility:		
Stormwater main drain lines (miles)	584	550
Stormwater pump stations	72	72
Central parking district:		
Parking spaces	8,497	n/a
Parking lots	18	n/a

Note: The City of Stockton implemented GASB 44 for the fiscal year ended June 30, 2006. Information for 2005 was presented where available.

Source: City of Stockton Departments

CITY OF STOCKTON

SINGLE AUDIT SECTION

The purpose of the single audit is to ensure compliance with the requirements associated with the federal grant programs in which the City participates. The single audit encompasses all federal awards received directly from federal agencies as well as federal awards passed through other government agencies.

MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300
Sacramento, CA 95816

2175 N California Boulevard, Suite 645
Walnut Creek, CA 94596

515 S. Figueroa Street, Suite 325
Los Angeles, CA 90071

402 West Broadway, Suite 400
San Diego, CA 92101

City Council
City of Stockton
Stockton, California

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

Compliance

We have audited the compliance of the City of Stockton, California (City) 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, 2006. The City'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's management. Our responsibility is to express an opinion on the City'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; 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'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 on the City's compliance with those requirements.

In our opinion, the City 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, 2006.

Internal Control Over Compliance

The management of the City 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'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 internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

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, as of and for the fiscal year ended June 30, 2006, and have issued our report thereon dated October 9, 2006. Our report contained explanatory paragraphs discussing the City's implementation of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 46, *Net Assets Restricted by Enabling Legislation* and the City's change in how it accounts for its land-secured financing. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
October 9, 2006

MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300
Sacramento, CA 95816

2175 N. California Boulevard, Suite 645
Walnut Creek, CA 94596

515 S. Figueroa Street, Suite 375
Los Angeles, CA 90071

402 West Broadway, Suite 400
San Diego, CA 92101

City Council
City of Stockton
Stockton, California

INDEPENDENT AUDITOR'S 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*

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Stockton, California (City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 9, 2006. Our report contained explanatory paragraphs discussing the City's implementation of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 46, *Net Assets Restricted by Enabling Legislation* and the City's change in how it accounts for its land-secured financing. 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'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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
October 9, 2006

CITY OF STOCKTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar Amounts in Thousands)

Federal Department / Federal Agency Pass-Through Agency (if not direct) Program Title	CFDA No	Grant Period	Grant Number	Receipts Federal	Receipts Local	Expenditures Federal	Expenditures Local
Department of Commerce							
Direct							
South Stockton Aqueduct	11.300	3/11/04-3/11/09	07-01-05485	$ 4,977	$ -	$ 4,977	$ -
Department of Housing and Urban Development							
Direct							
Community Development Block Grants/ Entitlement Grants	14.218	07/01/05-06/30/06	B-05-MC-06-0026	7,150	-	7,280	-
Community Development Block Grants/ Entitlement Grants	14.218		program income	24	-	387	-
Total Community Development Block Grants Entitlement Grants				7,174	-	7,667	-
Emergency Shelter Grants Program	14.231	07/01/05-06/30/06	S-05-MC-06-0026	256	-	170	-
HOME Investment Partnerships Program	14.239	07/01/05-06/30/06	M-05-MC-06-0021	2,828	-	1,793	-
Economic Development Block Grant (EDI)	14.246	01/01/01-	B-98-ED-06-0050	211	-	393	-
Special Economic Development Block Grant	14.246	01/01/01-	B-02-SP-CA-0108	290	-	-	-
Total Community Development Block Grants/ Brownfield Economic Development Initiative				501	-	393	-
Community Development Block Grants - Section 108 Loan Guarantees	14.248	07/01/05-06/30/06	B-03-MC-06-0026	200	-	200	-
Housing Authority of the County of San Joaquin							
Public Housing Drug Elimination Program P D	14.854	01/01/05-12/31/05	CA-024	150	-	210	-
Total Department of Housing and Urban Development				11,109	-	10,433	-
Department of Interior							
Direct							
Historic Preservation Fund Grants-In-Aid	15.904	06/01/03-12/31/05	06-03-ML-1305	25	-	13	-
Urban Parks and Recreation Recovery Grant	15.919	10/29/02-10/29/05	06CTY37700201	-	-	506	-
Total Department of Interior				25	-	519	-
Department of Justice							
Direct							
Local Law Enforcement Block Grants	16.592	07/01/05-06/30/07		-	-	74	-
Local Law Enforcement Block Grants	16.592	12/14/04-12/15/06	2004-LB-BX-1398	-	-	127	-
Local Law Enforcement Block Grants	16.592	10/30/03-10/29/05	2003-LB-BX-1816	-	-	19	-
Total Local Law Enforcement Block Grants Program				-	-	220	-
State of California Board of Corrections							
Peacekeeper Enhancements	16.523	07/01/03-06/30/04	IP03018019	(76)	-	(76)	-
Peacekeeper Enhancements	16.523	07/01/04-06/30/05	BDC 182-04	82	-	-	-
Peacekeeper Enhancements	16.523	07/01/05-06/30/06	CSA 182-05	15	1	15	1
Total Juvenile Accountability Incentive Block Grants				21	1	(61)	1
State of California Office of Emergency Services							
Special Unit Combating Violence Against Women	16.588	07/01/04-06/30/05	LE04028019	21	-	-	-
Special Unit Combating Violence Against Women	16.588	07/01/05-06/30/06	LE05028019	79	32	96	32
Total Special Unit Combating Violence Against Women				100	32	96	32
San Joaquin County District Attorney's Office							
Cracnet Grant	16.579	07/01/04-06/30/05	DC03140390	91	-	-	-
Cracnet Grant	16.579	07/01/05-06/30/06		140	-	123	-
Litigated Asset Seizures	16.579			200	-	133	-
Total				431	-	256	-
Total Department of Justice				552	33	511	33

See notes to the schedule of expenditures of federal awards.

CITY OF STOCKTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar Amounts in Thousands)

Federal Department / Federal Agency Pass-Through Agency (if not direct) Program Title	CFDA No	Grant Period	Grant Number	Receipts Federal	Receipts Local	Expenditures Federal	Expenditures Local
Department of Transportation							
State Department of Transportation							
ISTEA-Charter Way Enhancements	20.205		STPLE-5008(026)	-	(254)	-	(254)
ISTEA-Pershing/Smith Canal Bridge	20.205	12/27/96-	BHLS-5008(029)	31	1	3	1
ISTEA-Pacific/Calaveras Bridge	20.205	02/13/97-06/30/06	STPLZ-5008(031)	598	259	277	259
ISTEA-March Ln/El Dorado Traffic Signal	20.205	07/24/01-	CML-5008(050)	165	8	80	8
ISTEA-Swain/Pacific Ave UPRR Traffic Xing	20.205	07/24/01-	STPLH-5008(052)	2	-	-	-
ISTEA-Mormon Slough/Airport Way Bridge	20.205	03/13/03-	BHLS-5008(053)	28	2	(1)	2
ISTEA-Davis Rd/Pixley Slough Bridge	20.205	03/27/03-	BRLS-5008(055)	125	43	59	43
ISTEA-Traffic Signals Control	20.205	6/25/02-	CML-STPL-5008(020)/(057)	20	203	130	203
ISTEA-Sperry Rd - Perf/French Camp	20.205	08/26/02-	NCPD-5008(059)	272	136	235	136
ISTEA-Pacific Ave/Miracle Mile Beaut	20.205	08/26/02-	TCSP016-5008(060)	148	1	-	1
ISTEA-Pershing/Harding NB/SB Light	20.205	01/08/03-	STPLH-5008(061)	-	666	259	666
ISTEA-Airport/Miner Traffic Signal Mod	20.205	01/07/03-	STPLH-5008(062)	139	11	-	11
ISTEA-Pershing/March Signal Mod	20.205	01/08/04-	STPLH-5008(068)	31	-	28	-
ISTEA-Pacific Calaveras Bridge Scour	20.205	03/30/04-06/06/06	BHLO-5008(070)	598	-	344	-
ISTEA-Hammer Lane/SR 99	20.205	08/16/04-	STPLN-5008(072)	6,536	18,818	7,453	18,818
ISTEA-Bus Rapid Transit	20.205	08/23/05-	CML-5008(074)	29	9	42	9
ISTEA-Neighborhood Traffic Management	20.205	10/01/04-9/30/06	RS0522	158	-	158	-
Total Highway Planning and Construction				8,880	19,903	9,067	19,903
State of California Office of Traffic Safety							
California Seat Belt Compliance Campaign	20.600	02/01/05-08/31/05	IN43904	57	-	-	-
California Seat Belt Compliance Campaign	20.600	02/01/06-08/31/06	IN63903	-	-	76	-
Sobriety Checkpoint Program for Local Law Enforcement	20.600	12/01/04-09/30/05	AM05003	13	-	8	-
DUI/Speed Enforcement & Education Program	20.600	02/01/03-06/30/06	AL0367	217	-	112	-
Illegal Street Racing Campaign	20.600	05/01/05-05/31/07	PT0563	107	-	183	-
Total State and Community Highway Safety				394	-	379	-
Total Department of Transportation				9,274	19,903	9,446	19,903
Department of Museum and Library Services							
Direct							
Delta Region Exhibit	45.312	08/01/03-08/01/05	GM-00-03-0050-03	99	-	19	-
Environmental Protection Agency							
Direct							
Superfund - Brownfields Program	66.xxx	07/01/98-10/31/06	VP-98981101-0	58	-	29	-
Department of Education							
Direct							
Dept of Ed - After School Program	84.215	10/01/05-09/30/06	U215K050595	129	-	129	-
FIE Earmark - After School Program	84.215	10/01/04-09/30/05	U215K040436	282	-	277	-
Total				411	-	406	-
Department of Health and Human Services							
Lao Khmu Association, Inc							
Refugee and Entrant Assistance - Discretionary Grants	93.576	12/4/02-	901RI0015/01	32	-	27	-
State of California Office of Emergency Services							
Children's Justice Grants to States	93.643	10/01/04-09/30/05	EV04028019	168	-	80	-
Children's Justice Grants to States	93.643	10/01/05-09/30/06	EV05038019	-	-	185	-
Total Children's Justice Grants to States				168	-	265	-
Total Department of Health and Human Services				200	-	292	-

See notes to the schedule of expenditures of federal awards.

(Continued)

CITY OF STOCKTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar Amounts in Thousands)

Federal Department / Federal Agency / Pass-Through Agency (if not direct) / Program Title	CFDA No.	Grant Period	Grant Number	Receipts Federal	Receipts Local	Expenditures Federal	Expenditures Local
Department of Homeland Security							
Direct							
Metropolitan Medical Response System	97.071	10/01/04-03/10/07	EMW-2004-GR0712	400	-	55	-
Metropolitan Medical Response System	97.071	9/15/01-12/19/04	233-01-0058	230	-	106	-
Total				630	-	161	-
FEMA Assistance to Firefighters	97.044	08/27/04-02/27/06	US1280	210	-	300	-
Total Department of Homeland Security				840	-	461	-
TOTAL FEDERAL ASSISTANCE				$ 27,545	$ 19,936	$ 27,093	$ 19,936

RECONCILIATION TO THE CITY OF STOCKTON FINANCIAL STATEMENTS:		
Federal grants and subsidies revenue:		
Capital Improvement Fund	$ 519	$ 519
Redevelopment Agency Fund	29	29
Other Governmental Funds	20,981	20,981
Total federal grants and subsidies revenue	21,529	21,529
Items not recorded as federal grants and subsidies revenue:		
Program income - loan principal and interest	24	387
Capital contributions - Water Utility Fund	4,977	4,977
Loan guarantees - presented as proceeds of long-term debt	200	200
Total federal expenditures		$ 27,093
Decrease in accrued federal grants and subsidies	815	
Total federal receipts	$ 27,545	

See notes to the schedule of expenditures of federal awards.

CITY OF STOCKTON

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2006 (Dollar amounts in thousands)

NOTE A – **REPORTING ENTITY**

The accompanying schedule of expenditures of federal awards (SEFA) presents the expenditures of all the federal award programs of the City of Stockton, California (City) for the year ended June 30, 2006. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the SEFA. The City's reporting entity is defined in Note 1 to the City's financial statements.

The City administers certain federal awards through subrecipients. Those subrecipients are not considered part of the City's reporting entity.

NOTE B – **BASIS OF ACCOUNTING**

Expenditures as presented in the SEFA are reported on the modified accrual basis of accounting. That is, expenditures are recognized when they become a demand on current available financial resources. Receipts as presented in the SEFA are reported on the cash basis of accounting. That is, receipts are recognized when received. Federal receipts are reconciled to revenues as presented in the City's Comprehensive Annual Financial Report at the end of the SEFA.

NOTE C – **LOAN GUARANTEES**

The City entered into three loan guarantee agreements with the U.S. Department of Housing and Urban Development (CFDA No. 14.248) to complete redevelopment projects. The loan amounts are for a maximum of $3,000, $10,000, and $12,500 each. Principal of $430 was paid on these loans during fiscal year 2006; $95, $335, and $0, respectively; leaving outstanding balances of $2,575, $8,790, and $200, respectively, as of June 30, 2006. Final payment on the first two loans is due in August 2020; the third is due in August 2025. Interest is calculated at a variable rate based on the London Interbank Offered Rate (LIBOR) plus 20 basis points per annum. Accumulated interest will be recognized as expenditures when paid. Repayment of the loans will be financed from Community Development Block Grant entitlement funds.

NOTE D – SUBRECIPIENTS

Federal assistance provided to subrecipients is summarized as follows:

Federal Agency Program Title	Federal CFDA #	Subrecipient	Expended
Department of Housing and Urban Development			
Community Development Block Grants/Entitlement Grants	14.218	San Joaquin Fair Housing	$ 130
		Child Abuse Prevention Council	47
		Senior Service Center	7
		Second Harvest Food Bank	30
		Emergency Food Bank	20
		Women's Center of San Joaquin	19
		Stockton Shelter for the Homeless	66
		SUSD reimbursable construction costs	222
Emergency Shelter Grants Program	14.231	San Joaquin County Neighborhood Preservation	170
			$ 711

NOTE E – HOUSING AND REHABILITATION PROGRAM LOANS

The City participates in housing and rehabilitation programs whereby funds have been received in the current year and prior years for housing and rehabilitation loans. Total loans outstanding for these programs are $40,051 at June 30, 2006. Interest earned and repayment of the loans are not refunded to the federal government, but are used to make additional loans.

NOTE F – OFFICE OF EMERGENCY SERVICES AND BOARD OF CORRECTIONS GRANTS

The following schedules present only the amounts related to the federal grants passed through the California Office of Emergency Services (OES) and Board of Corrections (BOC) and does not include all grants passed through these agencies. These schedules reconcile the expenditures for state grant reporting purposes to the amounts presented in the SEFA.

Grant No. LE05028019 – The City reported total cumulative expenditures for the period July 1, 2005 through June 30, 2006 on Form 201 as follows:

	Budget	Actual	Variance
Personal Services	$ 65	$ 65	$ -
Operating Expenses	63	63	-
Total Expenditures per Form 201	$ 128	$ 128	$ -

	Federal	Local	Total
Passed through California:			
Office of Emergency Services	$ 96	$ 32	$ 128
Total Expenditures per SEFA as CFDA No. 16.588	$ 96	$ 32	$ 128

Grant No. CSA 182-05 – The City reported total cumulative expenditures for the period July 1, 2005 through June 30, 2006 on Form 201 as follows:

	Budget	Actual	Variance
Personal Services	$ 16	$ 16	$ -

	Federal	Local	Total
Passed through California:			
Board of Corrections	$ 15	$ 1	$ 16
Total Expenditures per SEFA as CFDA No. 16.523	$ 15	$ 1	$ 16

NOTE F – **OFFICE OF EMERGENCY SERVICES AND BOARD OF CORRECTIONS GRANTS (Continued)**

Grant No. EV04028019 – The City reported total cumulative expenditures for the period July 1, 2005 through September 30, 2005 on Form 201 as follows:

	Budget	Actual			Variance
		Prior	Current	Total	
Personal Services	$ 129	$ 96	$ 33	$ 129	$ -
Operating Expenses	153	100	47	147	6
Equipment	8	8	-	8	-
Total Expenditures per Form 201	$ 290	$ 204	$ 80	$ 284	$ 6

	Federal	Local	Total
Passed through California:			
Office of Emergency Services	$ 80	$ -	$ 80
Total Expenditures per SEFA as CFDA No. 93.643	$ 80	$ -	$ 80

Grant No. EV05038019 – The City reported total cumulative expenditures for the period October 1, 2005 through June 30, 2006 on Form 201 as follows:

	Budget	Actual	Variance
Personal Services	$ 156	$ 109	$ 47
Operating Expenses	112	65	47
Equipment	11	11	-
Total Expenditures per Form 201	$ 279	$ 185	$ 94

	Federal	Local	Total
Passed through California:			
Office of Emergency Services	$ 185	$ -	$ 185
Total Expenditures per SEFA as CFDA No. 93.643	$ 185	$ -	$ 185

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted	No

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	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 § 510(a) of Circular A-133?	No
Identification of major programs:	
CFDA #11.300 Grants for Public Works and Economic Development Facilities	
CFDA #20.205 Highway Planning and Construction	
Dollar threshold used to distinguish between Type A and Type B programs:	$813
Auditee qualified as low-risk auditee?	Yes

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006
(Dollar Amounts in Thousands)

Section II – Financial Statement Findings

No matters were reported.

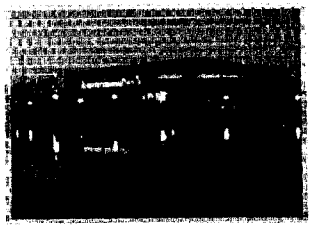
Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Accounting Section, City of Stockton Administrative Services Department

Pictured (left to right)
Back row: Armando Castillo, Cathy Lucas, Kevin Beltz, and Lynne Farrar.
Front row: Teri Chapa, Susan Jamison, Mike Gunn, Maryann Garcia, and Katharine Moon.

The accounting section was photographed in front of the new multi-purpose Stockton Events Center-Arena which opened December 2, 2005. The 220,000 square foot Arena seats 10,000 and will accommodate various sporting events, concerts and conventions. It is home to the **Stockton Thunder** - Minor League Hockey Team, **Stockton Lightning** – Arena 2 Football Team, and **California Cougars** - Major Indoor League Soccer Team. For team schedules and information about other scheduled events, please visit the Arena website at http://www.stocktonarena.com/



APPENDIX C

CERTAIN INFORMATION REGARDING THE CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

The following information concerning the California Public Employees' Retirement System ("PERS") is excerpted from publicly available sources, which the City believes to be accurate. PERS is not obligated in any manner for payment of debt service on the Series 2007 Bonds, and the assets of PERS are not available for such payment. PERS should be contacted directly at CalPERS Executive Office, Lincoln Plaza, 400 Q Street, Sacramento, California 95814, Telephone: 888-225-7377 for other information, including information relating to its financial position and investments.

General

The City provides retirement benefits to all regular City employees scheduled to work over 1,000 hours in a plan year through a contract with PERS, a multiple-employer public sector employee defined benefit pension plan. PERS provides service and disability retirement benefits, annual cost-of-living adjustments and death benefits to PERS members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State. PERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments.

PERS maintains two pension plans for the City, a Safety Plan (the "Safety Plan") and a Miscellaneous Plan (the "Miscellaneous Plan" and, together with the Safety Plan, the "PERS Plans"). The City contributes to PERS amounts equal to the recommended rates for the PERS Plans multiplied by the payroll of those employees of the City who are eligible under PERS.

Funding Policy

The staff actuaries at PERS prepare annually an actuarial valuation which covers a Fiscal Year ending approximately 15 months before the actuarial valuation is prepared (thus, the actuarial valuations delivered to the City in fall 2006 with respect to both the Safety Plan and the Miscellaneous Plan, covered PERS' Fiscal Year ended June 30, 2005). The actuarial valuations express the required contribution rates for the City in percentages of payroll, which percentages the City contributes in the Fiscal Year immediately following the Fiscal Year in which the actuarial valuation is prepared (thus, the City's contribution rates derived from the actuarial valuation as of June 30, 2005, which was prepared in fall 2006, were in effect during the City's Fiscal Year 2007-08). PERS rules require the City to implement the actuary's recommended rates.

In calculating the annual required contribution rates, the PERS actuary calculates on the basis of certain assumptions the actuarial present value of benefits that PERS will fund under the PERS Plans, which includes two components, the normal cost and the unfunded accrued actuarial liability (the "UAAL"). The normal cost represents the actuarial present value of benefits that the City will fund under the PERS Plans that are attributed to the current year, and the UAAL represents the actuarial present value of benefits that the City will fund that are attributed to past years. The UAAL represents an estimate of the actuarial shortfall between assets on deposit at PERS and the present value of the benefits earned through the valuation date by retirees and active employees. The UAAL is based on several assumptions such as, among others, the rate of investment return, life expectancy, age of retirement, inflation, salary increases and disabilities. In addition, the UAAL includes certain actuarial adjustments such as, among others, the actuarial practice of smoothing losses and gains over multiple years (which is described in more detail below). As a result, prospective investors are encouraged to consider the UAAL

as an estimate of the unfunded actuarial present value of the benefits that the City will fund under the PERS Plans to retirees and active employees upon their retirement and not as a fixed or hard expression of the liability the City owes to PERS under the PERS Plans.

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

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

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

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

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

Complete updated inflation and actuarial assumptions can be obtained by contacting PERS at the address shown on page C-1.

Funding Status

An actuarial valuation of assets differs from a market valuation of assets in that an actuarial valuation reflects so-called smoothing adjustments which smooth the impact of gains and losses over multiple years. As of June 30, 2005, the actuarial value of the assets in each of the Safety Plan and the Miscellaneous Plan was approximately $428.6 million and $345.2 million, respectively As a result, even if the market rate of return of the assets in the PERS Plans is above the actuarial assumed rate of 7.75% in future Fiscal Years, the actuarial practice of smoothing losses over several years may cause the investment rate of return for actuarial purposes to be less than the market rate of return. If the market rate of return is lower than the assumed rate, the PERS Plans will realize a loss for actuarial purposes, but, ordinarily, this actuarial loss will be smoothed such that the PERS Plans would only be impacted by one-fifteenth of that loss in one Fiscal Year. However, PERS has a policy that the difference between market value and actuarial value cannot exceed 120%.

The market rate of return in Fiscal Year 2005-06 was 11.8% (net of fees) and PERS has indicated that the market rate of return in Fiscal Year 2006-07 is on tract to exceed the actuarially assumed rate of return.

Historical Funding Status

The City's labor contracts require it to pay the entire amount of its employees' contribution rate, including the annual contribution of 7% and to PERS for safety employees. The labor contracts for miscellaneous employees reduce the City's payment of the employee's retirement contribution by a percent equal to the cost of the 2.0% at 55 retirement program.

PERS determines contribution requirements under the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. The City does not have a net pension obligation since it pays these actuarially required contributions monthly.

Table C-1A sets forth the Fiscal Years 2003-04 through 2007-08 the amount of the total employer contributions made by the City, the UAAL and the funded ratio of the Safety Plan as of the actuarial valuation dates June 30, 2001 through 2005 based on the PERS Actuarial Reports for those years.

Table C-1A
HISTORICAL FUNDING STATUS
(Safety Plan)

Actuarial Valuation Date June 30,	UAAL[1]	Funded Ratio	Affects City Contribution for Fiscal Year	City Contribution Amount[2]
2001	($1,271,333)	100.3%	2003-04	$9,494,907
2002	71,195,881	84.1	2004-05	14,958,864
2003	92,355,897	80.5	2005-06	17,894,45
2004	103,265,334	79.5	2006-07	11,731,513[3]
2005	107,568,000	79.9	2007-08	16,875,136[4]

(1) Negative UAAL represents excess assets.
(2) Indicated amounts are those amounts paid by the City to PERS in the indicated years and do not reflect all amounts paid by the City under the Miscellaneous Plan or otherwise.
(3) Reflects a discount since the payment was made to PERS between July 1 and July 15, 2006.
(4) Estimated amount.
Sources: PERS Actuarial Reports for June 30, 2001 through 2005.

Table C-1B sets forth for Fiscal Years 2003-04 through 2007-08 the amount of the total employer contributions made by the City, the UAAL and the funded ratio of the Miscellaneous Plan as of the actuarial valuation dates June 30, 2001 through 2005 based on the PERS Actuarial Reports for those years.

Table C-1B
HISTORICAL FUNDING STATUS
(Miscellaneous Plan)

Actuarial Valuation Date June 30,	UAAL[1]	Funded Ratio	Affects City Contribution for Fiscal Year	City Contribution Amount[2]
2001	($42,203,705)	115.0%	2003-04	$1,892,049
2002	2,407,709	99.2	2004-05	7,141,487
2003	39,054,293	88.7	2005-06	9,132,312
2004	44,512,738	87.9	2006-07	5,733,076[3]
2005	48,280,430	87.7	2007-08	9,379,146[4]

(1) Negative UAAL represents excess assets.
(2) Indicated amounts are those amounts paid by the City to PERS in the indicated years and do not reflect all amounts paid by the City under the Safety Plan or otherwise.
(3) Reflects a discount since the payment was made to PERS between July 1 and July 15, 2006.
(4) Estimated amount.
Sources: PERS Actuarial Reports for June 30, 2001 through 2005.

Table C-2 sets forth the actuarially required contributions by the City for the five most recent Fiscal Years.

Table C-2
SCHEDULE OF REQUIRED EMPLOYER CONTRIBUTIONS

Fiscal Year	Safety Plan	Miscellaneous Plan	Total
2003-04	$9,494,907	$1,892,049	$11,386,956
2004-05	14,958,864	7,141,487	21,100,351
2005-06	17,894,455	9,132,312	27,026,767
2006-07	11,731,513[1]	5,733,076[1]	17,464,589[1]
2007-08	16,875,136[2]	9,379,146[2]	26,254,282[2]

(1) Reflects discounts since the payments were made to PERS between July 1 and July 15, 2006.
(2) Estimated amount.
Sources: PERS Actuarial Reports for June 30, 2001 through 2005.

Table C-3 shows the percentage of salary which the City was responsible for contributing to PERS from Fiscal Year 2003-04 through Fiscal Year 2007-08 and the percentage projected for Fiscal Year 2008-09 to satisfy its retirement funding obligations.

Table C-3
SCHEDULE OF EMPLOYER CONTRIBUTION RATES

Actuarial Report for Year Ended	Affects Contribution Rate for Fiscal Year	Safety Plan	Miscellaneous Plan
6/30/2002	2004-05	32.870%	12.517%
6/30/2003	2005-06	34.714	17.525
6/30/2004	2006-07	32.138	16.375
6/30/2005	2007-08	31.725	16.605
6/30/2006	2008-09†	31.300	16.400

† Projected.
Sources: PERS Actuarial Reports for June 30, 2001 through 2005.

Set forth in Table C-4A and Table C-4B is five year historical funding progress information for each of the Plans. The values presented below represent actuarial values (which differs from market value).

Table C-4A
SCHEDULE OF FUNDING PROGRESS
(Safety Plan)

Valuation Date (June 30)	Entry Age Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded) Liability (a-b)	Funded Ratio (b/a)	Annual Covered Payroll (c)	Unfunded (Overfunded) Liability as % of Payroll (a-b/c)
2001	$401,016,275	$402,287,608	($1,271,333)	100.3%	$37,359,428	(3.4%)
2002	447,097,759	375,901,878	71,195,881	84.1	42,399,581	167.9
2003	473,038,190	380,682,293	92,355,897	80.5	43,816,129	210.8
2004	504,302,910	401,037,576	103,265,334	79.5	45,115,799	228.9
2005	536,142,694	428,574,694	107,568,000	79.9	48,325,899	222.6

Sources: PERS Actuarial Reports for June 30, 2001 through June 30, 2005.

Table C-4B
SCHEDULE OF FUNDING PROGRESS
(Miscellaneous Plan)

Valuation Date (June 30)	Entry Age Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded) Liability (a-b)	Funded Ratio (b/a)	Annual Covered Payroll (c)	Unfunded (Overfunded) Liability as % of Payroll (a-b/c)
2001	$282,135,838	$324,339,543	($42,203,705)	115.0%	$50,843,185	(83.0%)
2002	304,791,398	302,383,689	2,407,709	99.2	53,151,037	4.3
2003	344,933,214	305,878,921	39,054,293	88.7	54,241,063	72.0
2004	366,460,118	321,947,380	44,512,738	87.9	50,602,143	88.0
2005	393,457,559	345,177,129	48,280,430	87.7	51,317,103	94.1

Sources: PERS Actuarial Reports for June 30, 2001 through June 30, 2005.

Prospects

From June 30, 2000 to June 30, 2003, as a result of lower-than-expected rates of investment returns, PERS has experienced significant losses. In the actuarial valuation as of June 30, 2002, which was used for the required contribution rates for Fiscal Year 2004-05, the full effect of these actuarial losses was not reflected in the City's required contribution rates because asset losses were smoothed, substantially reducing the impact of the low investment return. But as of June 30, 2003, the actuarial loss had increased to such a level that the City was required to pay the entire normal cost payment plus a portion of the UAAL that resulted.

Beginning with the June 30, 2004 actuarial valuation rate stabilization methodologies were implemented to reduce rate volatility due to actual gains and losses by approximately 50%.

The PERS actuary, in the June 30, 2005 actuarial valuation, determined that the City contribution rate under the Safety Plan for the Fiscal Year 2007-08 will be 31.725%, reflecting normal costs (19.364%) and amortization of a portion of the UAAL (12.361%). PERS projects that the Fiscal Year 2008-09 contribution rate will be approximately 31.3% assuming there are no amendments to the plan and no liability gains or losses (*i.e.* larger than expected pay increases, higher retirements etc.). There have been no projections completed by PERS beyond Fiscal Year 2008-09 and the City makes no representations as to the level of future contribution rates.

The PERS actuary, in the June 30, 2005 actuarial valuation, determined that the City's contribution rate under the Miscellaneous Plan for the Fiscal Year 2007-08 will be 16.605%, reflecting normal costs (10.868%) and amortization of a portion of the UAAL (5.737%). PERS projects that the Fiscal Year 2008-09 contribution rate will be approximately 16.4% assuming there are no amendments to the plan and no liability gains or losses (*i.e.* larger than expected pay increases, higher retirements etc.). There have been no projections completed by PERS beyond Fiscal Year 2008-09 and the City makes no representations as to the level of future contribution rates.

PERS reported that the market rate of return in Fiscal Year 2003-04, Fiscal Year 2004-05 exceeded the actuarially assumed rates of return and, has indicated that, so far, the market rate of return in Fiscal Year 2006-07 is on track to exceed the actuarially assumed rate of return.

Analysis of UAAL by Actuarial Consultant

In addition to the PERS actuarial reports as of June 30, 2004, the City has received a report from Bartel Associate, LLC certifying that, based upon certain specified assumptions, the aggregate UAAL for the PERS Plans is not less than $125,310,000 representing the principal amount of the Series 2007 Bonds.

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of the provisions of the Indenture of Trust relating to the Series 2007 Bonds, which is not intended to be definitive. Reference is made to the actual document (a copy of which may be obtained from the City) for the complete terms thereof.

Definitions

Terms which have been previously defined in this Official Statement have the same meanings when used in this Summary. In addition, when used in this Summary the following terms have the following meanings:

"Bond Counsel" means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys appointed by or acceptable to the City of nationally-recognized experience in the issuance of obligations issued by public agencies.

"Bond Insurer" means Financial Security Assurance Inc., a New York stock insurance company, its successors and assigns, as issuer of the Bond Insurance Policy.

"Business Day" means a day of the year (other than a Saturday or Sunday) on which banks in California are not required or permitted to be closed, and on which the New York Stock Exchange is open.

"Closing Date" means the date on which the Series 2007 Bonds are delivered by the City to the original purchasers of the Series 2007 Bonds.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the City relating to the authorization, issuance, sale and delivery of the Series 2007 Bonds, including but not limited to: printing expenses; rating agency fees; filing and recording fees; initial fees, expenses and charges of the Trustee and its counsel, including the Trustee's first annual administrative fee; fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals; Bond Insurance Policy premium; and any other cost, charge or fee in connection with the original issuance of the Series 2007 Bonds.

"Debt Service" means the scheduled amount of interest and amortization of principal payable on the Series 2007 Bonds during the period of computation, including the principal amount of any Series 2007 Bonds which are subject to mandatory sinking fund redemption during such period but excluding amounts scheduled during such period which relate to principal which has been retired before the beginning of such period.

"Federal Securities" means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged; (b) obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are directly or indirectly secured or guaranteed by the full faith and credit of the United States of America; and (c) any obligations of a financial institution the timely payment of principal of and interest on which are secured or collateralized by obligations described in the foregoing clauses (a) or (b).

"Fiscal Year" means any twelve-month period beginning on July 1 in any year and extending to the next succeeding June 30, both dates inclusive, or any other twelve-month period selected and designated by the City as its official fiscal year period in a written certificate of the City filed with the Trustee.

"Information Services" means Financial Information, Inc.'s Financial Daily Called Bond Service; Standard & Poor's J.J. Kenny Information Services; Moody's Municipal and Government; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to the redemption of bonds as the City may designate in a Request of the City delivered to the Trustee.

"Moody's" means Moody's Investors Service, its successors and assigns.

"Outstanding", when used as of any particular time with reference to Series 2007 Bonds, means: (a) Series 2007 Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Series 2007 Bonds paid or deemed to have been paid within the meaning of the Indenture; and (c) Series 2007 Bonds in lieu of or in substitution for which other Series 2007 Bonds have been authorized, executed, issued and delivered by the City under the Indenture.

"Owner" means, with respect to any Series 2007 Bond, the person in whose name the ownership of such Series 2007 Bond is registered on the Registration Books.

"Permitted Investments" means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein:

(a) Federal Securities.

(b) Federal Housing Administration debentures.

(c) The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

(i) Federal Home Loan Mortgage Corporation participation certificates (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts) or senior debt obligations;

(ii) Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) consolidated system-wide bonds and notes;

(iii) Federal Home Loan Banks consolidated debt obligations;

(iv) Federal National Mortgage Association senior debt obligations or mortgage-backed securities (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts);

(v) Student Loan Marketing Association senior debt obligations (excluded are securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date);

(vi) Financing Corporation debt obligations; and

(vii) Resolution Funding Corporation debt obligations.

(d) Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 30 days) of any bank, including the Trustee or its affiliates, the short-term obligations of which are rated "A-1" or better by S&P.

(e) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks, including the Trustee or its affiliates, which have capital and surplus of at least $5 million.

(f) Commercial paper (having original maturities of not more than 270 days) rated "A-1+" by S&P and "Prime-1" by Moody's.

(g) Money market funds rated "AAm" or "AAm-G" by S&P, or better, including funds for which the Trustee or its affiliates or subsidiaries provide investment or other advisory services.

(h) "State Obligations", which means:

(i) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated;

(ii) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (i) above and rated "A-1+" by S&P and "Prime-1" by Moody's; and

(iii) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (i) above and rated "AA" or better by S&P and "Aa" or better by Moody's.

(i) Pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's meeting the following requirements:

(i) the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(ii) the municipal obligations are secured by cash or Federal Securities described in clause (a) of the definition thereof ("United States Treasury Obligations") which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(iii) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification");

(iv) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

(v) no substitution of a United States Treasury Obligations shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and

(vi) the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

(j) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA" by S&P and "Aa" by Moody's; provided that, by the terms of the investment agreement:

(i) interest payments are to be made to the Trustee at the times and in amounts as necessary to pay amounts due with respect to the Series 2007 Bonds;

(ii) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven (7) days' prior notice; the City and the Trustee hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

(iii) the investment agreement shall state that is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof, or in the case of a bank, that the obligation of the bank to make payments under the agreement ranks pari passu with the obligations of the bank to its other depositors and its other unsecured and unsubordinated creditors;

(iv) the City and the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the City, the Trustee and the Bond Insurer) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the City, the Trustee and the Bond Insurer;

(v) the investment agreement shall provide that if during its term:

(A) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the City, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (ii) repay the principal of and accrued but unpaid interest on the investment, and

(B) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the City or the Trustee (who shall give such direction if so directed by the

Bond Insurer), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the City or Trustee.

(vi) The investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the holder of the Collateral is in possession);

(vii) The investment agreement must provide that if during its term (a) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the City or the Trustee (who shall give such direction if so directed by the Bond Insurer), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the City or Trustee, as appropriate, and (b) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc., the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the City or Trustee, as appropriate.

(k) Repurchase which meet the following standards and criteria:

(i) The agreement must be with (A) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "A" by S&P and Moody's; or (B) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or whose parent company (which guarantees the provider) has, long-term debt rated at least "A" by S&P and Moody's, which falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated "A" or better by S&P and Moody's and acceptable to the Bond Insurer, provided that:

(1) The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S & P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach and without regard to the rating of the provider);

(2) The Trustee or a third party acting solely as agent therefor or for the Issuer (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books);

(3) The agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(4) All other requirements of S&P in respect of repurchase agreements shall be met.

(5) The agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, at the direction of the Issuer or the Trustee (who shall give such direction if so directed by the Bond Insurer), within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Issuer or Trustee.

Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (a) above, so long as such collateral levels are 103% or better and the provider is rated at least "A" by S&P and Moody's, respectively.

(l) The Local Agency Investment Fund which is administered by the California Treasurer for the investment of funds belonging to local agencies within the State of California.

"PERS" means the Public Employees' Retirement System.

"PERS Contracts" means the contracts, as amended from time to time, entered into by the City and PERS pursuant to the Retirement Law obligating the City to make contributions to PERS in exchange for PERS providing retirement benefits to certain City employees.

"PERS Obligations" means the obligation of the City under the Retirement Law and the PERS Contracts to make payments to PERS with respect to retirement benefits to certain City employees.

"Request of the City" means a request in writing signed by the Mayor, the City Manager or the Director of Administrative Services/Chief Financial Officer of the City (or such other person performing the functions of chief financial officer of the City), or by any other officer of the City duly authorized by the City for that purpose.

"S&P" means Standard & Poor's Corporation, of New York, New York, and its successors.

"Securities Depositories" means DTC; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the City may designate in a Request of the City delivered to the Trustee.

Establishment of Funds

Costs of Issuance Fund. The Indenture establishes the Costs of Issuance Fund to be held by the Trustee. The Trustee will disburse moneys in the Costs of Issuance Fund from time to time to pay Costs of Issuance upon submission of a Request of the City stating (a) the person to whom payment is to be made, (b) the amounts to be paid, (c) the purpose for which the obligation was incurred, (d) that such payment is a proper charge against the Costs of Issuance Fund, and (e) that such amounts have not been the subject of a prior request of the City; in each case together with a statement or invoice for each amount requested thereunder. On July 1, 2007, the Trustee shall transfer any amounts remaining in the Costs of Issuance Fund to the Debt Service Fund.

Nature of City's Obligations

The Series 2007 Bonds are payable from any source of legally available funds of the City, including but not limited to amounts held by the City on deposit in its General Fund. The obligations of

the City under the Series 2007 Bonds, including the obligation to make all payments of principal of and interest on the Series 2007 Bonds when due and the obligation of the City to make the deposits required under the Indenture for the security of the Series 2007 Bonds, are obligations of the City imposed by law and are absolute and unconditional, without any right of set-off or counterclaim. The Series 2007 Bonds do not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation.

Deposits to Pay Debt Service

Prepayment of Debt Service. Not later than July 1 in each year, commencing July 1, 2007, the Trustee shall: (a) determine the amount which the City is obligated to deposit with the Trustee for the payment of Debt Service on the Series 2007 Bonds during the current Fiscal Year, consisting of the aggregate amount of principal of and interest on the Series 2007 Bonds coming due and payable in such Fiscal Year, less the amount then held by the Trustee in the Debt Service Fund; and (b) notify the City in writing of the amount so determined. The City agrees and covenants that, not later than August 15 following receipt of such written notice from the Trustee, it will transfer the amount set forth in such written notice to the Trustee, for deposit in the Debt Service Fund.

Additional Payments. Not later than the fifth Business Day immediately preceding each Interest Payment Date, the Trustee will determine whether the amounts held by it in the Debt Service Fund will be sufficient to pay the aggregate amount of Debt Service coming due and payable on such Interest Payment Date. If the Trustee determines that the amounts held by it in the Debt Service will be insufficient to make such payment, the Trustee will immediately notify the City of such fact, and the City will pay the amount of such insufficiency to the Trustee, from any source of legally available funds of the City, such payment to be made not later than three Business Days prior to the Interest Payment Date.

Debt Service Fund. The Indenture establishes the Debt Service Fund to be held by the Trustee in trust. The Trustee will disburse moneys in the Debt Service Fund from time to time to pay Debt Service on the Series 2007 Bonds, including the principal and premium (if any) required to be paid upon the redemption of the Series 2007 Bonds. All amounts remaining on deposit in the Debt Service Fund on March 2 of each year, following the payment in full of all Debt Service then required to be paid on the Series 2007 Bonds, shall be retained therein and credited towards the deposit next required to be made by the City with the Trustee for payment of Debt Service.

Rate Stabilization Fund. The Trustee shall establish a separate fund to be known as the "Rate Stabilization Fund" to be held and administered by it. From time to time the City may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, as the City may determine. At the Request of the Retirement Board filed with the Trustee from time to time, the Trustee shall disburse amounts in the Rate Stabilization Fund to pay Debt Service on the Series 2007 Bonds, to redeem any Series 2007 Bonds, or to pay any PERS Obligations of the City.

Amounts on deposit in the Rate Stabilization Fund are not pledged to and do not secure the Series 2007 Bonds. All interest or other earnings on deposits in the Rate Stabilization Fund will be retained therein.

Investment of Funds

The Trustee shall invest moneys in Debt Service Fund and the Rate Stabilization Fund solely in Permitted Investments. In the absence of any such direction from the City, the Trustee shall invest any

such moneys solely in Permitted Investments which constitute money market funds. All interest or gain derived from the investment of amounts in any fund or account will be retained therein.

Other Covenants of the City

Punctual Payment. The City agrees punctually to pay or cause to be paid the principal, premium (if any) and interest to become due in respect of all the Series 2007 Bonds in strict conformity with the terms of the Indenture.

Budget and Appropriation. So long as any Series 2007 Bonds remain Outstanding, the City will adopt all necessary budgets and make all necessary appropriations for the payment of Debt Service from any source of legally available funds of the City. If any payment of Debt Service requires the adoption by the City of a supplemental budget or appropriation, the City will promptly adopt the same. Such covenants constitute duties imposed by law and it is the duty of each and every public official of the City to take such action and 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 Indenture agreed to be carried out and performed by the City.

Books and Accounts, Financial Statements. The City will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the City, in which complete and correct entries are made of all transactions relating to its funds and accounts. Such books of record and accounts shall at all times during business hours be subject, upon prior written request, to the reasonable inspection of the Trustee (who has no duty to inspect), the Bond Insurer and the Owners of not less than 10% in aggregate principal amount of the Series 2007 Bonds then Outstanding, or their representatives authorized in writing.

The City will cause to be prepared annually, within 180 days after the close of each Fiscal Year so long as any of the Series 2007 Bonds are Outstanding, complete audited financial statements with respect to such Fiscal Year showing its revenues and expenditures as of the end of such Fiscal Year. The City will furnish a copy of such statements to the Bond Insurer and, upon reasonable request, to the Trustee and any Bond Owner. The Trustee has no duty to review any such financial statement.

Additional Bonds. The City may issue additional bonds, notes or other obligations for the purpose of financing PERS Obligations or for the purpose of refunding any of the Series 2007 Bonds, which are payable from the same sources as the Series 2007 Bonds, in such principal amount as the City determines, subject to the following conditions precedent:

(a) The issuance of such Additional Bonds has been authorized by resolution duly adopted by the City Council of the City and by a Supplemental Agreement which has been executed and delivered by the City hereunder.

(b) No Event of Default (or no event with respect to which notice has been given and which, once all notice of grace periods have passed, would constitute an Event of Default) has occurred and is continuing, unless otherwise permitted by the Bond Insurer.

Additional Bonds may be issued in the form of Auction Rate Securities, Capital Appreciation Bonds, Convertible Capital Appreciation Bonds, Index Bonds, Standard Bonds or any other form as set forth in the related Supplemental Agreement.

Protection of Security and Rights of Owners. The City will preserve and protect the security of the Series 2007 Bonds and the rights of the Owners. From and after the date of issuance of any Series 2007 Bonds, the Series 2007 Bonds will be incontestable by the City.

Amendment of Indenture

The Indenture may be amended at any time with the written consents of the Owners of a majority in aggregate principal amount of the Outstanding Series 2007 Bonds. No such amendment may (a) extend the maturity of or reduce the interest rate on any Series 2007 Bond or otherwise alter or impair the obligation of the City to pay the principal or interest at the time and place and at the rate and in the currency provided therein of any Series 2007 Bond without the express written consent of the Owner of such Series 2007 Bond, (b) reduce the percentage of Series 2007 Bonds required for the written consent to any such amendment, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee.

The Indenture may also be amended at any time, with the prior written consent of the Bond Insurer but without the consent of any Bond Owners, to the extent permitted by law, but only for any one or more of the following purposes:

(i) to add to the covenants and agreements of the City contained in the Indenture, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power reserved to or conferred upon the City;

(ii) to cure any ambiguity, or to cure, correct or supplement any defective provision contained in the Indenture, or in any other respect whatsoever as the City deems necessary or desirable, provided under any circumstances that such modifications or amendments do not materially adversely affect the interests of the Owners in the opinion of Bond Counsel filed with the City, the Bond Insurer and the Trustee;

(iii) to modify, amend or add to the provisions of the Indenture in to provide for the establishment of different interest rate modes, tender or purchase provisions in connection with the Series 2007 Bonds; or

(iv) to modify, amend or add to the provisions of the Indenture to provide for credit facilities, liquidity facilities or other financial products agreements in connection with the Series 2007 Bonds.

Events of Default and Remedies

Events of Default Defined. Each of the following events constitutes an Event of Default under and as defined in the Indenture:

(a) Default in the due and punctual payment of Debt Service when due and payable, whether at maturity as therein expressed, by proceedings for redemption, or otherwise.

(b) Default by the City in the observance of any of the other covenants, agreements or conditions on its part contained in the Indenture or in the Series 2007 Bonds, if such default has continued for a period of 60 days after written notice thereof, specifying such default and requiring the same to be remedied, has been given to

the City by the Trustee, by the Bond Insurer or by the Owners of not less than 25% in aggregate principal amount of the Series 2007 Bonds at the time Outstanding; *provided, however*, if in the reasonable judgment of the City the default stated in the notice can be corrected, but not within such 60-day period, such default shall not constitute an Event of Default if corrective action is instituted by the City within such 60-day period and diligently pursued until the default is corrected; and

(d) The filing of a petition in bankruptcy or the commencement of a proceeding under the United States Bankruptcy Code or any other applicable law concerning insolvency, reorganization or bankruptcy by or against the City, 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 City or of the whole or any substantial part of its property.

For purposes of determining whether any event of default has occurred under and as described in the preceding clauses (a), no effect will be given to payments made by the Bond Insurer under the Bond Insurance Policy.

Remedies. If an Event of Default occurs and is continuing, the Trustee may with the prior written consent of the Bond Insurer, and at the written direction of the Bond Insurer or (with prior written consent of the Bond Insurer) at the written direction of the Owners of a majority in aggregate principal amount of the Series 2007 Bonds then Outstanding the Trustee must, (a) declare the principal of the Series 2007 Bonds, together with the accrued interest thereon, to be due and payable immediately, and upon any such declaration the same will become immediately due and payable, anything in the Indenture or in the Series 2007 Bonds to the contrary notwithstanding, and (b) exercise any other remedies available in law or at equity.

Immediately upon becoming aware of the occurrence of an Event of Default, but in no event later than 5 Business Days following becoming aware of such occurrence, the Trustee shall give notice of such Event of Default to the City and to the Bond Insurer by telephone confirmed in writing. Such notice shall also state whether the principal of the Series 2007 Bonds has been declared to be or have immediately become due and payable. With respect to any Event of Default described in clauses (a) or (b) above the Trustee shall, and with respect to any Event of Default described in clause (c) above the Trustee in its sole discretion may, also give such notice to the Owners of the Series 2007 Bonds in the same manner as provided in the Indenture for notices of redemption of the Series 2007 Bonds, which shall include the statement that interest on the Series 2007 Bonds shall cease to accrue from and after the date, if any, on which the Trustee declares the Series 2007 Bonds to become due and payable under the preceding paragraph (but only to the extent that principal and any accrued, but unpaid, interest on the Series 2007 Bonds is actually paid on such date).

This provision, however, is subject to the condition that if, at any time after the principal of the Series 2007 Bonds has been so declared due and payable, and before any judgment or decree for the payment of the moneys due has been obtained or entered, the City deposits with the Trustee a sum sufficient to pay all principal on the Series 2007 Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Series 2007 Bonds, with interest on such overdue installments of principal and interest at an interest rate of 10% per annum, and the reasonable fees and expenses of the Trustee, including fees and expenses of its attorneys, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Series 2007 Bonds due and payable solely by reason of such declaration) has been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate has been made therefor, then, and in every such case, the Owners of at least a majority in aggregate principal amount of the Series 2007 Bonds then Outstanding, by written notice to the City and to the Trustee, may, on behalf of the Owners of all of the Series 2007 Bonds, and

with the consent of the Bond Insurer (if it has not failed to comply with its payment obligations under the Bond Insurance Policy), rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Event of Default. All of the amounts held in the funds and accounts established and held by the Trustee under the Indenture upon the occurrence of an Event of Default, and all sums thereafter received by the Trustee under the Indenture, shall be applied by the Trustee as follows and in the following order:

(a) *First*, to the payment of any fees, costs and expenses incurred by the Trustee to protect the interests of the Owners of the Series 2007 Bonds; payment of the fees, costs and expenses of the Trustee (including fees and expenses of its counsel, including any allocated costs of internal counsel) incurred in and about the performance of its powers and duties under the Indenture and the payment of all fees, costs and expenses owing to the Trustee, together with interest on all such amounts advanced by the Trustee at the maximum rate permitted by law.

(b) *Second*, to the payment of the whole amount then owing and unpaid upon the Series 2007 Bonds for interest and principal, with interest on such overdue amounts at the respective rates of interest borne by those Series 2007 Bonds, and in case such moneys are insufficient to pay in full the whole amount so owing and unpaid upon the Series 2007 Bonds, then to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably to the aggregate of such interest, principal and interest on overdue amounts.

(c) *Third*, to the Bond Insurer for any amounts due and owing to the Bond Insurer under the Bond Insurance Policy.

Limitation on Bond Owners' Right to Sue. No Series 2007 Bond Owner has the right to institute any suit, action or proceeding at law or in equity, for any remedy under the Indenture, unless:

(a) such Owner has previously given to the Trustee written notice of the occurrence of an event of default;

(b) the Owners of a majority in aggregate principal amount of all the Series 2007 Bonds then Outstanding have requested the Trustee in writing to exercise its powers under the Indenture;

(c) said Owners have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request;

(d) the Trustee has failed to comply with such request for a period of 60 days after such written request has been received by the Trustee and said tender of indemnity is made to the Trustee;

(e) no direction inconsistent with such written request has been given to the Trustee during such 60 day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding; and

(f) the Bond Insurer has failed to honor its obligations under the Bond Insurance Policy.

Rights of Bond Insurer. Upon the occurrence and continuation of an Event of Default, the Bond Insurer is entitled to control and direct the enforcement of all rights and remedies granted to the Series 2007 Bond Owners, or to the Trustee for the benefit of the Series 2007 Bond Owners, including but not limited to rights and remedies granted under the Indenture and including but not limited to the right to approve all waivers of any events of default. The rights granted to the Bond Insurer will be deemed terminated and are not exercisable by the Bond Insurer during any period during which the Bond Insurer is in default under the Bond Insurance Policy.

Defeasance of Series 2007 Bonds

The City may pay and discharge the indebtedness on any or all of the Outstanding Series 2007 Bonds in any one or more of the following ways:

(a) by paying or causing to be paid the principal of and interest on such Series 2007 Bonds, as and when they become due and payable;

(b) by irrevocably depositing with the Trustee or an escrow bank, in trust, at or before maturity, an amount of cash which, together with the available amounts then on deposit in the funds and accounts established under the Indenture, in the opinion or report of an independent accountant is fully sufficient to pay such Series 2007 Bonds, including all principal, interest and redemption premium, if any;

(c) by irrevocably depositing with the Trustee or an escrow bank, in trust, Federal Securities in such amount as an independent accountant determines will, together with the interest to accrue thereon and available moneys then on deposit in any of the funds and accounts established under the Indenture, be fully sufficient to pay and discharge the indebtedness on such Series 2007 Bonds (including all principal, interest and redemption premium, if any) at or before maturity; or

(d) by purchasing such Series 2007 Bonds prior to maturity and tendering such Series 2007 Bonds to the Trustee for cancellation.

Notwithstanding the foregoing provisions, if the principal, interest and premium (if any) on the Series 2007 Bonds are paid by the Bond Insurer under the Bond Insurance Policy, the obligations of the Trustee and the City will continue in full force and effect and the Bond Insurer will be fully subrogated to the rights of all Owners of the Series 2007 Bonds so paid. In addition, the obligations of the Trustee and the City under the Indenture will continue in full force and effect, and will not be terminated, until such time as the City has paid all amounts (if any) as are due and owing to the Bond Insurer under the Bond Insurance Policy; and the Trustee may not distribute any funds to the City unless the City has certified to the Trustee that there are no obligations then due and owing by the City to the Bond Insurer under the Bond Insurance Policy.

APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

April 5, 2007

City Council
City of Stockton
425 North El Dorado Street
Stockton, California 95202

OPINION: $125,310,000 City of Stockton
2007 Taxable Pension Obligation Bonds

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance and delivery by the City of Stockton (the "City") of $125,310,000 aggregate principal amount of bonds of the City designated the "City of Stockton 2007 Taxable Pension Obligation Bonds" (the "Bonds"), issued under the provisions of Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the "Bond Law"), an Indenture of Trust dated as of April 1, 2007 (the "Indenture"), between the City and Wells Fargo Bank, National Association, as trustee, and Resolution No. 06-0478 adopted by the City Council of the City on September 26, 2006 (the "Resolution"). The Bonds have been issued to provide funds to refund certain obligations of the City to California Public Employees' Retirement System. We have examined the Bond Law, the Indenture and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Indenture and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation. Additionally, in rendering our opinion, we are also relying upon the judgment of the San Joaquin Superior Court rendered on January 3, 2007 in *City of Stockton v. All Persons Interested, etc.*, Case No. CV030753.

Based upon the foregoing, we are of the opinion, under existing law, that:

1. The City is a charter city and municipal corporation duly organized and existing under the Constitution and laws of the State of California, with power to adopt the Resolution, to enter into the Indenture and perform the agreements on its part contained therein, and to issue the Bonds.

2. The Bonds constitute legal, valid and binding obligations of the City enforceable in accordance with their terms and payable solely from the sources provided therefor in the Indenture.

3. The Indenture has been duly authorized, executed and delivered by the City and constitutes a legal, valid and binding obligation of the City enforceable against the City in accordance with its terms.

4. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in accordance with principles of equity or otherwise in appropriate cases.

To ensure compliance with requirements imposed by the Internal Revenue Service, we inform you that any U.S. federal tax advice contained herein is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed herein.

Respectfully submitted,

Jones Hall,
A Professional Law Corporation

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Stockton (the "City") in connection with the issuance of $125,310,000 aggregate principal amount of City of Stockton 2007 Taxable Pension Obligation Bonds, consisting of $96,985,000 principal amount of City of Stockton 2007 Taxable Pension Obligation Bonds, Series A and $28,325,000 principal amount of City of Stockton 2007 Taxable Pension Obligation Bonds, Series B (collectively, the "Series 2007 Bonds"). The Series 2007 Bonds are being issued pursuant to an Indenture of Trust executed and entered into as of April 1, 2007 (the "Indenture") by and between the City and Wells Fargo Bank, National Association, as trustee (the "Trustee"). In connection therewith the parties covenant and agree as follows:

SECTION 1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Owners and Beneficial Owners of the Series 2007 Bonds and in order to assist the Participating Underwriter (as defined herein) in complying with SEC (as defined herein) Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Central Post Office" shall mean the Disclosure USA 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 as an intermediary through which issuers may, in compliance with the Rule, make filings required by this Disclosure Certificate.

"Certification" shall mean a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Financial Statements, voluntary report or a Listed Event notice delivered to the Dissemination Agent is the Annual Report, Financial Statements, voluntary report or a Listed Event notice required to be submitted to the Repositories under this Disclosure Certificate. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the City and include the full name of the Series 2007 Bonds and the 9-digit CUSIP numbers for all Series 2007 Bonds to which the document applies.

"Dissemination Agent" shall mean MuniFinancial, Inc., acting in its capacity as Dissemination Agent hereunder or any successor Dissemination Agent designated in writing by the City to perform the duties specified in Section 3(c) of this Disclosure Certificate and which has filed with the City a written acceptance of such designation pursuant to Section 7 hereof.

"Fiscal Year" shall mean with respect to the City, the period beginning on July 1 of each year and ending on the next succeeding June 30, or any twelve month or fifty-two week period thereafter selected by the City with notice of such selection of change in fiscal year to be provided as set forth herein.

"Listed Event" shall mean any of the events listed in Section 5(a) of the Disclosure Certificate.

"National Repository" shall mean, at any time, a then-existing Nationally Recognized Municipal Securities Information Repository as recognized from time to time by the SEC for the purposes referred to in the Rule (hereinafter defined). The National Repositories are identified on the SEC website at http://www.sec.gov/info/municipal/nrmisir.htm.

"Official Statement" shall mean the Official Statement for the 2007 Bonds, dated March 26, 2007.

"Owners" shall mean either the registered owners of the Series 2007 Bonds, or, if the Series 2007 Bonds are registered in the name of Depository Trust Company or another recognized depository, any applicable participant in its depository system.

"Participating Underwriter" shall mean Lehman Brothers Inc. as the original underwriter of the Series 2007 Bonds required to comply with the Rule in connection with offering of the Series 2007 Bonds.

"Repository" shall mean each National Repository and the State Repository, if any.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"SEC" shall mean the United States Securities and Exchange Commission.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the SEC. As of the date of this Disclosure Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or upon written direction shall cause the Dissemination Agent to, not later than nine (9) months after the end of the City's fiscal year (which currently is June 30), commencing with the report for the 2006-07 Fiscal Year, provide to each Repository and the Participating Underwriter, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate, with a copy to the Trustee. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate. 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(c).

(b) Not later than fifteen (15) Business Days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished pursuant to this Disclosure Certificate. The Dissemination Agent and the Trustee may conclusively rely upon such certification of the City and shall have no obligation to review such Annual Report. If the City is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached as Exhibit A to the Disclosure Certificate.

(c) If the Dissemination Agent is other than the City, the Dissemination Agent shall:

(i) determine each year, prior to the date for providing the Annual Report, the name and address of each Repository;

(ii) file the Annual Report with each Repository by the date required therefor by Section 3(a) and file any notice of a listed Event, if requested by the City, as soon as practicable following receipt from the City of such notice; and

(iii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to the Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

(d) Notwithstanding any other provision of this Disclosure Certificate, the City and the Dissemination Agent reserve the right to make any of the aforementioned filings through the Central Post Office.

SECTION 4. Content of Annual Reports. (a) The City's comprehensive audited financial report for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the 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.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission; *provided,* that if the documents included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board; and *provided further*, that the City shall clearly identify each such other document so included by reference.

(b) An update of the following information:

(i) The principal amount of Bonds outstanding.

(ii) the balance in the Bond Fund and each account held therein.

(iii) The balance in the Principal Fund and Interest Fund

(iv) Information updating Table A-10–"General Fund Balance Sheet;" Table A-11–"General Fund–Comparable Statement of Revenues, Expenditures and Changes in Fund Balance;" Table A-12–"Taxable Retail Sales Data;" Table A-13–"Utility Users Taxes;" Table A-14–"Assessed Full Cash Vale of all Taxable Property;" Table A-15–"Secured Property Tax Levies and Collections;" Table A-18–"Long-Term General Fund Obligations" and the tables relating to the five year historical trend information for the Retirement System contained in Tables C-1 through Table C-5.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been

submitted to each of the Repositories or the SEC; *provided*, that if any document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board; and *provided further*, that 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, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2007 Bonds, if material:

1. Principal or interest payment delinquencies.

2. Non-payment related defaults.

3. Modifications to the rights of the Holders.

4. Optional, contingent or unscheduled calls.

5. Defeasances.

6. Rating changes.

7. Adverse tax opinions or events adversely affecting the tax-exempt status of the Series 2007 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 Series 2007 Bonds.

12. Failure to provide annual financial information as required.

13. Issuance of Additional Bonds.

The City notes that item 7 above is relevant to the Series 2007 Bonds only with respect to tax exemption from State of California personal income taxes and that Items 8 and 11 above are not applicable to the Series 2007 Bonds.

(b) 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) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file or cause the filing of a notice of such occurrence with the Municipal Securities Rulemaking Board and each Repository; *provided*, that notice of Listed Events described in subsections (a)(4) and (5) of this section 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 Indenture.

SECTION 6. Termination of Reporting Obligation. The City's obligations under the Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2007 Bonds. If such termination occurs prior to the final maturity of the Series 2007 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. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Certificate, and may discharge any such Dissemination 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 the Disclosure Certificate.

The initial Dissemination Agent shall be the MuniFinancial, Inc.

The Dissemination Agent may resign its duties hereunder at any time upon written notice delivered to the City ninety (90) days prior to the effective date of such resignation.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of the Disclosure Certificate, the City may amend the Disclosure Certificate, and any provision of the Disclosure Certificate, 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;

(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 Series 2007 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 Owners of the Series 2007 Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Series 2007 Bonds.

In the event of any amendment or waiver of a provision of the Disclosure Certificate, 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 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. Nothing in the Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in the Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by the Disclosure Certificate. 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 the Disclosure

Certificate, the City shall have no obligation under the Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City to comply with any provision of the Disclosure Certificate any Holder or Beneficial Owner outstanding Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under the Disclosure Certificate. A default under the Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under the Disclosure Certificate in the event of any failure of the City to comply with the Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in the Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including reasonable attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent may rely on and shall be protected in acting or refraining from acting upon any direction from the Issuer or an opinion of nationally recognized bond counsel. 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 Dissemination Agent shall have no duty or obligation to review any information provided to it by the City and shall not be deemed to be acting in a fiduciary capacity for the City, the Owners, or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2007 Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach of this Disclosure Agreement.

SECTION 12. Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

City:	City of Stockton City Hall 425 North El Dorado Street Stockton, California 95202 209-937-0611 209-937-8844 (Fax)
Dissemination Agent:	MuniFinancial, Inc. 27368 Via Industrial, Suite 10 Temecula, California 92590 909-587-3500 909-587-3510 (Fax)

SECTION 13. Beneficiaries. The Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Series 2007 Bonds, and shall create no rights in any other person or entity.

Date: April 5, 2007.

CITY OF STOCKTON

By:_____
Director of Administrative Services/
Chief Financial Officer

MUNIFINANCIAL, INC.,
as Dissemination Agent

By:_____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	City of Stockton
Name of Issue:	$96,985,000 City of Stockton 2007 Taxable Pension Obligation Bonds, Series A; and $28,325,000 City of Stockton 2007 Taxable Pension Obligation Bonds, Series B
Date of Issuance:	April 5, 2007

NOTICE IS HEREBY GIVEN that the City of Stockton (the "City") has not provided an Annual Report with respect to the above-named Certificates as required by Section 3 of the Continuing Disclosure Certificate dated April 5, 2007 executed by the City for the benefit of the Owners and Beneficial Owners of the above-referenced bonds and in accordance with Section 5.05 of the Indenture executed and entered into as of April 1, 2007, by and between the Issuer and Wells Fargo Bank, National Association, as trustee. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

MUNIFINANCIAL, INC., as Dissemination Agent

By:_____
Its:_____

cc: City of Stockton

APPENDIX G

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The information in this Appendix G concerning The Depository Trust Company, New York, New York ("DTC") and DTC's book-entry system has been obtained from DTC and the City takes no responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Series 2007 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2007 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2007 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2007 Bonds. The Series 2007 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Series 2007 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 issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, "NSCC", "GSCC", "MBSCC", 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.

Purchases of the Series 2007 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2007 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2007 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 Series 2007 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 Series 2007 Bonds, except in the event that use of the book-entry system for the Series 2007 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2007 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2007 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2007 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2007 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2007 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2007 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Indenture. For example, Beneficial Owners of the Series 2007 Bonds may wish to ascertain that the nominee holding the Series 2007 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2007 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2007 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by the Series 2007 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 City, 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 City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Series 2007 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, 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.

AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE SERIES 2007 BONDS, THE CITY WILL SEND NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO ANY OTHER ACTION PREMISED ON SUCH NOTICE.

THE CITY HAS NO RESPONSIBILITY OR LIABILITY FOR ANY ASPECT OF THE RECORDS RELATING TO OR PAYMENTS MADE ON ACCOUNT OF BENEFICIAL OWNERSHIP, OR FOR MAINTAINING, SUPERVISING OR REVIEWING ANY RECORDS RELATING TO BENEFICIAL OWNERSHIP OF INTERESTS IN THE SERIES 2007 BONDS.

THE CITY CANNOT AND DOES NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE PAYMENTS WITH RESPECT TO THE SERIES 2007 BONDS RECEIVED BY DTC TO DTC PARTICIPANTS OR THAT THE PARTICIPANTS OR OTHERS WILL DISTRIBUTE PAYMENTS WITH RESPECT TO THE SERIES 2007 BONDS RECEIVED TO THE BENEFICIAL OWNERS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CITY IS NOT RESPONSIBLE OR LIABLE FOR THE FAILURE OF DTC OR ANY PARTICIPANT TO MAKE ANY PAYMENT WITH RESPECT TO THE SERIES 2007 BONDS OR AN ERROR OR DELAY RELATING THERETO.

GLOBAL CLEARANCE PROCEDURES

The information that follows is based solely on information provided by the Euroclear Operator. No representation is made as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Clearstream International and Clearstream

Clearstream International is the product of the merger of Deutsche Borse and Cedel International, the European international clearing depository founded in 1970, and a number of its subsidiaries including Cedelbank. Clearstream International is registered in Luxembourg and has two subsidiaries: Clearstream Banking and Clearstream Services. Clearstream Banking ("Clearstream") contains the core clearing and settlement business and consists of Clearstream Banking Luxemborg, Clearstream Banking Frankfurt and six regional offices in Dubai, Hong Kong, London, New York, São Paulo and Tokyo. Clearstream holds securities for its participating organizations ("Clearstream Participants") and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. As a professional depository, Clearstream is subject to regulation by the Luxembourg Monetary Institute. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream Participant, either directly or indirectly.

Euroclear System

The Euroclear System ("Euroclear") was created in 1968 to hold securities for its participants and to clear and settle transactions between its participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. The Euroclear System is owned Euroclear plc

and operated through a license agreement by Euroclear Bank S.A./N.V., a bank incorporated under the laws of the Kingdom of Belgium (the "Euroclear Operator").

The Euroclear Operator holds securities and book-entry interests in securities for participating organizations and facilitates the clearance and settlement of securities transactions between Euroclear Participants, and between Euroclear Participants and Participants of certain other securities intermediaries through electronic book-entry changes in accounts of such Participants or other securities intermediaries.

The Euroclear Operator provides Euroclear Participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services.

Non-Participants of Euroclear may hold and transfer book-entry interests in the Securities through accounts with a direct Participant of Euroclear or any other securities intermediary that holds a book-entry interest in the Securities through one or more securities intermediaries standing between such other securities intermediary and the Euroclear Operator

The Euroclear Operator is regulated and examined by the Belgian Banking and Finance Commission and the National Bank of Belgium.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the "Terms and Conditions"). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with Persons holding through Euroclear participants.

Distribution of the Series 2007 Bonds through Clearstream or Euroclear

Distributions with respect to the Series 2007 Bonds held through Clearstream or Euroclear are to be credited to the cash accounts of Clearstream Participants or Euroclear Participants, as applicable, in accordance with the relevant system's rules and procedures, to the extent received by its Depository (as defined below). Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations. Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by an Owner of the Series 2007 Bonds under the Indenture on behalf of a Clearstream Participant or Euroclear Participant only in accordance with the relevant rules and procedures and subject to the relevant Depositary's ability to effect such actions on its behalf through DTC. Owners of the Series 2007 Bonds may hold their Series 2007 Bonds through DTC (in the United States) or Clearstream or Euroclear (in Europe) if they are participants of such systems, or indirectly through organizations which are participants in such systems.

The Series 2007 Bonds will initially be registered in the name of Cede & Co., the nominee of DTC. Clearstream and Euroclear may hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositaries which in turn are to hold such positions in customers' securities accounts in the depositaries' names on the books of DTC. Citibank, N.A. acts as depositary for Clearstream and the Euroclear Operator acts as depositary for Euroclear (in such capacities, individually, the "Depositary" and, collectively, the "Depositaries").

Transfers of the Series 2007 Bonds between DTC Participants are to occur in accordance with DTC Rules. Transfers between Clearstream Participants and Euroclear Participants are to occur in accordance with their respective rules and operating procedures. Because of time-zone differences, credits of securities received in Clearstream or Euroclear as a result of a transaction with a Participant may be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. Such credits or any transactions in such securities settled during such processing would be reported to the relevant Euroclear or Clearstream Participants on such business day. Cash received in Clearstream or Euroclear as a result of sales of securities by or through a Clearstream Participant or Euroclear Participant to a Participant are to be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlements in DTC.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream Participants or Euroclear Participants, on the other, are to be effected in DTC in accordance with DTC Rules on behalf of the relevant European international clearing system by its Depositary; however, such cross-market transactions require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system if the transaction meets its settlement requirements, is to deliver instructions to its Depositary to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream Participants and Euroclear Participants may not deliver instructions to the Depositaries.

THE DISTRICT AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SERIES 2007 BONDS (1) PAYMENTS OF PRINCIPAL OF OR INTEREST ON THE SERIES 2007 BONDS (2) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE SERIES 2007 BONDS OR (3) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE SERIES 2007 BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

NEITHER THE DISTRICT NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR, EUROCLEAR PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST ON SERIES 2007 BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE INDENTURE; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE SERIES 2007 BONDS.

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APPENDIX H

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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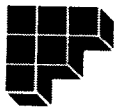


FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium: $

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

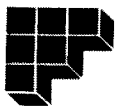
FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100



FINANCIAL SECURITY ASSURANCE®

ENDORSEMENT NO. 1 TO MUNICIPAL BOND INSURANCE POLICY (California Insurance Guaranty Association)

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the insurance provided by this Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Endorsement to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

By: _____
Authorized Officer

SPECIMEN

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